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Keeping Good Hired Farm Labor

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Keeping Good HIRED FARM LABOR

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A farmer must be willing and able to compensate his hired labor adequately for services rendered. He must provide satisfactory working conditions if he is to keep the top-notch man for a long period. Good hired help is in strong demand, hard to find and hard to keep.

Farmers say it is difficult to compete with factory or non-farm wages and to provide the favorable working conditions--regular hours, protection from the weather--provided on many other jobs. Yet, if a farmer is to boost his volume to justify a hired man, he usually wants to get and keep a good man. When a worker quits or doesn't show up in a factory, others can usually fill in for him since he doesn't represent a high percentage of the labor force. But on the farm he may represent half or more of the labor force. Filling in for half or more of the labor force is difficult, and retraining the labor force is expensive. In industry a worker is often trained to do only a limited number of jobs. A top-notch farm worker is usually able to do many things--handle big machinery, care for livestock, etc. He should also be able to make some management decisions and be willing to take some responsibility.

Can I Afford a Hired Man?

It is difficult to pay good wages if the farm won't justify a hired man because of limited volume, low efficiency, ineffective organization or a combination of such factors. It takes a large amount of added production to justify a full-time hired man. Assume that it costs $4,500 per year total (wages, extras, social security payments, operator's time in supervision, etc.) to employ a hired man. How much does the farm have to gross to make a return of $4,500

The assistance of Mac H. Martin, graduate student in Agricultural Economics, in compiling much of the statistical data reported in this study is greatly appreciated. Also, the assistance of extension agents in helping select the sample and the cooperation of those farmers who provided data should be acknowledged here.
Table 1. Gross income necessary to generate $4,500 return to labor and management on various types of Indiana farms, 1963-64.\(^{a/}\)

<table>
<thead>
<tr>
<th>Number of farms</th>
<th>Gross income(^{b/})</th>
<th>Labor and management income(^{c/})</th>
<th>Labor and management income as percent of gross farm income</th>
<th>Average gross income needed to generate $4,500 return to labor and management(^{d/})</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Indiana record cooperators' farms</td>
<td>500</td>
<td>$43,825</td>
<td>$7,308</td>
<td>16.7</td>
</tr>
<tr>
<td>Average all hog farms</td>
<td>80</td>
<td>$50,145</td>
<td>$9,993</td>
<td>19.9</td>
</tr>
<tr>
<td>Large hog farms:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More profitable 1/2</td>
<td>21</td>
<td>86,566</td>
<td>19,536</td>
<td>22.6</td>
</tr>
<tr>
<td>Less profitable 1/2</td>
<td>19</td>
<td>52,782</td>
<td>3,553</td>
<td>6.7</td>
</tr>
<tr>
<td>All dairy farms</td>
<td>65</td>
<td>$28,790</td>
<td>$6,040</td>
<td>21.0</td>
</tr>
<tr>
<td>Large dairy farms:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More profitable 1/2</td>
<td>16</td>
<td>41,486</td>
<td>11,575</td>
<td>27.9</td>
</tr>
<tr>
<td>Less profitable 1/2</td>
<td>16</td>
<td>35,940</td>
<td>4,092</td>
<td>11.4</td>
</tr>
<tr>
<td>All crop farms</td>
<td>85</td>
<td>$46,237</td>
<td>$9,392</td>
<td>20.3</td>
</tr>
<tr>
<td>Large crop farms:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More profitable 1/2</td>
<td>23</td>
<td>75,707</td>
<td>19,508</td>
<td>25.8</td>
</tr>
<tr>
<td>Less profitable 1/2</td>
<td>21</td>
<td>51,317</td>
<td>3,049</td>
<td>5.9</td>
</tr>
</tbody>
</table>

\(^{a/}\) Source: Indiana Farm Business Summaries for 1963 and 1964. \(^{b/}\) This is gross cash receipts plus inventory change. \(^{c/}\) This is residual return to all labor and management (hired, family and operators) used on the farm. This is return above all cost other than labor and management—including 5 percent interest on total investment. \(^{d/}\) Ideally, this should be based on marginal (the addition of one more man) rather than average data. However, such marginal data are not available for Indiana. Also, there is much variation from farm to farm from the impact of adding another man. In some cases adding a man may increase and in other cases decrease efficiencies. Also, if another man is added on some farms, total farm organization may be drastically changed to accommodate the added labor.

to labor and management? Table 1 shows that Indiana farm record cooperators in 1963 and 1964 had to gross an average of $26,900 to do this. Also, the table shows that there is much variation in gross needed—depending on efficiencies of the operation, type of farm, size of farm, etc.

