
Pay for Performance¹



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Incentive pay is generally given for specific performance results rather than simply for time worked at the dairy. While incentives are *not* the answer to all personnel challenges, they can do much to increase worker performance.

In this chapter we discuss casual and structured incentives. Although each rewards specific employee behaviors, they differ substantially. In structured incentives, workers understand ahead of time the precise relationship between performance and the incentive reward.

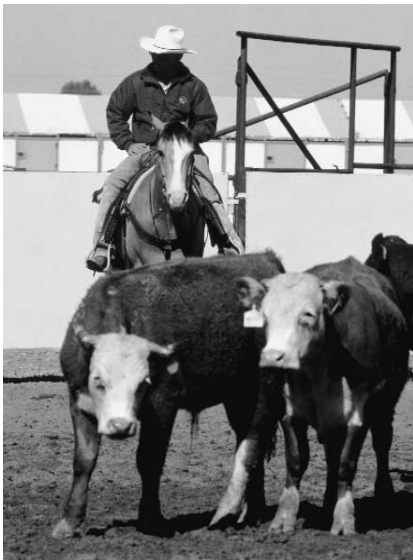
In a casual approach, dairy workers never know when a reward will be given.

CASUAL INCENTIVES

The simplicity inherent in the *casual incentive* approach attracts many dairy farmers who would not consider a structured incentive. Casual rewards include a pat on the back, a sincere thank-you, a \$50 bill, a dinner for two at a local restaurant, or a pair of tickets to



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the rodeo (workers may have excellent suggestions along these lines). You may want to entitle dairy employees to choose from a menu of several rewards. One farm employer provides a catalogue from which employees can order items under a certain dollar value.

Accompanied by a specific commendation, "This is for reducing our total harvest-time machinery break downs," the reward is more effective than "thanks for all you do." To be of use, these casual incentives must be given at *unexpected intervals*.

A bonus given routinely soon becomes part of the expected compensation package. Casual incentives communicate to employees that you have noticed their efforts. People thrive on positive feedback.

Drawbacks. Three possible drawbacks to the casual incentive approach may include (1) *envy* among dairy employees, (2) feelings among workers that the supervisor may be acting out of *favoritism*, and (3) the use of rewards to maintain *social distance*.

While there are times when praising workers in public is appropriate, at other times it may do more harm than good. An example of the latter is when coworkers hear a direct or implied comparison between the rewarded employee and themselves.

Even though workers are likely to tell others about their rewards anyway, the force of the comparison is reduced when you give casual incentives privately. Perceptions among workers that rewards are given in a capricious or arbitrary manner, however, may still remain.

One way of overcoming both envy and favoritism challenges may be by having workers nominate others for these casual awards. The nominating procedure should be kept simple. Recognition coming from fellow employees is unlikely to cause resentment and is one of the most sincere forms of praise. This type of recognition could even be given in public. Unfortunately, chances are that workers at the dairy will be rewarded for their popularity.

Sometimes employees are reaching for a *positive stroke*: they hope that their superior performance has been noticed. While casual incentives can be very appreciated rewards, they can also be used to keep a social distance from the persons to whom they are given. This may happen, for instance, if an employee receives a monetary reward when he was reaching for psychological proximity instead. Only you can discern your employee's needs in a given situation. After all, both workers and situations vary.

Suggestion Plans. Suggestion plans may also be handled under a casual incentive system. You may want to recognize personnel for suggestions resulting in savings or increased productivity. In one instance, a farmer saved thousands of dollars after an employee suggested a more frequent adjustment to the scales.³

Employee suggestions that require small capital or labor outlays to implement, such as what was needed to keep the scale adjusted, should generally result in larger rewards. Expensive or difficult to implement suggestions may not yield any pay reward but a simple acknowledgment to the worker.

You must decide whether to reward all workers or only the authors of an accepted suggestion. There may be a balance that rewards teamwork and individual creativity.

Regardless of approach, a functional suggestion system needs management follow-through. Receipt of worker recommendations, as well as possible action to be taken, needs to be acknowledged promptly to those who make the proposals.



Not every suggestion will be accepted, yet employees should be kept informed on the status of suggestions. A structured incentive plan, discussed next, helps both workers and management improve communications.

STRUCTURED INCENTIVES

Structured incentives can help direct employee efforts. Other benefits include cost certainty and cost reductions for the

dairy farmer. Benefits to employees include higher pay and satisfaction.

Dairymen's feelings about structured incentives generally fall into four groups:

1. *Incentives work well*—they have either helped motivate or maintain high worker performance. A Stanislaus dairy farmer spends \$5,000 to \$7,000 each year to implement his incentive program and gets \$55,000 to \$57,000 back.

2. *Challenges posed by incentives* — Top concerns about incentives from a

Public praising of an employee may cause jealousy between workers.

farm survey⁴ included: (a) poor quality work (or neglect of important goals not directly rewarded by the incentive); (b) no change in worker performance; (c) difficulty in setting standards; (d) change in work methods or technology; and (e) excessive record-keeping.

3. *Incentives do not apply to present needs.*

4. *Incentives are not used because of lack of information on how to establish them.*

Workers are also divided in their feelings about incentive pay. One dairy employee said incentives are what farmers pay when they do not want to pay workers a fair wage. Another milker, in contrast, was very enthusiastic about the incentive program the dairy

farmer had instituted: it made him feel part of a team.

