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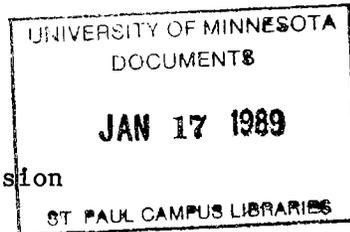
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Dairy Update

MANAGING DAIRY FARM PERSONNEL
USE OF INCENTIVE PAY PROGRAMS

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Many dairymen who employ non-family workers indicate that finding and keeping competent and productive employees is their most critical challenge. One study of employer/employee relationships on Minnesota dairy farms indicated that employee turnover was seldom the result of insufficient pay, inadequate housing or other material needs. Rather, the lack of motivational or psychological employee satisfaction appeared to be the problem.

First of all, dairy farm owners and managers need to understand what makes employees tick. While bosses may feel they can make employees satisfied with good wages, promotions, and job security, the worker is often actually more concerned about appreciation for work done, input on decisions, and employer understanding of personal problems (Table 1).

Table 1. Importance of various factors to employees.

<u>Factor</u>	<u>Employees</u>	<u>Bosses</u>
Full appreciation of work done	1	8
Feeling of being in on things	2	10
Sympathetic help on personal problems	3	9
Job security	4	2
Good wages	5	1
Interesting work	6	5
Promotional growth in organization	7	3
Personal loyalty to employees	8	6
Good working conditions	9	4
Tactful disciplining	10	7

In the Minnesota study, 80% of the workers interviewed felt there was multiple supervision on the farm where they were employed; only 17% of the employers indicated there was more than one supervisor on the farm. When employees felt

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there was multiple supervision, irregardless of whether the employer recognized it or not, confusion as to priority of commands did occur. This confusion ultimately resulted in an increased turnover rate and shorter term of employment of workers.

Personal motivation and morale of employees is very important. Sustained motivation must come from within the worker. Fear, bribery, and manipulation will not work for long. The key, then, is to get the employees striving to fulfill their needs while working toward the goals of the farm business. Performance evaluation/feedback/compensation is one way to help workers be motivated and to maintain enthusiasm for their jobs. One way to achieve all three is to establish a good incentive program.

Factors to Consider in Designing a Good Incentive Program

1. A bonus incentive program should be aimed at rewarding the employees for working in the interest of the employer. The plan should be designed to emphasize a specific area where worker performance makes a difference and can be measured.
2. The incentive plan should be based on performance that is largely within the control of the worker. Bonuses based on "percent of profits" is a poor incentive because of the many factors involved over which the worker has little or no control.
3. Measurements of performance should be made by a disinterested party or by objective criteria. Furthermore, incentives should be based on values which cannot be influenced by fraudulent practices. For example, incentives for increased milk production should be based on actual milk sold rather than DHI records to discourage any manipulation of test day values.
4. Be sure the plan doesn't encourage practices that are unprofitable to the business. For example, if improved milk production is the basis for an incentive bonus, make sure the worker doesn't achieve this by the overfeeding of grain.

Steps to Consider in Implementing an Incentive Program

1. **Analyze the Problem.** Determine: a) the exact labor related area(s) to be emphasized, and b) your goals for each area. Keep it simple and understandable.
2. **Link Pay to Performance.** Be sure the workers can see the link between their efforts and the factors used to determine the incentive payment.
3. **Anticipate Loopholes.** Be sure that workers don't achieve results, and incentive rewards, at the expense of other results.
4. **Establish Standards.** Establish dependable standards that will be used to evaluate the employee's performance.

5. **Put it in Writing.** Document in writing how the performance standards relate to incentive payments. Consider a "graduating scale" to help insure that worker's feel the goal is attainable.
6. **Give Frequent Feedback.** Workers want to know how they are performing. Inform the worker on a monthly basis if possible. A separate paycheck for payment of incentives is advisable because it: (a) provides the employer an opportunity to provide feedback, and (b) prevents "negative feelings" if the regular check decreases in a particular month.

Examples of Workable Incentive Programs

Incentives can be powerful labor management tools, but they must be tailored to meet the specific goals of the farm manager. Most workers on Minnesota dairy farms perform many different tasks; thus, it may be desirable to combine several incentive programs into a single package. The total incentive payment needs to be reasonable in amount yet sufficiently large to motivate the worker and encourage his participation. Since each farm is different, the actual percentages on dollar values used may need to vary from those shown in the following examples.

1. **Milk Sold.** \$1 per hundredweight (cwt) of milk sold over 8,000 cwt per year.

Assumptions: The employee performs all milkings 6 days/week in a herd of 50 cows producing at the 16,000 lb/yr level. The owner milks 1 day/week and during periods of employee vacation or sickness.

Results: An annual increase of 1,000 pounds of milk per cow would result in an incentive bonus of \$500/year or approximately \$42/month. Similarly, the addition of 5 cows producing at the 16,000 pound level would result in an incentive bonus of \$800/year or about \$67/month.

Advantage of this method: An objective standard is employed, results are reported by disinterested party, easy to make payments monthly (based on monthly milk sales exceeding the amount sold the same month the previous year).

2. **Milk Quality.** One-fourth of the value of any quality bonus given by the milk plant.

Assumptions: If there is a bonus of 50 cents per hundredweight of milk for a combination of low bacteria and low somatic cell counts, the yearly bonus to the milker of 50 cows averaging 16,000 pounds of milk per year would be \$1,000; an average of \$83.33 monthly.

If the milk plant doesn't pay a premium for quality, but with the knowledge that low somatic cell count (SCC) cows produce more milk than those with subclinical mastitis, consider the establishment of a sliding scale for average herd SCC scores.

<u>Bulk Tank SCC</u>	<u>Payment per cow per month</u>	<u>Potential annual incentive -- 50-cow herd</u>
Below 200,000	\$1.00	\$600
200,000 to 300,000	.75	450
300,000 to 400,000	.50	300
400,000 to 500,000	.25	250

3. **Reproductive Performance.** A \$15 bonus for every cow diagnosed pregnant by 100 days after calving and \$10 for each cow diagnosed pregnant between 100 and 120 days after calving.

Assumptions: With 50 cows in the herd, the incentive bonus could approach \$600 annually or about \$50 per month. To obtain unbiased, objective measurements, it is important to utilize the services of a competent veterinarian offering a good herd reproduction program.

Comments: Incentive bonuses are sometimes given on the basis of average calving interval (i.e., 12.4 months), days open at first breeding (less than 70 days), or services per conception (less than 1.8). One weakness of these indicators, when obtained from DHI reports, is that cows culled from the herd due to poor reproductive performance aren't included in the calculations.

4. **Calf Raising.** Once yearly, calculate the percentage of heifer calves born healthy that were successfully raised to 3 months of age. Provide a \$25 incentive bonus for each percentage points above 80.

Assumptions: In a 50 cow herd, one would anticipate 25 heifer calves each year. The annual incentive bonus with 100% success = \$500; 90% = \$250.

These examples base the incentive payment on performance that is largely within the control of the employee. The goal of each incentive must be perceived by the employee as attainable. Be sure the employee understands the objectives and knows how management practices are linked to this data and how they will significantly affect compensation. The method of payment should be determined in advance and paid on time (monthly, quarterly, annually). Never postpone a payment after it is earned by an employee.

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