Some farmers say they can't afford to pay the high wages demanded by hired men. Table 1 illustrates that this is true. Before hiring a man it would be wise to consider carefully whether a full-time man is justified. Also, it would be wise to weigh various alternatives such as (a) more mechanization or automation to reduce labor requirements, (b) reduced volume so that the operator can handle the work load with only occasional hired help, (c) changing to other enterprises that require less labor, (d) hiring such jobs
as grain harvesting, hay baling and silo filling done on a custom basis—thus perhaps eliminating the need for a full-time man as well as ownership of high-cost machinery, (e) exchanging labor with a neighboring farmer.

THE INDIANA STUDY

A group of Indiana farm operators who employed one or more full-time hired men were questioned in the summer of 1964 in an effort to:

. Determine the extent to which incentive plans are being used.

. Find what types are being used.

. Determine how successful incentive plans have been.

. Determine the level of compensation being received by hired farm workers in the form of: (a) cash wages, (b) incentive payments, (c) bonuses, (d) various fringe benefits.

. Determine the characteristics of farms on which incentive plans are operating.

. Determine what farm operators consider important in keeping a good hired man satisfied and on the job.

Mailed questionnaires were sent to about 200 Indiana farm operators. Of those, 72 percent completed and returned the survey forms. Usable, completed questionnaires on 132 farms were thus obtained. Of these 132 farms there were 37 on which some type of incentive payment plan for hired labor was currently used.

No attempt was made to obtain a completely random sample. Instead, selected Indiana extension agents were asked to supply a list of farm operators who employed at least one full-time hired man. Farms selected were well scattered throughout Indiana to represent the major crop and livestock areas of the state. Data gathered from Indiana farmers, particularly regarding type and success of incentive plans, were supplemented with data available from other states.

As defined in this study the incentive plan must comply with each of the following: (a) It is a payment above and beyond the normal basic wage. (b) The hired man knows the extent and limit of the plan beforehand. (c) The manner in which the hired man does his job or fulfills the requirements influences the size of payment. Thus, in this study, unplanned bonuses or gifts were not considered incentive payments because the hired man did not know about them beforehand and didn't have the opportunity of influencing the size of the bonus or gift by the way he performed his duties.

What Does It Cost to Employ Labor on Indiana Farms?

The 132 farms were divided into two groups: (a) those using some type of incentive payment plans, and (b) those not using incentive plans. Both groups of farms were about the same size (total acres and tillable acres)(Table 2). Also, they had about equal acreages in corn. However, the incentive plan farms tended to keep more dairy cattle, raise more hogs and feed more cattle than did the other farms. In other words, incentive plans were more likely to be used on livestock, especially dairy, farms than on grain farms.
Table 2. Average crop acres and livestock numbers on survey farms, 1964.

<table>
<thead>
<tr>
<th></th>
<th>Farms with incentive plans</th>
<th>Farms without incentive plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of farms</td>
<td>132</td>
<td>95</td>
</tr>
<tr>
<td>Total ac.</td>
<td>676</td>
<td>674</td>
</tr>
<tr>
<td>Tillable ac.</td>
<td>577</td>
<td>578</td>
</tr>
<tr>
<td>Crop acres:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corn</td>
<td>306</td>
<td>303</td>
</tr>
<tr>
<td>Soybeans</td>
<td>88</td>
<td>94</td>
</tr>
<tr>
<td>Oats</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Wheat</td>
<td>60</td>
<td>64</td>
</tr>
<tr>
<td>Livestock no.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dairy cows</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Beef cows</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>Feeder cattle purchased</td>
<td>94</td>
<td>78</td>
</tr>
<tr>
<td>Litters farrowed</td>
<td>73</td>
<td>73</td>
</tr>
<tr>
<td>Feeder pigs purchased</td>
<td>272</td>
<td>240</td>
</tr>
<tr>
<td>Ewes</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Hens</td>
<td>511</td>
<td>643</td>
</tr>
</tbody>
</table>

Kind and Value of Housing Furnished

Housing was provided to 79 percent of all hired men. Farm operators were asked to rate the condition of the housing they were providing. Housing was rated as follows: excellent, 19 percent; good, 57 percent; fair, 23 percent; and poor, 1 percent. The average rental value of housing furnished was estimated to be $48 per month (Table 4). There were only minor differences in housing provided on farms with incentive plans as compared with non-incentive plan farms.

Kind and Value of Perquisites Other Than House

There was very little difference in amount of extras provided on incentive plan farms compared with farms where there were no incentive plans. Table 5 shows the average value of extras per farm for all farms and the average value of each of the extras only on farms where that particular extra was provided. For example, the average value of meat provided was $67 for all farms. But, only 58 percent of the farms furnished meat. The value of meat on farms where meat was furnished averaged $116 per farm.