Workers in one study were evenly divided between those who favored hourly pay and those who liked piece-rate pay. The most common reason for preferring piece-rate pay was increased earning potential. Workers could acquire greater earnings in fewer hours of work, even though it took more effort to do so. Worker preference for hourly work fell into three general categories. Workers (1) felt that piece rate was unfair (mostly concerned about what they viewed as game playing in how piece rates were set), (2) preferred the pace of hourly paid work, or (3) associated other benefits with hourly pay.⁵ When properly designed to protect both dairyman and farm personnel, structured incentives work well.

Despite the benefits of piece-rate pay, workers often (1) feel it is unfair how piece-rates are determined; (2) prefer the pace of hourly paid work; or (3) associate other benefits with hourly pay.



Examples of structured incentives

A structured incentive (1) must be capable of *fluctuating* (variable pay) as performance changes, and (2) is based on a *specific accomplishment-reward connection understood* by both management and workers.

Examples of typical incentives:

- paid for number of cows milked or hoofs trimmed
- allowing workers to go home early, with full pay, when they finish milking
- end-of-season bonus for employees who stay to the end
- quality or production incentive
- bonus for reducing production costs or death loss
- profit sharing.

Examples of payments or benefits which are not incentives:

- most mandated benefits such as unemployment insurance, workers' compensation
- nonmandated benefits that do not fluctuate, such as housing
- wage increases, vacation, or rewards that, once earned, are seldom lost
- pay tied to time worked (except for bonuses for attendance, difficult shifts, and the like).

STEPS IN ESTABLISHING STRUCTURED INCENTIVES

This section provides seven guidelines helpful in deciding whether to establish, and how to design and troubleshoot, structured incentive programs at your dairy.

- (1) Analyze the challenge and determine if incentives are appropriate.
- (2) Link pay with performance.
- (3) Anticipate loopholes.
- (4) Establish standards and determine pay.
- (5) Protect workers from negative consequences.
- (6) Improve communications.
- (7) Periodically review the program.

Step No. 1. Analyze the challenge and determine if incentives are appropriate

The purpose of an incentive program needs to be clear and specific. Poor calf health or milk quality, slow work, and sick leave abuse are examples of specific, measurable problems.

Just because a goal can be measured in clear and specific terms, however, does not mean incentives are called for.

Incentives may not be appropriate to motivate employees who lack the resources or skills to perform. No amount of incentive will help an unskilled AI practitioner to improve his breeding record. Because establishing incentives is not simple, dairymen sometimes opt for other solutions. A dairy farmer tried several ways to improve an employee's milk quality performance. A veterinarian was called in to demonstrate proper milking techniques, but the improvement was short lived. The worker knew how to do the job but was not doing it. The producer decided not to implement an incentive pay system. Instead, in a last ditch effort, he warned the milker: improve or be fired. The milker improved so much that the dairyman gave him a raise a few months later.

One three-way classification of employee performance is (1) poor, (2) standard, and (3) superior. *Standard* performance is what can be expected from a dairy worker just because he has a job. Rewarding workers with incentives for bringing their *poor* work up to *standard* would be like paying twice for the same job: once for having the employee show up, the other for working. Instead, an incentive pay

SIDEBAR 1-1

Safety Incentives

Safety incentives reward workers with good safety records (often measured in terms of reportable accidents) or for safety suggestions management considers worth implementing. Rewards for good suggestions can be positive in the area of farm safety as well as in reducing waste, improving productivity, or other areas. However, it seems peculiar to have to pay workers not to get hurt. After all, it is the worker who has the most to lose by an injury or illness. Instead, farmers may improve their safety record through (1) a policy encouraging a safe working climate, (2) worker training, (3) hazard evaluation and correction measures, (4) safety

committees, (5) discipline for violation of safety rules, and (6) careful employee selection, including the use of post-offer, pre-employment physicals.

In some instances safety incentives that deal with reported accidents may be construed to be illegal, as workers seem to be punished for filing workers' compensation claims.

If you still want to recognize dairy employees for a long accident-free spell at the ranch, you may want to tailor a casual incentive. The reward should be given to all and be a simple, low-key, non-monetary prize such as a company hat or picnic. Along with the recognition, emphasis should be on safety and on reporting job-related injuries and illnesses, even those appearing insignificant.



Dairymen may sometimes provide an incentive for employees to finish out the season, such as a per hour or per-unit incentive to be given employees who stay to the end of the season.

program can reward workers who continue to produce *superior* work, or encourage those who already produce *good* work to excel.

Incentives designed to deal with farm safety seem inappropriate to me. Such incentives may do more to deter the filing of workers' compensation claims than to reduce accidents. Workers may hide incidents of injury or illness in order to earn a reward—or avoid the wrath of peers (see Sidebar 1-1).

A farmer who pays well, provides positive working conditions, and has a waiting list of employees who want to work for him, does not normally need to turn to incentives to improve punctuality or attendance, except for seasonal work.

Extra pay may also be provided to recognize particularly difficult conditions, such as staying through extra wet or cold months at the dairy.

Tradition is not always the best indicator of what programs will work under incentive pay.

Incentives are often needed to counteract the effect that crew dynamics has on performance.⁶ Dairy workers may work down to the speed of their slowest co-worker.

Step No. 2. Link pay with performance

Some dairy farmers offer end-of-year profit sharing plans “because we did well this year.” Lamentably, there are too many factors that affect dairy farm profits besides worker productivity. Weather and market are two external concerns, while farm accounting procedures can be an internal one. Personnel must trust that the dairy enterprise will report profits in a fair and honest way.

