



# COOPERATIVE EXTENSION

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**Fact Sheet-99-27**

## Compensating Farm and Ranch Workers

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Labor is one of the few agricultural inputs which has actually declined over time. Table 1 illustrates how mechanization has largely replaced agricultural workers while still increasing output. However, workers require higher levels of knowledge and training in order to operate more complex and expensive farm

and ranch machinery and implements. In addition, recruiting, compensating, and retaining skilled agricultural workers also requires owners and managers to understand and utilize more complex human resource management skills (Bryant, 1998).

**TABLE 1**  
**Labor Use on United States Farms (1950-1990)**

Year	Persons employed (million)	Hours Worked (million)	Person fed per farm worker
1950	9.9	19,300	15.5
1960	7.1	12,500	25.8
1970	4.5	7,800	47.7
1980	3.7	6,600	75.7
1990	2.9	5,500	96.0

Kay, R.D. and Edwards, W.M. (1995). Farm Management, 3rd edition. McGraw-Hill, Inc., New York, New York.

This paper will review and summarize some of the issues and concepts that agricultural producers should consider when structuring compensation packages designed to reward and retain good employees. First of all, producers should view the use of labor just as they view other more physical inputs. After all, there must be an economic justification before farmers will use any new technologies. Over the last forty years wage rates have increased more than interest rates. Therefore, labor has become relatively more expensive than capital.

Because of this it should be no surprise that most labor saving technology has been adopted for one or more of the following reasons:

1. Less expensive than the labor it replaced.
2. Allows farmers to increase volume of production and total profit.
3. Makes owners' work easier and more pleasant.
4. Allows certain operations such as planting and harvesting to be completed faster.

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## COMPENSATION

Farmers and ranchers generally have a lot of flexibility and choices in developing and implementing compensation packages for their workers, although labor regulations, labor market conditions, and local norms may make many feel that they have little flexibility. The choices made will have a direct affect on employee recruitment, retention, satisfaction, and performance.

The development of a labor resource plan is a first step. How much labor to use in maximizing profits will depend on its availability, its cost, and whether it is a fixed or variable input. According to Kay and Edwards (1995) most operations face one of three situations: (1) labor is fixed but plentiful; (2) labor is variable but plentiful; and (3) labor is limited. Employer options concerning the amount of labor to use will vary depending on which type of situation they are facing. Steps that employers may use in determining if additional labor resources are required include assessing their present labor situation, developing tentative job descriptions, matching present employees and job descriptions, developing job description for remaining tasks, and hiring new employees who fit unfilled job descriptions.

There are several additional issues to be considered when developing a compensation package. These include (1) pay fairness, (2) pay differences, (3) job evaluation and market considerations, (4) elements of a wage structure, and (5) maintaining a pay structure.

### Pay Fairness

According to Billikopf (1994) workers expect compensation to: (1) cover basic living expenses, (2) keep up with inflation, (3) leave some money for savings or recreation, and (4) increase over time. If workers feel they are not being treated fairly they will often act to restore equity themselves. This usually results in a poor working environment with lower output.

### Pay Differences

There are two schools of thought concerning whether workers should be paid according to how well they do their job or paid according to

what job they do.

In Nevada it is probably more common to find agricultural workers paid according to the jobs they perform (Nevada Department of Employment, Training, and Rehabilitation, 1995). In other words, pay differentials within Nevada agricultural operations are generally due to the differences in jobs performed (e.g. irrigator, tractor driver, and supervisor). When this is the case, there are still issues to decide such as the amount to be paid for each position as well as the pay range within each positions. The one problem most encountered with this type of pay structure concerns the amount of pay received when asked to complete assignments outside of their job description. If workers are often asked to perform assignments outside of their normal duties, then the pay structure should flexible enough to reflect this fact.

### Job Evaluation and Market Considerations

Two methods of arriving at wage scales include job evaluations and market considerations. Job evaluations are normally based upon such items as education, responsibilities, and physical requirements. Weights may be assigned to each in order to calculate total scores. With this type of system the supervisory positions usually rank much higher than general laborer positions based upon the weighted criteria. Remember that it is illegal to base pay differences on personal characteristics such as gender, race, color, and marital status. Federal law requires that men and women performing the same job must be paid the same, with four exceptions. These are when payment is made pursuant to (1) a seniority system, (2) a merit system, (3) a system which measures earnings by quantity or quality of production, or (4) a differential based on any other factor other than gender.

Market considerations are often such a strong influence that job evaluations mean little. Labor supply and demand can negate any attempt to create equity through job evaluations. If there are more irrigators looking for work than there are openings, market economics preclude increasing wage levels. On the other hand, if there are few computer programmers capable

of designing farm and ranch financial management software, the market will dictate higher wage levels than one might expect. However, there are legal constraints that limit free market wage movements such as the federal equal pay and minimum wage.

Determining external wage equity requires that employers be knowledgeable about prevailing wage levels in their local areas. Much of this information is available in Nevada through the Department of Employment, Training, and Rehabilitation. Decisions concerning pay levels can have immediate impacts on farms and ranches, especially during times of labor shortages. Market considerations are perhaps more applicable for common jobs while job evaluations are more appropriate for higher skilled positions.

#### Elements of a Wage Structure

Employers need to be cognizant of wage differentials between similar jobs. Pay differentials are often created by a difference in starting wages or by more complicated pay grades and the size of the associated wage range. Wage differentials are most commonly found between operations. Farm A may start new laborers at \$6.00/hour while Farm B starts them at \$6.25. This same differential may be maintained as increases are earned. On the other hand, both farms may start workers at the same rate yet more rapid wage increases on one farm may create a discrepancy among certain workers. The number of job categories and the size of pay ranges within a local area can certainly have an effect on individual wage structures.

#### Maintaining a Pay Structure

Once a wage structure is established and accepted by workers one is faced with maintaining the structure while at the same time allowing for individual employee growth and advancement (i.e. pay raises). The most common methods used to increase the wage rates of employees include raises based upon seniority, merit, promotion, and cost of living adjustments (COLAs). Other issues to be

aware of that can affect an existing pay structure are whether to base COLA increases on a flat rate or percentage and how to keep wages competitive when faced with upward pressure from minimum wage increases.

### **CONCLUSION**

Planning agricultural labor needs involves assessing both the quantity and quality of labor needed. Although the quantity of labor used in agriculture has fallen dramatically in the U.S., its productivity and skill level have increased even more rapidly. Because of this, modern labor management techniques are required to improve and maintain labor efficiency. Gamroth and Riggs (1998) state that, "motivating and keeping employees satisfied depends on good labor relations." Good labor relations come about through good communication skills between employers and employees.

Employers today are required to be knowledgeable concerning modern labor management techniques and practices. In the area of compensation, employers should offer compensation packages that cover basic living expenses, keep up with inflation, leave some money for saving and recreation, and increase over time. Other issues that employers must understand include fairness of pay, and elements of wage structures and differentials.

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