Factors Farmers Consider Important

The Indiana farm operators in the study ranked in order of importance the various factors they considered important in successful employment of hired farm labor. Good labor relations was considered most important, with good wages running a close second (Table 6). Rankings of the various factors were in essentially the same order on farms using incentive plans as on non-incentive plan farms.

In a similar New York State study in 1959, farm operators and hired men ranked the various factors in about the same order as did the

Tenure and Salaries

There was little difference in the average length of time hired men had been employed on the two groups of farms. However, average salary, including extras and incentive payments but not including social security tax payments, averaged $609 higher on incentive plan farms than on non-incentive plan farms. Incentive payments averaged $356 per worker on farms with such plans (Table 3).
Indiana farm operators (Table 7). In both Indiana and New York, incentive payment plans were ranked well below such factors as good wages and good labor relations on farms using such plans as well as non-incentive plan farms. This doesn't mean that incentive plans are considered unimportant, but it points out that farmers apparently feel that a good base wage and good labor relations are absolute necessities for the successful employment of a hired man.

What are food labor relations, good wages, adequate housing? These are difficult

Table 3. Tenure and salaries of hired farm workers on survey farms.

<table>
<thead>
<tr>
<th></th>
<th>All farms</th>
<th>Farms without incentive plans</th>
<th>Farms with incentive plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of farms</td>
<td>132</td>
<td>95</td>
<td>37</td>
</tr>
<tr>
<td>Average years all hired men employed</td>
<td>5.08</td>
<td>5.17</td>
<td>4.84</td>
</tr>
<tr>
<td>Cash salary of hired workers/year</td>
<td>$2951</td>
<td>$2901</td>
<td>$3079</td>
</tr>
<tr>
<td>Average incentive payment/year</td>
<td>$ 100</td>
<td>---</td>
<td>$ 356</td>
</tr>
<tr>
<td>Value of perquisites furnished a/</td>
<td>$ 826</td>
<td>$ 810</td>
<td>$ 885</td>
</tr>
<tr>
<td>Average salary including extras and incentive payments b/</td>
<td>$3877</td>
<td>$3711</td>
<td>$4320</td>
</tr>
</tbody>
</table>

a/Includes value of such items furnished as house, milk, meat, garden, eggs, telephone, electricity, fuel, insurance, etc. b/Social security tax payments on the hired man are not included.

Table 4. Kind of housing furnished 159 hired farm workers in Indiana, 1964.

<table>
<thead>
<tr>
<th></th>
<th>All hired men</th>
<th>Farms without incentive plans</th>
<th>Farms with incentive plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent furnished a house</td>
<td>79</td>
<td>77</td>
<td>84</td>
</tr>
<tr>
<td>Number of rooms/house</td>
<td>6.2</td>
<td>6.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Percent of houses with bath</td>
<td>92</td>
<td>94</td>
<td>87</td>
</tr>
<tr>
<td>Percent of houses with furnace</td>
<td>30</td>
<td>23</td>
<td>49</td>
</tr>
<tr>
<td>Estimated rental value/month</td>
<td>$48</td>
<td>$47</td>
<td>$51</td>
</tr>
</tbody>
</table>
Table 5. Average value of perquisites furnished hired men, all farms, percentage receiving perquisites and average value when furnished.

<table>
<thead>
<tr>
<th></th>
<th>Average value perquisites all hired men a/</th>
<th>Percent of hired men receiving any perquisites b/</th>
<th>Average value received for all hired men receiving perquisites c/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat</td>
<td>$67</td>
<td>58</td>
<td>$116</td>
</tr>
<tr>
<td>Milk</td>
<td>$39</td>
<td>19</td>
<td>$206</td>
</tr>
<tr>
<td>Eggs</td>
<td>$12</td>
<td>19</td>
<td>$61</td>
</tr>
<tr>
<td>Fuel</td>
<td>$54</td>
<td>37</td>
<td>$147</td>
</tr>
<tr>
<td>Electricity</td>
<td>$54</td>
<td>45</td>
<td>$120</td>
</tr>
<tr>
<td>Cash bonuses</td>
<td>$54</td>
<td>43</td>
<td>$126</td>
</tr>
<tr>
<td>Paid vacation</td>
<td>6.4 days</td>
<td>77</td>
<td>8.3 days</td>
</tr>
<tr>
<td>Insurance protection d/</td>
<td>$51</td>
<td>67</td>
<td>$76</td>
</tr>
<tr>
<td>Garden</td>
<td>$16</td>
<td>62</td>
<td>$25</td>
</tr>
<tr>
<td>Other (telephone, gasoline, use of truck, etc.)</td>
<td>$24</td>
<td>16</td>
<td>$152</td>
</tr>
</tbody>
</table>