Dairy employees do not always see a link between their efforts and dairy profits. Another danger is a streak of ever increasing profits followed by several years of deficits simply caused by the price of milk. While many workers will be very understanding at receiving a reduced profit-sharing paycheck for a year, few will tolerate a longer drought without experiencing considerable dissatisfaction. One manager shared with me his excitement about a substantial profit-sharing bonus. As a result, he worked much harder the next year and felt defrauded when that check ended up substantially reduced when compared to the first year. He soon left that enterprise.

In another instance, a worker at an equine and cattle facility explained, “I put the same effort each month, but in some I get the added bonus of getting a profit-sharing check.” The ranch employee was explaining that he did not do anything special to try and get a higher bonus, but that some months he would get one while in others he would not. Since he was not putting any effort into obtaining the bonus, the employee felt that it was a windfall in those months when he would get something.

Instead of being a motivator, profit sharing can discourage employees. Not only are profits dependent on the efforts of the whole organization, but profits can be fickle in dairy farming.

Risk sharing is related to profit sharing. Here employees are given higher profit-sharing bonuses in good years in exchange for getting a lower base pay than normal in unprofitable years. That is, in contrast with the normal system of profit sharing, in bad years the employees not only did not earn a bonus, but also lost part of their base salary; in good years, they earned bonuses much greater to what they would have earned normally. It is not surprising that companies favor risk sharing ventures more than employees do: “[The employee] gambles along with the company... Clearly, at-risk plans shift some of the risk of doing business from the company to the employee.”⁷

Any time employees are rewarded or punished for that which they cannot control, dairy employers are asking for a cynical or disillusioned workforce. All this having been said, some dairymen may wish to have a *very small* profit-sharing bonus as a teaching tool for top and middle management. Much better than profit sharing, however, is breaking down all elements under the control of employees or management that affect dairy profits and rewarding personnel for achieving results.

A Fortune 500 executive, after explaining three of his most important goals—making an important contribution to society, developing excellent products, and making the organization a good place to work—made quite an impact as a guest speaker by pretending to momentarily forget his fourth goal: “The fourth goal . . . there must be a fourth goal. I mentioned it in a speech at [a nearby university]. Oh yes, the fourth goal is to make a profit.”⁸ Sooner or later, then, when the profit potential is there, the dairy enterprise will make money as employees improve their ability to make changes in areas they control.

Seasonal fluctuations and other factors may need to be considered when setting incentives. When attempting to control mastitis in the herd, for instance, a dairy manager has to consider variables beyond the control of her

workers. Because mastitis is caused by several factors, it is desirable to consider them all. A milker would soon be discouraged if, no matter how diligently he used any specific prevention technique, the mastitis level was sensitive to improper machinery maintenance or seasonal fluctuations caused by environmental factors.

One way to categorize incentive pay is by whether individuals, small groups, or all dairy personnel are covered. Individual incentive plans offer the clearest link between a worker’s effort and the reward.

Probably the best-known individual or small group incentive pay plan in agriculture is *piece rate*. Piece rate is not suited to much of the work that takes place at a dairy. There are other types of individual incentives, however, that can be given at the dairy.

Small group and farmwide incentives work better when it is difficult to distinguish individual contributions, or where cooperation and team work are critical. Group incentives do not automatically foster team work, however. More productive workers may resent less motivated or less talented employees.

A supervisor reported that when his crews were paid a group incentive, the fastest workers would slow down the most. This is not surprising, given that the fastest employees are four to eight times more effective than the slowest. Some of them may ask themselves, “Why rush when we will all get paid the same?” When paid on a strict hourly wage sometimes workers “sort of kick the tires, take a lot of trips to the

Instead of being a motivator, profit sharing can discourage employees. Not only are profits dependent on the efforts of the whole organization, but profits can be fickle. This is especially true in farming where there may be a rash of good years followed by bad ones.



bathroom” and slow down in other ways. “The faster workers put a lot of pressure on the slower ones,” explained one farm manager, “and we have even had those who felt so harassed they wanted to quit. The system has created tension and conflict among the workers.”

As the tie between individual work and results is diminished, so is the motivating effect of the incentive on the individual. If you use small group incentives, it helps to have workers choose and control their own teams, but this is seldom possible at most dairies. When workers who have partial control over results are not included in the incentive pay program, conflicts may arise.

Step No. 3. Anticipate loopholes

Being so specific about a single result may cause workers to achieve it at the expense of all others. Examples include the herd manager who reduced the average number of breedings per conception, but did so by culling several of the best milk cows.

Allowing workers to “go home” (with a full day’s pay) when they finish milking has the same motivating effect as most output-based incentive pay systems—and similar problems. The incentive is to get done as quickly as possible and go home.

Dairy workers rewarded for detecting cows in heat (as part of a breeding program) may find an unusual number of cows in heat. Instead, workers could be paid for detecting cows in heat who are later confirmed pregnant.



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The number one loophole for *quantity* production incentives is often *quality*. If the dairy farmer does not take any preventive measures, his milkers who are paid by the cow (or allowed to go home as soon as they are finished, yet paid for the full shift) is more motivated to finish quickly than to do a good quality job following all of the milking procedures.

Sidebar 1-2 speaks about keeping up good quality when paying people for quantity-based performance.

Step No. 4. Establish standards and determine pay

This process involves clarifying expected performance, considering agricultural variations, noting when it is fair to eliminate incentives, contemplating potential savings and gains, determining base wage versus incentive pay, anticipating effects of technological or biological change, and converting standards into pay.

Clarifying expected performance.

The first task is to establish and define standards.

