Considering Change in the Pay System

Introduction or modification of an incentive pay system is least complicated before seasonal activity begins, but good reasons to consider it may arise any time. No matter when they are contemplated, incentive plans are more likely to fit under certain conditions. Piecework, output bonus, and sharing plans are better suited to work situations in which (1) output is easily measurable, (2) employees have a high degree of control over output quantity, (3) potential work process delays are largely due to human behaviors, (4) output quality is relatively unimportant, (5) the work group has not developed a consensus on what constitutes a "fair day's work," (6) inspiring supervision is unavailable, (7) the employer needs to tightly control unit labor costs, (8) the technology or process by which work is done is relatively stable, and (9) workers (on individual plans) or crews (on group plans) are relatively independent from others.

The vineyard manager in the following case was faced with a large majority of his workforce wanting to move to a pruning piece rate in hopes of bringing their hourly equivalent earnings up to the level of local unionized competitors:

Pruning pay for pieces or hours?

Multi Farms produces tree, vine, and field crops on 8,000 acres spread throughout six contiguous counties. Its holdings are physically and administratively split into eight major blocks, over which eight respective district managers have virtually autonomous control. Each manager must live within a yearly budget that specifies a total labor cost ceiling for his block. Within this limitation, however, he has a free hand in hiring, layoffs, pay determination, and pretty much all other personnel management matters.

Ray Thompson runs the 1,100-acre farm that accounts for all of Multi Farms' wine grape production. He has a year-round staff of about 70, who have been joined in recent years by up to 20 seasonal employees during pruning and harvest times. Need for seasonal employees during harvest has declined in recent years with increased use of harvesting machines. In late fall, shortly before pruning was scheduled to get underway, Ray was approached by several of the regular employees who asked to be put on a piece rate system for the pruning season. They had learned that workers at two nearby vineyards, one of which operates under a union contract, had averaged more than $10 per hour on a piece rate system the previous year, and they wanted the opportunity to make as much.

While the employees who approached him were good workers and did not represent any fringe element of the work force, a few of the older employees had usually been the ones to bring matters of general concern to him. Ray wanted to see how strong the sentiment for piece rate pruning really was. Over the next couple of days he spoke with a large majority of the employees in various parts of the vineyard. He learned that most (three-quarters or more) of the men indeed preferred a piece rate system to the straight $7.80 per hour (up from $7.50 the previous year) that they were scheduled to receive. The others, mostly older employees with many years of service on the farm, seemed to prefer an hourly rate but said that they would go along with what the majority wanted.

Ray had long taken pride in the harmonious employee relations in his operation. His employees had never sought representation by a union, and he had no fundamental objection to piece rate pay. In fact, the vineyard normally put employees on a piece rate for hand harvesting some of the grape varieties. Ray wanted to be fair to all employees while not over-running his pruning budget or making any changes that he would regret later.

The manager had a lot to think about. What did he definitely do right? He had the good sense and respected his employees enough to check with many workers about their preferences. He found that a substantial minority, apparently including the more senior informal leadership, wanted to stay with the steady hourly pay. He also realized, however, that going to piece rate would satisfy the majority, keep costs in control (perhaps even reduce them), and keep his business in step with other firms in his area. Weighing against the change were the risks of dividing the workforce, creating downtime and necessitating layoffs for the workers after they finished pruning the fixed acreage at a faster rate, and putting more pressure on himself to supervise for quality.

Legal Requirements and Constraints

Federal and state laws regulate the timing and form of wage payment, impose record-keeping obligations on employers, and assess taxes on employee earnings. While employers are responsible for remitting all payroll taxes to government agencies, not all such payments are at the direct expense of the employer. Funds for some benefit programs (e.g., disability insurance) are withheld and paid from employees' gross earnings.

Provisions for a minimum wage, overtime compensation premiums, and reporting time pay are in statutes and regulations. Workers are entitled to the higher of the federal minimum wage or any minimum specified by state or local law, see *AgHelpWanted.org* for more details. Agricultural employees can be paid on a piecework basis as long as the gross earnings for each person are no lower than what would have been earned hourly at the applicable minimum wage.

Provisions for overtime in the federal Fair Labor Standards Act (FLSA) generally do not apply to farm workers, but individual states have their own requirements. In California, for example, "nonexempt" employees are entitled to overtime premium pay for every hour after 10 in a workday or 60 in a workweek. Though applicability of state overtime laws varies, the federal definition of criteria for FLSA exempt status is a good guideline for determining also who is exempt from state overtime obligations. An exempt supervisor, for example, must meet five criteria: (1) primary duty must be management of the company or a department, (2) must supervise at least two full-time employees, (3) must have the authority to hire and fire, (4) must regularly exercise discretionary powers, and (5) must spend at least half of work time in supervisory functions (Title 29, Code of Federal Regulations, Part 541.1).

Employers covered by the FLSA and federally registered farm labor contractors are required to preserve wage records for three years. Records must include (1) basis for wages paid, (2) piecework units earned, if any, (3) total hours worked, (4) total pay period earnings, (5) all deductions and their purpose, and (6) net pay. Farmers, farm labor contractors (FLCs), and other organizations that employ