a/ This is average value for all hired men whether the hired man received a particular perquisite or not. b/ Percent receiving a particular perquisite. In some cases, especially for meat, not all the meat was provided that might be needed by the family, but at least some was provided. c/ This is average value of perquisites only when at least some of the particular perquisite is provided. d/ This was primarily for workman's compensation and liability insurance. However, several farmers did carry some form of medical or hospitalization coverage on the hired man and in a few cases on his family. A few carried a life insurance policy on the hired man. About 30 percent of the operators carried no insurance protection on hired labor. Workman's compensation perhaps should not be considered as a benefit to the hired man, but it does represent a cost to the operator for hired labor.

Table 6. Relative importance of various factors in successful employment of hired labor (ratings by 116 Indiana farm operators, 1964).

<table>
<thead>
<tr>
<th>Factors</th>
<th>Number of times ranked</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>5th</th>
<th>6th</th>
<th>7th</th>
<th>Composite ranking 1/</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good labor relations</td>
<td></td>
<td>50</td>
<td>30</td>
<td>20</td>
<td>9</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>1,034</td>
</tr>
<tr>
<td>Good wages</td>
<td></td>
<td>44</td>
<td>35</td>
<td>14</td>
<td>8</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>933</td>
</tr>
<tr>
<td>Adequate housing, plus privileges</td>
<td></td>
<td>12</td>
<td>27</td>
<td>37</td>
<td>14</td>
<td>6</td>
<td>7</td>
<td>2</td>
<td>836</td>
</tr>
<tr>
<td>Good buildings and equipment</td>
<td></td>
<td>7</td>
<td>12</td>
<td>25</td>
<td>31</td>
<td>19</td>
<td>5</td>
<td>3</td>
<td>746</td>
</tr>
<tr>
<td>Vacation</td>
<td></td>
<td>1</td>
<td>3</td>
<td>7</td>
<td>28</td>
<td>29</td>
<td>20</td>
<td>7</td>
<td>591</td>
</tr>
<tr>
<td>Incentive plans</td>
<td></td>
<td>1</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>12</td>
<td>18</td>
<td>29</td>
<td>392</td>
</tr>
<tr>
<td>Bonuses</td>
<td></td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>9</td>
<td>15</td>
<td>29</td>
<td>14</td>
<td>370</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>23</td>
</tr>
</tbody>
</table>

1/ Composite ranking is based on the following weighting for various rankings: 1st = 10, 2nd = 9, 3rd = 8, 4th = 7, 5th = 6, 6th = 5, 7th = 4. Some farmers included only three or four items in their ranking.
to define and measure, but important enough to warrant consideration if one has a hired man.

Good labor relations, among other things, mean:

. Mutual respect, trust and loyalty.

. A cooperative, friendly attitude and ability to get along with others.

. Knowing the jobs to be done and ability to supervise the hired man in doing them.

. Planning ahead to reduce hasty decisions and confusion.

. Giving orders in such manner that the hired man knows exactly what is expected of him.

. Patience with the hired man while he is becoming adjusted to a new situation.

. Praise and expression of gratitude for a job well done--this can often be as important as higher pay.

. Giving the hired man and his family a feeling of belonging in the community and a greater feeling of security by encouraging participation in church, school, 4-H and other community activities.

. Giving the hired man added responsibility if he is willing and able to assume it.

. Asking the hired man's advice and council when and where he is competent to give it.

. Sharing some of the unpleasant tasks that must be done on any farm.

. Reviewing of written agreements from time to time to make sure that both parties understand and are satisfied with them.

. Using discretion when introducing, addressing or referring to the hired man. Most non-farm employers refer to their workers as employees and not the hired hand or hired man. Does your employee resent being called the hired hand?

Table 7. Composite ranking of factors important in employment of a hired man (40 New York farms, 1959).a/

<table>
<thead>
<tr>
<th>Factor</th>
<th>Incentive plan</th>
<th>No incentive plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>23 farms</td>
<td>15 farms</td>
</tr>
<tr>
<td>Farmers</td>
<td>Hired men</td>
<td>Farmers</td>
</tr>
<tr>
<td>Good labor relations</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Good wages</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Adequate house plus privileges</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Good building and equipment to work with</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Vacation and time off</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Incentive payment plan</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Bonuses</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

a/ From Incentive Payment Plans for Hired Men, A.E. Ext. 49, Dept. of Agricultural Economics, Cornell University.
Good labor relations, however, are by no means a one-way street. There must be a give-and-take arrangement with the hired man giving as well as taking.