- When feeding, how close should the feed be to the cows? Is the employee supposed to come back and push the feed closer?
- Will mortality calculations part of a greater calf health program include all calves—even those born dead or killed by lightning? Or, will a veterinarian conduct a calf autopsy and decide if it was a preventable loss?
- What are all the steps required in the milking procedure?

Agricultural variation. Each agricultural commodity has its own idiosyncrasies that can be used to determine work effort. In one orchard operation,¹¹ crop density is used to determine how to pay for thinning fruit load. Weather conditions at a dairy may

affect ease of work and specific bonuses based on actual temperatures or precipitation may be given.

Elimination of incentives. The specific circumstances for eliminating incentives should be clearly related to

the incentive and articulated ahead of time. Employees on a milk quality incentive could lose incentive earnings, for instance, if (1) the milk got hot because no one turned on the cooler, (2) cows with antibiotics were milked into

SIDEBAR 1-2

Approaches Toward Improved Quality while Paying Piece Rate or for Quantity of Work

Hourly base pay with piece-rate pay. The greater the proportion of pay going toward hourly pay, the less importance given to quantity of work. These farmers may not be getting their money's worth, however. Hourly paid workers are substantially slower than piece-rate ones without obtaining sizable improvements in quality.⁹

Speed limit placed on workers. It is true employees who work faster than their skill level will do so by neglecting quality. Unfortunately, limiting worker speed, to be effective, would have to take place on a worker-by-worker basis. A maximum speed standard established for all employees would likely result in expectations overly high for some and too easy for others.

Discipline. Minimum standards are set—or workers risk being disciplined. This tactic is perhaps the most commonly used and works relatively well.

Quality incentive. This method may take more time to set up but has the greatest potential. Set up *random quality-control* inspections or spot checks. Substandard scores can result in additional training or discipline. Superior scores earn a bonus. Here is an example outside the dairy industry: a cherry farmer may pay \$3 per box picked, with a potential multiplier of 1.084 for good quality or 1.25 for superior quality (about 25 or 75 cents per box, respectively). Three workers picking 24 boxes each in a day would earn \$72 (no bonus), \$78.05 for good work, and \$90 for superior work. The quality bonus has to be high enough as

to provide greater rewards to the careful employee over the one who picks more boxes.

Earn the right to work in a piece-rate paid crew. An effective management tool is to have employees work on an hourly paid basis until they can prove their complete understanding of quality considerations. Only when workers have shown a complete mastery of quality are they moved to a piece-rate paid situation. For instance, a milker would have to prove she understands milk quality procedures perfectly before being permitted to go home after finishing a shift. As a condition of working in the piece-rate situation, milkers would be expected to keep up high quality performance. This approach can be effectively combined with discipline and the quality incentive above.

When paying for quantity of work performed, quality incentives take more time to set up but have the greatest potential. Begin by identifying a range of acceptable individual performance. Then set up random quality-control inspections or spot checks. Sub-standard scores can result in additional training or discipline, while good marks earn employees an extra bonus per unit.



the bulk tank, or (3) line filter changes were neglected.

It makes little sense to eliminate a bonus for reducing calf loss for employees who commit unrelated infractions (e.g., displacing a tool, getting into a fight). Any prolonged elimination of incentives risks surrendering any motivational effect the incentive program may have had. If the breach is so serious, perhaps the dairy farmer should consider worker discipline or termination.

Potential savings and gains. A dairy farmer trying to increase calf health may ask: how much does it cost me every time a calf dies?¹² Unfortunately, many employers think more in terms of how much they expect workers to earn in an hour—rather than what the incentive program does in reducing costs (e.g., costs per acre). In a well-designed incentive pay program, a dairyman should feel that the more his employees earn, the better off he is.

There may be a point where improvements beyond a certain level require a substantially greater effort, yet yield less significant results. Efforts may be better directed elsewhere. There is a substantial milk production increase when somatic cell counts reduce from log scores of 5 to 4 or 3, but a smaller proportional increase in milk quantities for further improvements. For the worker to achieve the first improvements, also, is much easier.

Two conflicting principles must be balanced here: (1) greater worker effort should result in greater pay; and (2) greater employee earnings should result in increased profits for the ranch. You may need to create a reward structure with a ceiling beyond which no additional pay increments are obtained.

Base wage versus incentive pay. Some incentives constitute 100 percent of a worker's wages. Other incentives are combined with base wage earnings (Chapter 2). As a rule of thumb, the percentage of potential wages represented by incentives should consider the (1) amount of *control* a worker has over rewarded results, (2) *importance* of the rewarded results to the overall position, and (3) possible

loopholes not covered by the rewarded results.

For instance, work quantity incentives can constitute most of an employee's wages if she has complete control over the outcome, speed is important, and quality is taken into consideration so it is not neglected.

In contrast, a herd manager does not have full control over calf health, nor does calf health represent his only job. This same manager may also be concerned with herd feed intake, improving milk quality and pregnancy rate, and supervision of milkers. A pay system for such a manager should reflect the wide spectrum of what is expected of her.

Anticipate effects of technological or biological change. If new machinery, technology, biological stock or methods are being contemplated, dairymen would do well to postpone introduction of new incentive programs until after such changes have been made and their effectiveness evaluated. Otherwise, the dairy farmer will not be sure whether it was the technological change or the incentive pay that brought about results. Workers may either be blamed or paid for something over which they had little control. For example, thousands of dollars can be spent on new equipment that would automatically improve workers' performance. If the incentive was established before the equipment was purchased, it would mean paying twice for the equipment: the direct cost of the equipment plus the cost of the higher remuneration to the workers. Any changes in technology or measurement have the potential for a change in standard and can lead to distrust if not handled properly.

