

Achieving external equity requires obtaining information about what others pay for comparable work in the same labor market. The information can be obtained through varied means such as a mailed survey, a round of phone calls, or a conversation in the coffee shop. See *AgHelpWanted.org* for links to public sources of data for evaluating external equity.

### Individual Factors and Means for Advancement

For farmers and ranchers who do want to pay different wages for different jobs, the next question is whether to have a single rate or multiple rates for a particular job or pay classification. Even if tractor drivers are paid more than general laborers, should all workers in either respective category have identical wage rates? Differences in contribution or value to the farm business among individuals in the same type of position can be easily built into pay, if a range of rates is established for each job.

What factors should determine individual pay differences? Higher rates (or “upper steps”) within the range are typically associated with greater length of employment (seniority), better-evaluated performance, or a combination of the two. It is important to have clearly understood policies about how employees can move up in a range and when adjustments can be made. A yearly review of pay scales with consideration given to individual adjustments is most common. Many farmers and ranchers review all employees at the same time of the year, usually in a period of low activity; others consider each worker around the anniversary of initial employment; and others do it irregularly, adding to their employees’ sense of wonder.

So called “merit plans” provide for variable periodic increases in hourly or weekly wages, the size of raise correlating to evaluated performance during a previous period. If the pay range for drivers is from \$7 to \$10 per hour, for example, new drivers might be brought in at the \$7 level and advanced to higher rates after showing good work. This approach relies on input from performance appraisals that measure merit.

Unlike piece rate and most other incentive plans (discussed later in this chapter), merit systems do not tie current pay to current performance. Instead, they motivate by linking **future** pay and position to current performance. They have strong effects on employees when (1) the performance appraisals on which raises are based are accepted as objective and fair, (2) differences between raises given for different levels of performance are large enough to be worth working for, and (3) employment is stable enough that people can actually look forward to a future with the business.

Failing any of these conditions, a merit system contributes little if anything to employees’ motivation to perform. The temporal and psychological distance from effort exerted to a merit reward is much greater than that to an output-based paycheck. While some merit systems operate effectively, many become “demoralized” and resemble seniority plans, in which everybody in a job



classification gets pretty much the same annual raise, regardless of performance. Where performance appraisals do not reliably distinguish better from worse performers, the range of possible pay increases is often set too small for the system to have a motivating effect.

### Influences of Wage Structures

Pay structures affect both short- and long-term decisions by employees. In addition to revealing how jobs and individuals are currently valued, they inform employees, as well as applicants, about routes and limits of salary advancement. The example of Farms A, B, and C illustrates how three farms with the same total wage expense distribute it differently through their respective arrays of rates. Which farm would be more attractive to a prospective employee? Which structure would it be easier for a manager to administer?

#### Same cost, different pay rates at Farms A, B, and C

Farms A, B, and C are independent operations producing a similar mix of vegetables, melons, and grain on about the same total acreage. During the summer, all have the same field staffing pattern, which includes 10 general laborers, 3 irrigators, 4 tractor drivers I (basic), 2 tractor drivers II (advanced), 2 mechanics, and 3 supervisors. Total wages for the three were exactly the same last year. Pay rates for workers on all three farms are indicated on the chart below:

Employees	Farm A	Farm B	Farm C
<b>Hoer, General Laborer</b>			
1	\$6.35	\$6.70	\$6.50
2	6.35	6.70	7.00
3	6.35	6.70	6.60
4	6.35	6.70	6.90
5	6.35	6.70	6.50
6	7.80	6.70	7.00
7	7.25	6.70	6.80
8	6.25	6.70	6.70
9	7.10	6.70	6.40
10	6.85	6.70	6.60
<b>Irrigator</b>			
1	7.00	7.55	7.60
2	7.00	7.55	7.00
3	8.10	7.55	7.25
<b>Tractor Driver I</b>			
1	6.85	7.55	8.00
2	8.25	7.55	8.50
3	8.25	7.55	7.50
4	6.85	7.55	7.00
<b>Tractor Driver II</b>			
1	8.00	8.50	8.25
2	9.00	8.50	8.75