Good wages mean wages that are competitive with what the hired man could earn elsewhere--either on or off the farm. Indiana farmers apparently rate good wages as very important in keeping the hired man satisfied.

Housing and privileges are an important part of the pay for most hired men. The value of perquisites was estimated at $626 per year for hired men on Indiana farms in 1964 (Table 3). Many hired men tend to compare farm wages with factory wages and overlook the value of extras furnished on the farm. By some means the value of perquisites furnished the hired man should be called to his attention occasionally. Some employers itemize the value of the perquisites and attach it to the pay check from time to time. Other farm operators furnish no house or other extras--preferring to give the hired man his total pay in cash. This enables the hired man readily to compare his income with non-farm opportunities. It also allows him to choose his home, perhaps even own it, and permits him to buy food items most desired by his family. However, it is often desirable to have the hired man live on the farm.

Since there is often housing available on the farm, the hired man may get a real bargain by being furnished a house. Also, there may be tax savings to the hired man if part of his pay is in the form of housing provided on the farm.

If housing is furnished it should be big enough to meet family needs and modern enough to keep the family comfortable. Few hired men's wives will be content to live in a house unless it is large enough for the family, has a convenient kitchen, inside plumbing, satisfactory heating, and is in good repair. Minor repairs and interior decorating of the hired man's house is often accomplished by the employer providing materials and the hired man or his family providing the labor. The employer should insist that the hired man and his family keep the house and surroundings neat and orderly.

Good buildings and equipment to work with can greatly increase accomplishment, as well as reduce drudgery and dirty, smelly work. High wage rates dictate that labor accomplishments be high if the employment of labor is to be profitable. Most farmers have found it profitable to make many added investments in equipment and buildings to increase labor efficiency. But having a big investment in buildings and equipment doesn't guarantee high labor efficiency. Keeping equipment in repair and in good working order often helps increase labor efficiency.

Tools should be picked up and put in the proper place, junk disposed of and surroundings kept neat and orderly. Most people accomplish more and get greater satisfaction out of their work if things are neat and orderly.

The hired man should assume responsibility for taking proper care of equipment and buildings. Some hired men can cost
more in machinery repair than they contribute in added net income.

Vacation and time off are important. Employees should have regular working hours and these hours should be maintained as far as possible. The hired man’s wife won’t be happy for long if she doesn’t know when to expect her husband for dinner or if the family can never get away in time to see Junior play basketball. In almost any employment now, a man works definite hours. In farming this isn’t always possible, but advance planning can eliminate much of the need for irregular hours. During the busy planting or harvest season, the hired man should expect to work longer hours but should be compensated by extra pay or by more time off during the slack season.

On some days during slack season or bad weather, it may cost the farm little or nothing for the hired man to be off. Many times the slack season or bad days are as satisfactory as the busy season for him to look after personal matters or take a vacation.

Bonuses were given rather low priority by Indiana farmers when comparing items important in the employment of hired men (Table 6). Bonuses differ from incentive plans in that there is no clearly spelled-out manner in which the size of a bonus is determined. Bonuses are undoubtedly appreciated by hired men, but these don’t substitute for good wages, adequate housing, or good labor relations.

INCENTIVE PLANS FOR HIRED MEN

Incentive plans do not seem to be widely used on Indiana farms. Only 28 percent of the farms and 21 percent of the hired men included in the 1964 Indiana survey were on some type of incentive plan. However, an additional 43 percent of the hired men included in the study received cash bonuses of varying amounts.

Farm operators usually have increased profits as one of their goals. The incentive plan should contribute to this goal, but it should also compensate the hired man for extra effort. An incentive plan may lead to greater profits by: (a) reducing the rate of "turnover" of hired workers, thus perhaps raising the quality of labor and reducing the cost of retraining new workers and (b) developing greater interest in the job and, therefore, better workmanship and higher morale.

An incentive plan should be based on sound management principles, if it is to be fair to both parties, have a reasonable chance of success and not create inefficiencies in the business. 1 Some of the more important considerations in developing incentive plans are:

1/ Adapted in part from Incentive Payment Plans for Hired Men," A.E. Ext. 49 by W. H. Schaffer et al., Cornell University.
A complicated plan which the hired man doesn't understand can cause mistrust—especially when the payment turns out to be smaller than he had expected. The hired man must understand how he can influence the size of the payment, even though the size may vary from year to year.

- Make them specific so that the hired man can readily see how to meet the requirements.