Converting standards into pay. If no historical performance data exists for making sound pay decisions, you may want to do the work yourself—or ask others you trust to do it. In no case should the people who will eventually do the work, or someone who has a vested interest in the results (e.g., a herd manager with relatives in the crew), perform the trial.

When dairymen ask employees to work first on an hourly basis until the

standard is set, workers may perform at a reduced level (while sometimes making it look as if they are struggling or working very hard). Employees realize high performance during the trial will result in lower wages once the bonus is fixed.

Once standards are set, a dairy farmer may lower the requirements but *never* make them harder. A farmer underestimated worker performance. When the workers earned much more than the farmer expected, he lowered the piece rate. The farmer lost credibility, worker morale fell sharply, and many left for other jobs.

Step No. 5. Protect workers from negative consequences

Employees have a number of reservations related to the use of incentives. These include such things as fear of job loss, unfair pay, and rate reductions. In the section on loopholes we considered how to protect the dairy farmer when incentives are used. To also protect employees we need to:

- Provide a fair wage.
- Tell employees how much they are earning.
- Maintain fair standards.
- Hire fewer workers for longer periods.
- Protect senior workers.
- Provide timely performance feedback.
- Be sensitive to physical demands.
- Encourage workers to take rest breaks.
- Provide a safe environment.
- Avoid chance incentives.

Provide a fair wage. Workers are more likely to feel incentives are an excuse for low wages when they do not receive a fair base wage to begin with. (That is, in those cases where there is a base wage plus an incentive, which would be the case in most dairy jobs in contrast to say, a fruit picker.) Employees may see incentives as either requiring unachievable goals in order to make a competitive wage, or only partially under their control. In contrast, when added to a generous base wage, incentives may be quite small and still

be well received. Workers may look at them more as *casual incentives*; they provide positive feedback and a feeling of belonging to a team. If incentives are not proportional to the amount of work involved, however, they are unlikely to provide the intended long term motivation.

Tell employees how much they are earning. Pickers at one California farm did not find out what the piece rate was until the end of each day when they got paid—which was strictly on a per bucket basis. A worker thinning peaches did not know how much he was earning per tree. In a third example, workers in Voronezh, Russia, who were putting boxes together for packing fruit, did not know how much they would get paid per box until the end of the month. In each of these cases, the farmer, the farm labor contractor, and the enterprise manager respectively explained, “Our workers trust us.” It became obvious, however, that the more buckets picked by the cucumber crew, the more trees thinned, or boxes built, the less they were going to get paid per unit. One of the workers in the thinning crew expressed frustration at not knowing what the piece rate was and pointing to the end of the long row said, “If I knew how much I was getting paid per tree, I would have already finished the row and would be on my way back.” These same principles can be applied to the dairy operation.

Maintain fair standards. Even after an incentive standard is fixed, workers may be hesitant to show the dairy farmer their full performance potential. I will give some examples from outside the dairy industry, but similar principles can be understood at the dairy. A grape grower called to express a fear that his employees were *earning too much*. “I have been thinking of reducing what I pay per grapevine from 32 cents per vine to 28,” he explained. I explained to the grower that the piece rate should not be diminished, that half his crew was apt to leave—the better half—and the other half would never trust him again. “I was just putting you to the test,” the grower retorted. “I reduced the piece rate last week, and half the crew already left ...”

Crew members sometimes exert pressure on overly productive coworkers to have them slow down. They fear standards will be increased (i.e., they will have to put in more effort to make the same amount) either now or in future years. A worker described how on a previous job he had been offered \$1 per box of apricots picked. When he picked 100 boxes for the day within a few hours the rate was suddenly changed to 50 cents per box. Another worker explained, “If we are making too much on piece rate we are told to also weed, and that reduces our earnings.”¹⁴

At a large orchard operation, top management was mistakenly focusing on average earnings per hour (by translating piece rate costs into hourly wages). Instead, they needed to focus on *cost per acre* or *cost per job*. When piece-rate paid workers made what to top management seemed like overly high wages, their pay rate was reduced with disastrous results: the best employees left, and trust was destroyed for those who remained.

In order to counteract management’s tendency to lower the piece rate, a clever production manager formed crews where high earning workers were balanced out with slow ones. This kept top management satisfied (because the average cost per hour was not too high) and yet allowed fast workers to earn more with less fear of having their

wages cut.¹⁵ This practice, of course, does not solve the real problem, nor does it entirely overcome the disincentive to faster, more effective work. For instance, this production manager may not want to use a practical test to improve the number of superior crew workers because of the wrongful dependence on costs per hour as a productivity gauge. It just wouldn’t look good to his supervisors if workers started earning more.

The changes in standard may not be blatant. For instance, when hourly paid workers get a cost-of-living raise, dairymen may reason that those being paid a quantity or quality based bonus do not need a raise as they are already earning much more. Without the raise, the premium for *effort* given to incentive paid workers is thus reduced. Yet those working under a well designed pay for performance system exert considerably more effort.

The design of the incentive may be poor, also. For instance, dairyman may give employees an incentive for achieving a percentage of improved productivity over previous performance, such as improving milk grade. Once certain goals are achieved the dairy farmer needs to be pleased with the improvement rather than requiring a percentage improvement each year. There comes a point where the better we are at something, the harder we need to

SIDEBAR 1-3

Do Piece-Rate Paid Crew Workers Leave after Making a Wage Goal?

