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INCENTIVE PLANS FOR USE ON DAIRY FARMS*

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Labor management is a problem for many dairymen. The operator of a medium to large size dairy farm with one or more regular employees is often searching for ways to improve his management. Incentive plans for employees is a labor practice that comes up for consideration.

Research on the use of specific labor practices on dairy farms is rather limited. However a 1959 study of 38 New York farms (1) reported that both the employees and the farmers ranked labor relations, wages, working conditions, housing and privileges, higher in importance than incentive plans as a factor in keeping workers satisfied. A 1975 labor management study (2) showed that more profit and higher wages did go together. A recent Ohio study (3) reported that both increases in production and profit were greater on farms with incentive plans than on similar farms without incentive plans.

Observations made in working with farmers on labor practices suggest that incentive plans work for some but not for others. They have frequently led to misunderstandings and labor troubles. It appears that incentive plans are worthy of consideration on medium to large size dairy farms but one should proceed with caution.

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What An Incentive Plan Can Do

A basic feature of an incentive plan is that the worker's earnings are based on accomplishments over which he has some control. An incentive plan also can provide motivation for an employee to perform well. For the employer it can help attract and hold capable workers, enable him to delegate some responsibility, and in turn it may improve the efficiency of the business and the net returns to the operator.

Bonuses given at the end of the year do not qualify as incentive plans. The employee usually does not know in advance about the plans for the bonus, nor does he have an opportunity to definitely influence the amount received through his performance.

Some Persons Not Suited

To use an incentive plan successfully, the employer must be interested in sharing responsibility. An element in a good plan is that the worker have some control over the outcome. This means the farmer must be willing to give the worker responsibility. The employer who cannot delegate responsibility is not suited for an incentive plan.

A worker must be willing and able to assume responsibility before he is ready for an incentive plan. He also must be willing to wait for some of his remuneration. A worker who does not possess these traits is not suited for an incentive pay plan.

The human element is an important item in incentive plans. It is a difficult one to evaluate so is commonly disregarded. For the dairy farmer it also is complicated by the fact that he is one of the key persons involved. In considering incentive plans, look at the persons concerned first.

Types of Incentive Plans

Incentive plans that have been used by dairymen vary widely in detail. In general, they might be grouped in four general categories as follows:

1. Payments based on physical production - usually pounds of milk sold.
2. Reward for successfully carrying out certain practices such as raising calves to six months of age or getting cows bred back within 100 days.
3. An opportunity to build an equity through ownership of livestock. This might be the right to raise so many heifers each year or to operate a separate livestock enterprise on the farm.
4. A share in net returns or profit. This may be a share in returns over feed costs or a share in the net farm profits for the year.

Below are examples of the four categories or plans. Only the general features are described. Specific details are important and likely would vary from farm to farm.

Plan 1 - Pay Based on Cwt. of Milk Sold. One system is to pay the worker a base wage plus a set amount per hundredweight of milk sold. For example, the wage might be $125 per week base wage plus an incentive of 40¢ per hundredweight of milk sold. The base wage is paid weekly but the 40¢ incentive is deferred until the milk check comes. If they sold 3,000 lbs. per day or 210 cwt. per week, the incentive payment would be $84 (40¢ X 210 cwt.), or the total wage would be $209 per week. If production were increased to 3,500 per day, the incentive would be $98 per week. This system encourages the worker to increase total milk production or volume of business.

Plan 2 - Cows Bred Back in 100 Days. Breeding cows back within 100 days is necessary if one is to achieve the recommended average calving interval of 12 to 13 months. An incentive for doing this could be provided by a payment of $25 for each cow that freshens within 380 days of her last calving. Under this plan a worker paid a base wage of $175 per week would earn more depending on the degree to which they succeeded in getting the cows bred within 100 days. For example, in a 100 cow herd with a 25% culling rate (75 cows rebred) and 2/3 or 50 cows bred back in 100 days, he would earn $1,250 (50 cows X $25), or an average of about $25 per week in incentive pay. Whenever a cow freshened within the 380 days, as shown on the breeding records, the employee would receive the $25 incentive payment with the base pay for that week. This system of paying keeps the reward close to the time of the accomplishment.