- Put them in writing. A written agreement can help avoid misunderstanding and would be most helpful in making a settlement in case something happens either to the operator or hired man. The agreement should be signed by both parties.

- Make payments large enough to encourage extra effort by the hired man, but not so large as to add more to cost than to returns for the operator.

- Base payments on performance over which the hired man has considerable control. This is often a difficult requirement to meet. For example, a payment based on crop yields or livestock production rates above a given level may be greatly reduced or eliminated by drought or a disease outbreak over which the hired man has no control. But, if the hired man can readily see that his efforts are likely to influence the production or farm income, and thus his own payment, then the plan is more likely to be successful.

- Base rewards on performance which is to the best interest of the employer. Incentives based strictly on physical production or a percent of gross income largely disregard costs. Thus, higher output may not always mean higher profits for the operator.

- Make incentive payment as soon as possible after requirements are met. A definite time should be established for making payments. If payments are made as soon as requirements are met, it is easier for the hired man to see the relationship between his performance and size of payment. Also, if a hired man is considering a move, the completion of a major undertaking (when livestock are marketed, crops are harvested, etc.) is usually as good a time as any to lose him.

- Make the plan broad enough to include all the major enterprises with which the hired man will be involved. If the plan, for example, offers a bonus for extra effort in the dairy enterprise but nothing for hog or crop production, the hired man may slight hogs and crops and devote too much effort on dairy. The hired man should feel that it is equally profitable for him to work anywhere on the farm.

- Don't create a conflict of interest and thus discourage economical practices and hamper sound decision making. For example, plans based on a percent of net income might cause the hired man to question needed expenses for maintenance and improvements since they may reduce net income in the short run.

- Don't shift part of the risk-taking to the hired man. Most hired men are not in a position to take risks. Capital and management in our society usually bear the risks and reap the benefits or suffer the losses associated with risk-taking. Since the hired man usually has a family to support and has little to market other than his time and skills, he needs to be sure of a base wage. The incentive payment, if any, should be for extra effort or outstanding performance.

- Don't try to substitute incentive payments for a competitive wage or good labor relations practices. With most hired men it is difficult to substitute anything for these.

Types of Incentive Plans

Payments under the four main types of incentive plans in operation are based on:
(a) physical production, (b) percentage of net or gross income, (c) equity building, (d) length of tenure.

Physical production plans can be developed for most farm enterprises. Under this type of plan the hired man is paid a base wage and then receives additional payments depending upon levels of output for a given enterprise or enterprises.

Payments may be made at a predetermined rate for each unit of production or at an established rate for each unit of production above an agreed-upon level. Costs of production should be carefully considered before a particular rate is set. Rate of payment must be adjusted to fit the set of circumstance on any given farm.

Some major advantages are:

. Plans are easy to understand.

. Payments are easily computed.

. Payments are easily adjusted to time of performance (when pigs are weaned, crops harvested, etc.).

Some major disadvantages are:

. Costs are largely disregarded, thus fostering uneconomical practices. For example, the hired man may overfeed the dairy herd or over-fertilize the corn crop to increase production. He may save "runt" pigs which should have been discarded. He may wish to increase output (number of animals) when more volume isn't profitable.

. Unfortunate circumstances over which the hired man has no control may eliminate or greatly reduce the incentive payment.

. If incentive payment is for only one enterprise (e.g., dairy) when the hired man is involved also with crops and other livestock; he may want to spend time on the dairy enterprise when it would be to the best interest of the operator for him to be working elsewhere.

Incentive plans based on a percent of gross income, either from one enterprise or from the total farm business, exhibit about the same advantages and disadvantages as do the plans based on physical production.

Plans based on percent of net income may be based on only one enterprise or the entire farm business.

. Costs are taken into consideration; also higher production is stimulated. Thus, a percent of net income is the most inclusive of any of the plans in operation.

Major disadvantages are:

. The plan may be difficult to understand.

. Payments may be difficult to compute.

. The farm operator may not want the hired man to know this much about his earnings.

. The plan can lead to conflict of interest.

. The plan could hamper the making of sound management decisions—operator may feel obligated to confer with the hired man before making certain decisions.

Equity building incentive plans are sometimes used in an attempt to extend the tenure of a good hired man. Under this arrangement the hired man, in addition to his regular duties in working for the operator, is given an opportunity to raise a limited number of livestock (e.g., laying flock) and receive a share or all of the income from this enterprise in addition to his wage. He may use buildings and equipment not being used by the operator. The operator may furnish pasture or some other feeds. In some cases, the hired man may be given an
opportunity to raise a limited acreage of some particular crop (e.g., tobacco) and receive a share of the income from this crop in addition to his base wage.

