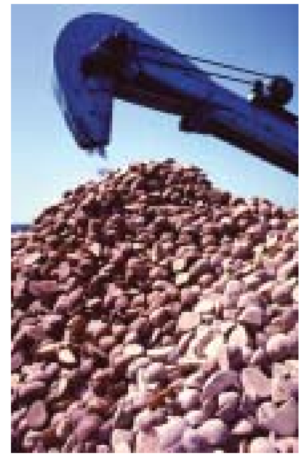

1. *External equity.* What is the overall pay level in the organization, relative to others in same labor market? A policy of "keeping up with local norms" is common, but some employers like to stay a cut above or below.
2. *Internal equity.* What are the relationships between rates at which people in different jobs within the company are paid? Are mechanics, for example, paid the same as drivers or managers? If not, how much more or less?
3. *Pay basis.* From what is the periodic paycheck calculated? Is a rate applied to units of time (hours or weeks) or to output (trays, cartons, sales, or vines)?
4. *Individual wage determination.* Do all people in the same or similar jobs receive the exact same rate of pay, or do individual rates vary within a specified range? Can one service worker, for example, make more than another? If a range is used, what determines where an individual's rate falls within it? Seniority and past performance can be systematically considered.
5. *Indirect compensation.* What deferred or non-dollar wages (e.g., pensions, health insurance, living quarters) supplement current pay, and who is eligible to receive them?
6. *Communication.* How much and by what means are employees told about the overall pay structure? In some businesses, employees understand quite well how their pay is computed and how they can earn more. In others, the pay system is a mystery, possibly because of poor communication, possibly because there is no consistent system, or possibly because management believes the employees will work harder if the reward system is kept a mystery.

Cases where employers pay for one thing but expect another are too common. Pay and benefit increases intended to stimulate better employee performance often only serve to motivate membership—joining or staying with the business. Employers who want to get more of what they are paying for need to think about whether they are paying for what they really want.

Time-Based Pay Structures

Agricultural employers can structure the time-based wages in their businesses to encourage good work. Better performance may be recognized and translated into higher future earnings through two types of movement within a wage structure: (1) advancement in a pay range for a given job (or family of jobs with the same range), and (2) promotion to a higher paying job. A structure that is carefully designed, maintained, and communicated to workers has strong motivating potential.

Wage differences across employees on a ranch—and changes for a given employee—may reflect both "job factors" (e.g., knowledge or license needed to do the job, degree of responsibility, difficulty or unpleasantness of tasks) and "individual factors" (e.g., quality of performance, length of service, age). The principle of paying more for work in jobs that involve more skill, responsibility, or unpleasantness and for better or longer service within jobs is well accepted. Problems in applying this concept often stem from the difficulty in measuring all these factors except age and length of service.

Ways in which wage structures can differ

- Number of classifications
- Number of job titles per classification
- Size ("height") of ranges for each classification
- Amount of overlap between ranges of adjacent classes
- Size of permissible increments within range
- Basis for individual advancement within a range
- Frequency of consideration for rate adjustments
- Overall level of pay and triggers for adjustment of the whole scale *(Each is subject to management choice.)*

Job Factors and Comparisons for Internal and External Equity

A process of job "evaluation" can be used to rate jobs on the farm or ranch according to their relative importance. Jobs of similar importance may be grouped into a single classification within an associated pay rate or range, or every job might have its own wage range. Setting ranges is tricky business. The relationships between ranges for different jobs have symbolic and practical implications. A person at the top of one range may be earning more than a person at the bottom of the next higher range. Whether and how much range overlap to build into a pay structure is a basic pay policy choice.

If workers in the business see pay rates as commensurate with job importance or contribution, a sense of "internal equity" exists. While internal equity is important to establish, employee response to the pay structure also depends on its "external equity," how it stacks up against those of other employers in the labor market. Even when jobs are priced fairly in relation to one another, they all might be too cheap or too expensive. If the overall wage level in the firm is too low, it encourages employees in all classifications to look elsewhere. Workers always have the option to move on to where their skills are more highly valued. If overall wages are much higher than the local norm, the business is probably foregoing some profit, though keeping its workforce happy. While employers may not want or be able to keep up with others, it is useful to be aware of what those others are paying.