<u>Plan 3 - Raise 4 Heifers Each Year</u>. This type of plan helps the worker who eventually wants to go into farming on his own, gain ownership in some animals. The employer must be interested in helping the worker move toward a start in farming and be willing for some animals to leave the herd eventually.

The worker, in addition to a base wage, is permitted to select from the herd and raise at farm expense four heifer calves each year. The worker retains ownership of the specific animals but upon freshening the calves and milk from his animals are a part of the general farm income. The worker has the privilege of selling or removing his animals from the herd at any time.

At the end of five years, if all animals lived, the worker would own 20 animals which might be used in starting a herd of his own. The value of the incentive payment would depend on the value of dairy animals. When cows are $750 the incentive per year would be equivalent to $3,000, but if cows were worth $1,000 the incentive would be $4,000 per year.

Plan 4 - Base Wage Plus 10% of Profit. An employee who had a major role in the overall management might be paid a base wage plus a percent of the profit. In this plan, it would be important that the method for calculating "profit" be clearly defined. For example, it might be defined as 10 percent of the labor and management income as calculated in the College farm business summaries.

With this plan, a worker might receive a base wage of $165 per week or $8,580 for the year, plus an incentive payment at the end of the year of $2,000 if the year's labor and management income for the farm business was $20,000. In this situation, the employee is essentially a partner and would need to have access to the records and understand how the labor and management income was computed. A written agreement (similar to a partnership) is essential in this type of plan.

Essentials for Success

By observing incentive plans that have worked and those that have not, certain points seem to stand out. It appears that there are essentials for success and there are pitfalls that should be avoided if possible.

To be successful, an incentive plan should:

1. Reward the worker for performing in the interest of the employer.
2. Be based on performance largely within the control of the worker.
3. Pay enough in "extra" wages to provide a real incentive for the worker to perform well.
4. Be simple to compute and easily understood.
5. Pay the "incentive" soon after requirements are met.
6. Be in a written agreement.

The common pitfalls suggest that an incentive plan should not:

1. Encourage the use of unprofitable practices such as excessive feeding.
2. Interfere with the farmer's making of decisions.
3. Shift financial risk to the worker.
4. Be relied on as the basis of good employer-employee relations.
5. Attempt to substitute "incentive pay" for a reasonable base wage.

Implementing a Plan

The personal characteristics needed for the employer and employee are basic. In considering an incentive plan, this is the first thing to examine. The dairyman who can share responsibility and has an employee who can assume responsibility and a challenge may find this labor management tool useful.

In arriving at specific dollar amounts to use, the employer needs to do some figuring. Determine the range in earnings that would be acceptable. Then with a base wage that will cover the worker's financial needs for living purposes, you can arrive at workable rates for the incentives. Don't expect to find "the figure" from someone else. By preliminary figuring in advance, you can determine what will fit your farm.

Both the employer and employee should be interested in the plan. The arrangement must be discussed by both parties. Each must understand the terms of the agreement and agree to them if the plan is to succeed.

The terms of the incentive plan must be definite. If the agreement is in writing, it is more likely to be definite than if you rely on an oral agreement.

Adjustments to an incentive plan may be needed after it is put into use. After a year's experience, it should be reviewed and changes made where needed. Over a period of time conditions may shift and changes called for in the terms of the plan.

Conclusions

An incentive payment plan is a special kind of labor management tool. Like a buzz saw, it can be effective if properly used but dangerous if used carelessly. This tool is probably suitable for a limited number of special employer-employee situations but is not recommended for general use by all dairymen.

Experience over more than 25 years, indicates that there has been considerable interest in incentive plans, relatively few dairy farmers have actually used incentive plans, and the plans that have been tried often have resulted in dissatisfactions and have been discontinued. On the other hand, some incentive plans have proven to be highly successful.

Incentive plans for workers on dairy farms are worthy of consideration, but be cautious as it takes certain kinds of individuals and the right situation for them to succeed.

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