Some farmers resist increasing incentive pay levels when compensating seasonal crew workers. They have hypothesized that workers have a certain earnings goal for each day and that once this goal is achieved, workers will go home. Economists would explain this phenomenon as the *income effect*: increases in income allow those in the work force to take more time for leisure activities.

But economists also speak of the *substitution effect*: the greater the

wages, the more a worker forfeits by engaging in leisure time. A study in numerous crops showed that fewer than three percent of crew workers out of more than 440 left work after reaching a wage goal for the day. About 11 percent of the respondents had at some time left earlier in the day, but the reasons given were (1) getting overly hot or tired or (2) not making a sufficient wage (i.e., low wages or not enough to pick). In either case, these workers were generally willing to stay longer if the earning opportunities were greater. Workers need to maximize earning opportunities when they can be fully employed. Leisure could come later, during “down time.”¹³

work to make the next level of improvement. An “S” shaped curve can be used to illustrate the phenomena. Improvement at first may be slow, then very fast, and then slow again. In some cases, of course, there may be another “S” shaped curve waiting for us even when we thought we had improved all we could.

In one farm operation employees “reached an expected threshold and there was no further change” after that. The more workers improved, the harder it was to surpass previous performance levels and gain an incentive reward. This employer dropped his incentive program. I wonder if performance reverted to a lower level, too.

To conclude this set of examples with a more positive one, a prominent California vineyard operator called in frustration: “We have an employee who is earning \$45 per hour by the piece! We must be doing something wrong!” Like the other farmer, they wanted to cut piece rates, but fortunately these growers called before making the change. I was able to explain that \$45 per hour for the best employee was not out of line to what the research indicated. The best farm worker in a crew was capable of four to eight times the performance of the worst. I *congratulated* this farm enterprise, they had achieved trust from the workers!

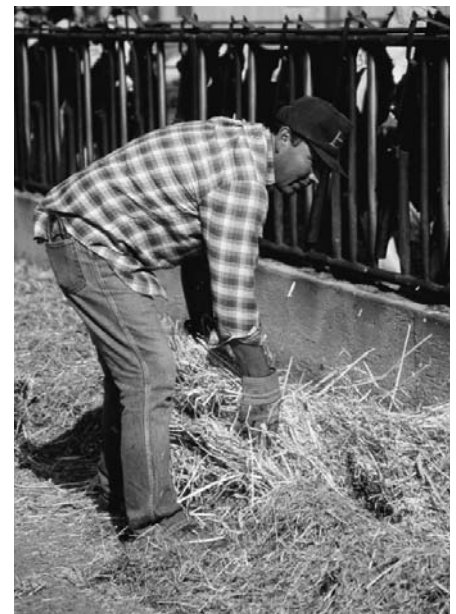
Sometimes dairymen get paid less

for their milk or have to pay more for the commodities they purchase in order to feed the cattle. When dairy farmers are forced to cut incentive wages in order to stay in business, they are likely to lose workers’ trust. Part of an effective labor management policy is to carry over dairy income to protect workers’ future earnings. This will help balance out some of the rough spots so inherent in agriculture.

Some jobs require extra *effort* while others mean extra *time* (e.g., time spent improving quality). Incentives should compensate employees for the extra amount of time required to accomplish a job. For instance, if employees spend about half an hour more per milking shift to improve milk quality, the incentive should pay more than the half hour per shift the dairy farmer would have had to pay on an hourly basis.

Hire fewer workers for longer periods. Workers are less likely to slow down when they realize there is plenty of work to do. When time frames are not critical, it is often preferable to hire fewer, better-qualified people to do the job. You can manage to save money while providing a longer season and higher pay rates for employees. While most of the work in the dairy parlor and around the animals is pretty constant, this principle needs to be taken into consideration when hiring people who work in crops.

Dairymen will not derive the full benefits of quantity based pay until workers are confident that high earnings today will not translate into reduced rates in the future.



Rather than just firing long term employees who do not do as well under an incentive pay program, or in order to have fewer employees, dairy farmers will want to have a policy of reducing their work force by attrition rather than by terminations.

Protect senior workers. Dairy farmers may, through a careful selection process, avoid hiring employees who cannot perform the job. Those who employ workers without first testing them may want to introduce incentives to encourage the most productive workers to stay and produce. Dairymen who have poor performers in their staff may wish to deal with this issue before introducing an incentive pay program.

Sooner or later dairy farmers need to deal with long time employees who are no longer in their prime. Many dairy farmers rightfully feel a sense of responsibility for these workers and often find less strenuous tasks for them. For instance, some dairymen may employ older workers to do tasks that are strictly paid by the hour and leave more strenuous jobs for others. It is not uncommon for senior workers to outdo younger ones, of course, and assumptions about worker capabilities based on age are often unfounded.

Provide timely performance feedback. Effective performance appraisal and communication is critical. Supervisors need to provide effective training and appraise worker performance in a timely fashion. Dairy farmers who have workers earn the right to work on a quantity-based bonus (see Sidebar 1-2) by showing complete understanding of quality issues ahead of time, are likely to end up with fewer miscommunications with their employees.

The simple act of making a list of criteria that are important to you and sharing those with workers will go a long way towards improved quality. Taking the next step, of sharing with employees how well they are doing, can cement good habits. It also helps to provide samples of what is considered good quality work.