The goal of this plan is to meet the desire for ownership and capital accumulation on the part of the hired man. This plan can be rewarding in that it may help a man accumulate some capital and perhaps move out on his own as a tenant operator. This, of course, makes the plan self-defeating in the long run if successful, but it may keep the good hired man from seeking other opportunities for a time.

- Cost of the plan may be low if unused resources in the form of buildings and equipment are available and the hired man has unemployed family labor.

Some disadvantages are:

- It may be difficult to link performance with payments.
- Since part of payments are not in cash it may be difficult to measure their value.
- The plan could lead to conflict of interest—hired man wants to work for himself when needed by the employer.
- If the employer keeps livestock on the farm it would often be unwise for the hired man to keep similar livestock because of disease control, the problem of keeping them separated, etc.
- Such enterprises are often small and inefficient and would not survive without free resources contributed by the employer.

Incentive plans based on tenure are frequently used. Under this plan the hired man receives his basic weekly wage, but in addition has an agreed-upon amount ($3 to $20 per week) set aside to be paid if he stays on the job for a stipulated period. In some cases, the hired man must stay until after crop harvest, until December 1, or until the end of the year in order to receive the incentive payment.

This type of plan has several advantages:

- It is easy to understand and few records are needed.
- The hired man knows precisely what to do to receive the payment.
- Size of payment is not influenced by outside factors such as weather conditions or a disease outbreak.
- The hired man needs to know a minimum about his employer's earnings and financial affairs.
- The plan does not restrict the employer in any way in making management decisions.
- The hired man knows exactly how much his income will be for the year if he stays on the job.
- None of the risks of the business are shifted from the farmer to the hired man.

The main disadvantages are:

- It somewhat violates the principle that the size of the incentive payment be based on the manner in which the hired man performs his job. It may not stimulate the hired man to take as much responsibility, to put forth extra effort or to be as interested in the financial outcome of the business as when his salary depends on his day-to-day actions. However, if the hired man is willing and able to take more responsibility and put forth greater effort he is in a strong position to bargain for a higher wage.
Examples of Incentive Payment Plans. Examples are meant to serve only as guides. Any plan should be adjusted to fit a particular situation.

Payment rates, on a larger, productive, highly mechanized farm, employing several men, should be different from those on a small, unproductive poorly mechanized farm.

HOGS

Feeder pigs bought
- 10-25 cents per feeder pig bought and fed out.
- 0.5-1.0% of hog sales less cost of feeder pigs.

Feeder pigs produced (for sale or fed out on the farm)
- 25 cents-$1.00 per pig weaned.
- 50 cents-$1.00 per pig raised to 65 pounds.
- $1.00-3.00 per pig weaned above 8 per litter.
- $1.00-3.00 per sow that weans more than 8 pigs per litter.
- 10% of feeder pig sales above $90 per litter.
- 1-4% of gross income from hogs including inventory changes.

Pigs farrowed and fed out on the farm
- 25-50 cents per hog marketed during the year if employee stays until end of year.
- $2.00-5.00 per market hog sold above 7 per litter.
- 1-4% of gross income from hogs including inventory changes.

DAIRY

3-5% of milk sales, paid monthly.
Start at 1% of milk check and increase pay by gradually moving up to 5% of milk check.
3 cents per cwt. milk sold, and rate is increased by 3 cents per year employee stays up to a maximum of 25 cents.
3-8% of returns above feed cost based on DHIA records.
25-50 cents per cwt. milk sold above 9,000 pounds (or some other standard) per cow.

SHEEP

$1.00-2.00 per lamb raised above 1 per ewe.
1-5% of gross income, from sheep including inventory changes.

HENS

2-5 cents per dozen eggs produced above 18 dozen (or some other standard) per hen housed.
10% of gross income above $5.00 (or some other standard) per hen housed.
1-2% of egg sales less feed cost.

BEEF

Cow herds (calves sold at weaning)
- $1.00-5.00 for each beef calf weaned.
- 10% of gross income above $90 (or some other standard) per cow.

Feeder cattle purchased
- 25 cents-$1.00 per head of fed cattle marketed.
- 1-2% of beef sales less cost of purchased feeders.

CROPS

1-2 cents per bushel of grain produced, including grain equivalent in silage.
5 cents per bushel corn produced over 100 bushels (or some other standard) per acre.
5-10 cents per bushel of soybeans produced above 30 bushels (or some other standard) per acre.
1% of gross crop sales.
$50 bonus if corn and soybeans are planted without a single rowmiss; $5.00 reduction from this $50 per row or part of row missed. Hired man gets bonus if he catches and replants missed rows on his own.

