I. Goals and Objectives

A. Understand how employees view compensation – it is more than just what they are paid.
B. Learn the basic components of a compensation package.
C. Learn methods of determining a fair wage.

II. Descriptions/Highlights

D. Compensation can be linked to business structure and employee recruitment, retention, motivation, performance, feedback, and satisfaction and are typically among the first things potential employees consider when looking for employment. For employees, compensation is the equivalent not to how they are paid, but ultimately, to how they are valued.

E. Compensation packages can be considered total rewards systems, containing non-monetary, direct, and indirect elements.

1. Non-Monetary Compensation: any benefit an employee receives from an employer or job that does not involve tangible value.

2. Direct Compensation: an employee’s base wage which can be an annual salary or hourly wage and any performance-based pay that an employee receives.

3. Indirect Compensation: far more varied, including everything from legally required public protection programs such as Social Security to health insurance, retirement programs, paid leave, child care or moving expenses (Schuler).

C. By combining many of these compensation alternatives, progressive managers can create compensation packages that are as individual as the employees who receive them. Your farm may benefit from: tenure bonuses for long-time employees, equipment repair incentives to encourage good equipment maintenance, or bonuses for arriving at work on time.

D. Direct compensation alternatives can include:
   1. Base Pay: cash wage paid to the employee.
   2. Incentive Pay: a bonus paid when specified performance objectives are met.
   3. Stock Options: a right to buy a piece of the business which may be given to an employee to reward excellent service.
   4. Bonuses: a gift given occasionally to reward exceptional performance or for special
occasions.
E. Certain indirect compensation elements are required by law, such as: Social Security, unemployment and disability payments. Other indirect elements are up to the employer and can offer excellent ways to provide benefits to the employees and the employer as well. For example, a working mother may take a lower paying job with flexible hours that allows her to be home when her children get home from school.

F. Review the indirect compensation alternatives contained on page 2 of the publication (RM8-5.0).

G. Employees expect wages to 1) cover basic living expenses, 2) keep up with inflation, 3) provide some funds for savings or recreation, and 4) increase over time (Billikopf). Discussing wage expectations with employees can help determine what your compensation package should look like.

H. Fairness is critical when developing your compensation package. It is absolutely vital that businesses maintain internal and external equity. Internal equity refers to fairness between employees in the same business while external equity refers to relative wage fairness compared to wages with other farms or businesses.

I. What constitutes a fair wage? An agricultural manager can do informal surveys of other agricultural producers to determine the “going rate” for labor or modify existing studies of non-agricultural businesses to compare employees not by job title but by skill sets. For example, operating a forklift in a factory and driving a tractor may require similar skills and so therefore can be compensated similarly.

J. Job Evaluation is another technique that can be used to establish an equitable wage rate. This method is a more systematic and rational approach to internal equity where the jobs in an organization are evaluated according to compensable factors like education, skill, experience, and responsibility (Billikopf).

K. Skill-based pay is an approach to compensation where the wage rate is based on the qualifications of the individual doing the job, rather than on the job itself. It is typically accomplished through skill classes that determine pay levels for jobs. Grouping employees of similar skills together, regardless of job title, forms these classes, or grades (Schuler).

L. Broadbanding was used in a Cornell University study. Five competency levels were developed to classify employees according to authority to make decisions, skill level, and supervisory capacity. Every employee was classified as on of five competency levels. Review the five levels.

M. Review the checklist for building and implementing an equitable wage structure.
III. Potential Speakers

A. Extension Economists
B. Human Resource Consultant

IV. Review Questions

A. Compensation can be classified into three different types. What are they?

Answer: Non-monetary, direct compensation, and indirect compensation

B. There are several methods of determining a “fair wage.” Have each class member describe one of these methods.

V. For More Details

Compensation Can Be Linked To

- Business Structure
- Employee recruitment
- Retention
- Motivation
- Performance
- Feedback
- Satisfaction

Compensation Is a Total Reward System

- Non-monetary compensation
- Direct compensation
  - Base Pay
  - Incentive Pay
  - Stock Options
  - Bonuses
- Indirect compensation
Indirect Compensation Alternatives

- Flexible Working Schedules
- Retirement Programs
- Insurance (Health, Dental, Eye)
- Paid Leave (Sick/Holiday/Personal Days)
- Tickets to Events (ball games, concerts)
- Boots and Clothing
- Wellness Programs
- Farm Produce / Foods/ Meals
- Child Care
- Elder Care
- Moving Expenses
- Subsidized Housing
- Subsidized Utilities
- Magazine Subscriptions
- Laundry Service
- Use of Farm Trucks, Machinery
- Cellular Phones/ Pagers
- Use of Farm Pastures and Gardens
● Fair and Equitable Compensation

  Internal equity: between employees in the same business
  External equity: relative to other farm businesses

● What Constitutes A Fair Wage?

  Informal survey – what are other producers paying
  Job evaluation technique
  Skill-based pay
  Broadbanding
Checklist for Building and Implementing An Equitable Wage Structure

Decide what you want your compensation package to do.
- Recruit new employees
- Motivate current employees
- Reward well-performing employees
- Minimize risk of violating federal laws
- Build employee loyalty
- Any combination of the above

Pick your compensation philosophy; either:
- Job Evaluation
- Employee Evaluation
- Combination of both (like the Cornell Study)

Determine your internal wage structure; either:
- Evaluate the jobs
- Evaluate the employees
- Create Competency Groupings
Checklist for Building and Implementing An Equitable Wage Structure (continued)

Talk to your employees about their indirect compensation needs:

- Health Insurance
- Paid Vacation
- Housing
- Child Care
- Retirement Planning

Structure you total rewards system; including:

- Indirect compensation (based on your employee’s needs and your compensation objectives.)
- Direct compensation (based on labor market information and your compensation objectives.)

Implement your new system, remembering to:

- Communicate with your employees about their needs
- Review your compensation package regularly. Make sure it is fair, equitable, and competitive
- Be flexible and innovative to maintain a competitive advantage
Maintain both internal and external equity
● Bringing Out the Best In Your Employees

If you want your employees to be innovative, reward them for new ideas.

If you want your employees to stay with you for a long time instead of training new employees every season, offer bonuses or tie their wages to their tenure.

If you need employees that show up on time, work hard, and can be trusted with the most challenging of tasks, recruit those people; reward those people; promote those people.

The future of your business could depend on it.