Be sensitive to physical demands. The physical demands of speed or

quantity based performance are such that workers need to work fewer hours than when paid by the hour,¹⁶ or risk health problems. This is especially so with more physically demanding jobs in the summer heat. Generally, the maximum workers can perform when paid by the piece is seven to eight hours. It is important to provide plenty of cold water and have it sufficiently close to the work being performed so workers will drink it. It may be necessary to provide worker training on the importance of drinking sufficient water. Encouraging workers to drink early (before they become thirsty) and at frequent intervals may reduce body fatigue.¹⁷

Encourage workers to take rest breaks. One disadvantage of quantity based pay incentives is that employees may want to forego their breaks.¹⁸ Making sure employees take their breaks is likely to reduce injuries and mistakes as well as increase worker preference hourly paid work. While those who perform hourly paid tasks take breaks on the dairyman's time, those on productivity incentives would have to do so on their own time. One way to encourage employees to take breaks when paid by the piece is to bring warm bread or cold sodas out to the crews. Even more effective, is to insist that workers take a rest and pay them for the break time, either on an hourly basis or as a proportion to the incentive they would have earned.

Provide a safe environment. The hard pace of some incentive pay work may increase back or other work-related injuries.¹⁹ Farmers should consider ergonomic measures that facilitate, to the greatest extent possible, a work environment free of injury and illness. Some suggest worker pace should be limited to protect workers from injury. Unfortunately, as we said when discussing this issue as it related to quality, limiting the total performance of workers would only be effective on a worker-by-worker basis, as optimum pace varies among employees.

Dairy farmers may want to go to an occupational medicine facility to design appropriate warmup or stretching

exercise programs for workers. Effective employee selection, training, and supervision can also do much to reduce injuries.

Avoid chance incentives. Chance incentives use luck (e.g., a chance at winning a TV or trip) to reward specific worker behaviors or results. Often those who are poor are especially attracted to gambling, hoping for things they are unlikely to achieve unless they get lucky. Employers who use chance incentives are gambling for the employee.

In the *short run*, some chance incentive programs may produce the specific behaviors or results dairymen are looking for. But how appropriate—or to use a stronger word, how ethical—is the use of such chance incentives?

Key questions dairy farmers might ask themselves before implementing a chance incentive are: Is it fair to each worker? Who benefits from the incentive? Is the incentive being offered because paying each worker would cost too much? Or because what each worker would get would seem too little? Are all workers rewarded for their work efforts? Is this incentive sustainable in the long run producing good results for both the owner-operator as well as the employees?

Step No. 6. Improve communications

To improve communication with and between employees:

- Build positive interpersonal relations.
- Explain the program.
- Prepare a bargaining style.
- Provide feedback.
- Be open for suggestions.

Build positive interpersonal relations. Positive interpersonal relations between management and employees, as well as among employees, are a must before installing a successful incentive pay program. Incentives often add some tension and stress, especially at first, before results showing success are clear. Added demands for positive two-way communication, feedback, and teamwork will increase. If interpersonal

conflicts already exist, they should be worked out first, rather than hoping they will dissipate after the incentive program is established.

Explain the program. A simple program will help build trust. At minimum, all workers need to know what is expected of them and how their performance will translate into pay. It helps when the incentive plan is presented to workers for review and comments before implementation. Workers might spot not so obvious shortcomings or obstacles, and they are more likely to accept the performance challenge when they are involved. Better yet, is to involve workers in the design of the incentive pay program from the outset.

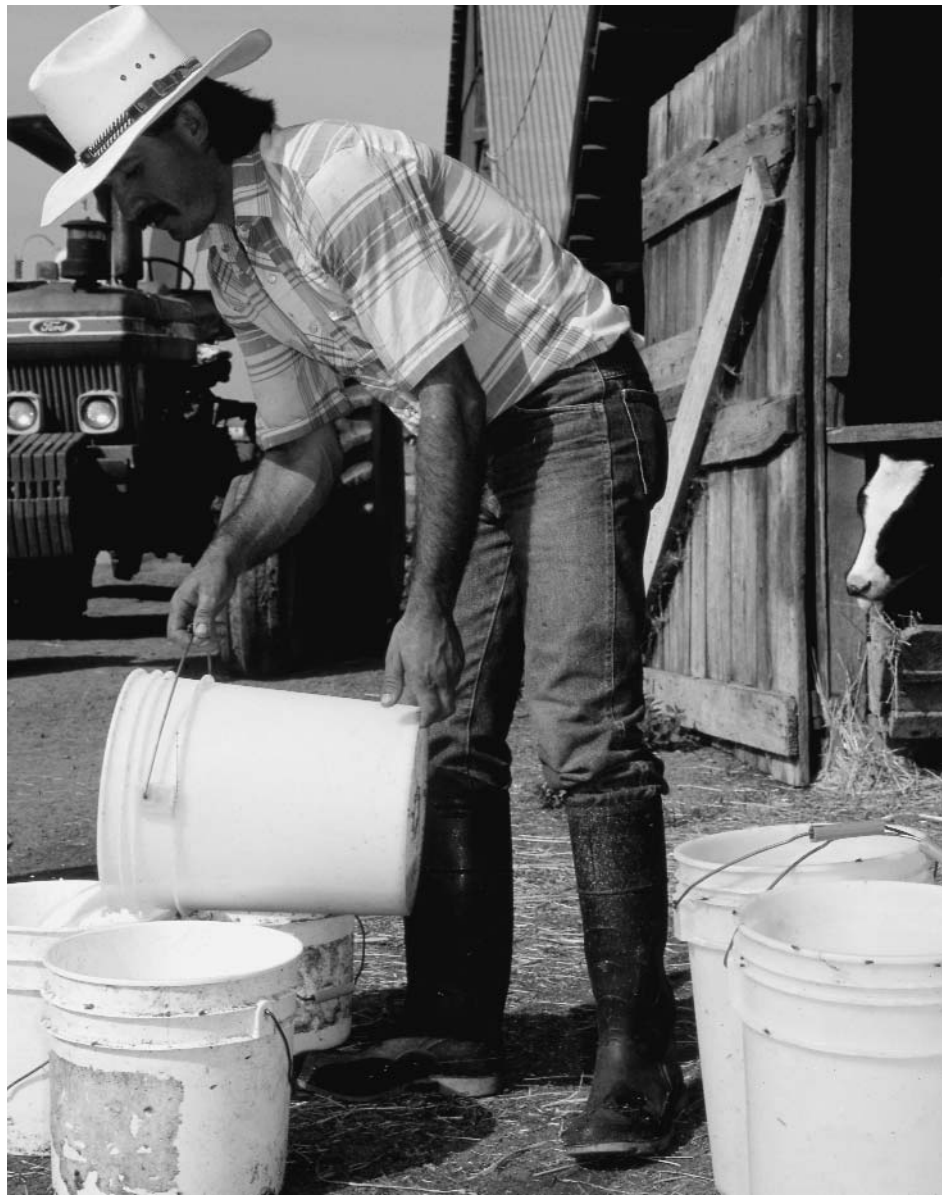
If an expectation is set that employees can very easily make the top incentive goal (e.g., for improving quality), the incentive may act as a demotivator. Instead, dairy farmers should encourage employees to try their best and begin by shooting for the lowest level. If the accomplishment exceeds the workers' expectations, all the better.