WHOLE FARM

Percent of Gross Income
- Percentage of monthly gross income.
- 0.5-2.0% of all gross receipts (adjust to size and type of farm).
- Three to six weeks paid vacation in January and/or February, the length depending on gross income of previous year.

Percent of Net Income
- 2-10% of taxable income as computed for income tax purposes.
- 10-25% of profits with profits defined as taxable income adjusted for inventory change less a charge for operator's and unpaid family labor.
- A stipulated percent of the difference between cash farm receipts and stipulated operating expenses.

Based on tenure or time worked
- Weekly base wage plus $5.00-20 per week withheld and paid: (a) quarterly, or (b) paid at end of year if he stays full year.
Satisfaction with Incentive Plans

The 37 farm operators in the 1964 Indiana study who used incentive plans were asked to express their feelings about their present plan. Nineteen farmers said they were well satisfied. Another 16 farmers said they were fairly well satisfied and would continue to use present plans. The remaining two farmers were dissatisfied but probably will continue to use their plans.

Comments in favor of the plans ran from complete satisfaction, to "it gets the job done," to some reservations. One farmer stated that he had used the same plan for 15 years and was very pleased. His herdsman gets 5 percent of the milk check. This man has been employed for 18 years on the same farm. Another operator was well pleased with his plan in operation for five years; this paid the hired man 1 cent per bushel for each bushel of grain produced. It netted the hired man $700 in 1963.

Twenty-three percent of the 132 Indiana farmers questioned had tried some kind of incentive or bonus plan in the past but had dropped it.

The consensus, from these farmers who have stopped using incentive plans, is that the hired man wants cash on the barrelhead now and not at some future point in time. Many stated that a successful plan requires "the right man and the right situation."

Some of the comments from farmers who have quit using incentive plans were:

- "It created more problems than it solved."

- "It did not accomplish its purpose of increasing efficiency."

- "It raised problems of decision making regarding purchases, sales, and management."

- "It took too much time for record keeping.

- "It was not appreciated by the hired man."

- "It didn't improve anything for me."

- "Men are interested in the size of their check each week."

- "Could not find a plan agreeable to both parties."

- "Too much chance for argument and disagreement."

CONCLUSIONS

The success of an incentive plan is difficult to predict. Personalities must be congenial and there must be mutual respect for the two parties to be satisfied. Many incentive plans have failed because they violated one or more of the management principles discussed earlier. Under proper conditions, incentive plans have worked and are currently working in a satisfactory manner.

Successful incentive plans don't "just happen." They result from careful planning and study. It's extremely important that the plan be well understood by both parties. The hired man must be able to understand what is expected of him in order to receive payment. Putting the plan in writing is important. Even the most carefully devised plan, however, does not guarantee that the hired man will work harder or take more responsibility. But many hired men will put forth greater effort if proper incentives are offered.

Incentive payment plans should be in addition to and not substitutes for such important things as: good wages, good labor relations, adequate housing, good buildings and equipment to work with, and vacation and time off.
Fairly small payments, but made at frequent intervals or as soon as a particular job is accomplished, are probably more effective in stimulating incentive than larger payments made at the end of the year.

The hired man should be given considerable responsibility in those enterprises from which he is to receive an incentive payment. Only by assuming responsibility does he really have an opportunity to influence the size of the payment. On the other hand, the operator should put sufficient safeguards into the agreement to protect himself against uneconomical practices that might arise.

Incentive plans based on physical production or a percentage of gross income are fairly widely used, adapted to a wide range of conditions, easily understood and usually require only limited record keeping. But these types of plans are most susceptible to the stimulation of uneconomical practices.

Payment plans based on a percentage of net income (particularly of the total business) should be very carefully scrutinized before being put to use. Net income is difficult to define, complete records are required, the hired man must know much about one's financial affairs, and the making of management decisions may be hampered. However, with proper safeguards and adequate record keeping, a percent of net can be a very good plan—especially with a top-notch, aggressive hired man.

Incentive plans allowing the hired man to build up an equity in livestock have serious shortcomings. It is difficult to measure size of payment since it is not in cash. It is difficult to link payment to performance. Also, this plan can easily involve conflict of interest between employer and hired man.

The plan based on tenure (hired man receives an additional $5.00 to $20 per week if he stays on the job a stipulated time) may not stimulate the hired man to take the added responsibility or put forth the extra effort desired. But this plan has advantages and avoids many of the disadvantages that other plans present.

Until a farmer is fairly certain of the hired man's capabilities, ambitions, character, etc., a simple plan is probably advisable. After the hired man has been on the job for a sufficient period to demonstrate his value to the business, then a more complicated and involved plan may be considered.

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