Prepare a bargaining style. Some negotiation on pay rates may be traditional. Know how much you pay compared to others, and consider all factors in terms of how your dairy compared to other dairies and other employers workers may want to compare themselves against (more about this in Chapter 2).

One farmer encountered stiff resistance from employees regarding wages. They pointed out the neighbor's higher wages. The farmer aggressively told workers they could look for work elsewhere if they did not like the rates. This situation ended up in a labor dispute, as workers felt they had been *constructively discharged* (i.e., forced to quit) in order to save face.

Instead, this farmer could have calmly explained how he arrived at the pay level and told employees he hoped they would be able to work for him at this wage. Perhaps the neighbor pays more but keeps employees for a shorter season or does not provide as many benefits.

If an expectation is set that employees can easily make the top incentive goal (e.g., for improving quality), the incentive may act as a demotivator. A herd manager, for instance, may start each month assuming he will earn the full possible award for reducing calf mortality. This herdsman will be discouraged when he sees his bonus vanishing as each month comes to an end. Dairy farmers can encourage employees to try their best but set up more realistic expectations of what can be achieved.



By posting wages where they can be readily seen by all applicants, the dairyman avoids (1) surprising workers, (2) haggling, or (3) taking a chance on a confrontation that may get ugly and out of hand.

Provide feedback. Dairymen need to provide frequent feedback to employees, regardless of the usual pay interval. For instance, milkers may be paid on a bi-weekly basis but receive more frequent performance feedback. Feedback may be given in person or posted to safeguard worker anonymity.

An effective method of providing meaningful feedback is through a separate paycheck, or “addor,”²⁰ for the

incentive. For greatest effectiveness, adders should be given at a different date than the usual payday, or at the very least, in a separate check. This reminds the recipient that the extra compensation is for a specific purpose (e.g., such as a wet winter or harvest months involving long hours) and will last only as long as the condition merits.

Be open for suggestions. After the incentive is in place, workers may not be pleased with it. A dairy farmer who employed five workers was approached by two of them. They asked for a raise and the elimination of the incentive pay program set up a year earlier.

The producer, rather than ask the

other workers if they also wanted to eliminate the incentive, asked everyone, “What can we do to improve the incentive pay system?” In the end, he ended up with a successful program, with workers earning \$300 a month in incentives.²¹

Step No. 7. Periodically review the program

Record keeping and statistical analysis are critical to determine the success of the incentive pay program. Good controls are crucial so incentive pay results can be isolated and correctly attributed to the pay system. If a dairy farmer introduces other changes simultaneously, she may never know the impact of the incentive program. There are a number of statistical tools that may be used to analyze results. Your computer spreadsheet may already allow you easy access to these tools. You may want to consult with a statistician, labor specialist, farm advisor or county agent on what statistical tools to use.

Results may indicate directions for change or improvement. Once the program is in use, changes must involve workers in order to maintain the trust that is so essential to the success of an incentive pay program.

Dairy farmers can benefit from keeping records even if they are not providing incentives. These records can help establish base lines essential for establishing standards for future performance.

In some cases, incentive programs are dropped too soon, without giving the systems sufficient time to work. Several dairy farmers who have established successful incentive programs have mentioned the need for patience—sometimes having to wait several months for the program to function well.

SUMMARY

Incentive pay has the potential to increase worker productivity if properly designed and maintained.

Even though employees know that attention to detail, increased

productivity, or suggestions may bring about rewards, casual incentives are characterized by the inexact or unexpected timing and amount of the reward.

Dairy farmers’ structured incentives are most likely to succeed if they have (1) accurately established standards; (2) clearly linked superior performance with pay or a valued reward; and (3) carefully considered what type of performance the incentive stimulates. Effective incentives are designed so the more an employee earns, the more the farmer benefits.

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Unless otherwise indicated, photos in this chapter were taken by the chapter author.