



Beyond Basic Compensation



Using Bonuses, Profit Sharing and Employee Ownership to Motivate and Retain Workers on Your Farm



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Abstract

With input costs and market prices continuing to add pressure to farming operations, the ability to maintain satisfied, engaged, and skilled employees who are familiar with the farming operation is becoming increasingly important. Of the different strategies growers can employ to increase employee satisfaction and retention, variable pay systems such as profit sharing, bonuses, and employee ownership appear to be some of the most important.

This handbook provides an overview of variable pay strategies used on California farms, including formal and informal bonuses, profit sharing plans, and employee ownership plans. These strategies are highlighted in case-study examples. Also included are some practical considerations to keep in mind when implementing a variable pay system, ideas for engaging employees with bonuses, examples of non-monetary rewards, formulas for calculating bonuses, and resources for more information about compensating and managing farm employees.

About this Publication and CIRS—California Institute for Rural Studies

The information in this handbook is based on case-study research conducted by the California Institute for Rural Studies (CIRS). Interviews with farmers, farm managers and employees on five farms throughout California provide the basis for the handbook.

The California Institute for Rural Studies is a nonprofit social science research organization dedicated to promoting a rural California that is socially just, economically viable, and environmentally balanced. Founded in 1977, CIRS conducts applied research focused on promoting a more sustainable food system and improving conditions for agricultural workers.

For more information about this handbook or the California Institute for Rural Studies, or for information about where to get technical assistance to help you make changes on your farm, please contact:

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About ATTRA—National Sustainable Agriculture Information Service

ATTRA offers hundreds of publications—many in Spanish—on organic and sustainable agriculture topics including marketing, crop production, processing, live-stock, composting, ecological soil & pest management, farm energy, and agroforestry.

All these publications can be downloaded free of charge at www.attra.ncat.org. Paper copies can be ordered by calling 1-800-346-9140. The Spanish line is 1-800-411-3222. ATTRA is a project of the National Center for Appropriate Technology (NCAT), see page 20.

Beyond Basic Compensation

Using Bonuses, Profit Sharing, and Employee Ownership to Motivate and Retain Workers on Your Farm



A skilled, satisfied and stable labor force is essential to the success of most farm operations. Nonetheless, many farms experience turn-over with related financial losses due to the high cost of hiring and training new employees. With input costs and market prices continuing to add pressure to farming operations, the ability to maintain satisfied, engaged, and skilled employees who are familiar with the farming operation is becoming increasingly important.

There are a number of mechanisms agricultural employers can utilize to increase employee satisfaction and retention, including competitive wage structures and benefit packages. Of the different strategies growers can employ to increase employee satisfaction and retention, variable pay systems such as profit sharing, bonuses, and employee ownership appear to be some of the most important.

In fact, findings from a recent wage and benefit survey conducted by the California Institute for Rural Studies identify profit sharing and bonuses as the strongest predictor of employee retention. (See the **Resources** section on page 19 for the link to the online report.) Respondents implementing profit sharing and bonuses reported five-year employee retention rates of 49%, compared with 34% among those not implementing those strategies.

Benefits of Variable Pay Systems

The benefits of properly implemented variable pay systems include:

- **Increased employee satisfaction**, motivation, and retention
- **Increased productivity** and cost-saving efficiencies
- **Cost savings through the promotion of desired behaviors** (e.g., health and safety or IPM awareness)
- **Engaged and motivated workers** throughout the year
- **Better cash flow management** by spreading compensation payments out over the year or by providing compensation after harvest income is received
- **Improved interpersonal relations** between growers & employees & among employees.

Additionally, variable pay systems represent an important risk management strategy, providing farmers with the ability to contain fixed labor costs in the face of lower than expected revenues and supplement wages when revenues are higher. This is especially important for the many California specialty crop growers, for whom labor costs represent a large percentage of expenses.

It interests me that the company does well because if the company does not do well, workers will not benefit. If the company does better, we will get more benefits.

—California Farmworker



Some variable pay systems have the potential to engage employees to see the farm from the perspective of owners, which will encourage them to seek ways to maximize farm success.

Variable pay systems are also an important means of showing appreciation to employees for their contributions to farm success. Variable pay systems can be an effective way for a farm owner to illustrate that they care about their employees' well-being. They also promote and reward employees for taking initiative, expanding their skill-set or assuming additional responsibilities, all of which can greatly contribute to the viability of farm operations.

Additionally, variable pay systems can be important tools for retaining valuable employees, motivating employees during strenuous periods of the season, increasing teamwork and encouraging internal supervision among employees, who have a vested interest in ensuring that co-workers are productive and refrain from activities that may result in losses. Finally, some variable pay systems have the potential to engage employees to see the farm from the perspective of

owners, which will encourage them to seek ways to maximize farm success.

Challenges to Implementing Effective Variable Pay Systems

When used thoughtfully, variable pay systems provide numerous benefits to farmers and farmworkers alike. However, when not properly implemented, variable pay systems can negatively impact farm operations by lowering worker morale and satisfaction. A lack of transparency regarding grower finances can result in mistrust when pay amounts are less than expected. At the same time, perceptions of inequitable distribution to workers can result in conflicts and resentment among workers, who often compare how much they have received.

The variability of farm income, difficulty in measuring some farm outputs, and lack of employee control over factors that affect farm success (e.g. weather and market prices), make it difficult to implement variable or incentive pay systems in farming operations. The most common approach to variable pay is by paying for piece work. However, we do not discuss piece rate systems because they have been extensively discussed in other literature. For more information on best practices regarding piece work, see the University of California Agricultural Labor Management website listed in the **Resources** section on page 19.

According to Farmworkers...

According to case study research conducted by the California Institute for Rural Studies (See **Resources** section, page 19), participating farmworkers cited the importance of variable pay with respect to job satisfaction, productivity and retention. Site visits confirmed that worker satisfaction and motivation were notably higher on farms with more organized, transparent and generous variable pay plans.

However, farmworkers cited negative impacts when variable pay systems were

not implemented properly, including mistrust of growers claiming bad years, conflicts among employees based on perceptions of inequitable distribution and reduced morale associated with lower than expected amounts.

When asked about these issues, the majority of growers admitted to using very informal approaches to calculating profit sharing and bonuses, and expressed high levels of interest in learning about more formal ways of doing so.

Variable Pay in Farming Operations

In spite of the difficulties with implementation, the use of variable pay systems is fairly widespread, as reported by 43% of respondents to the Farm Employers Labor Service (FELS) wage and benefit survey. The purpose of this manual is 1) to provide farmers with an overview of a few of the different types of variable pay systems that can be effective tools for managing farm labor and 2) to highlight factors for consideration when implementing these systems.

For farmers not currently implementing these systems, we hope this information will help you assess whether these strategies are appropriate for your farm operations.

For farmers currently implementing variable pay systems, we hope you will gain some insight into ways to more effectively implement these systems and enhance your farm operations.

One final caveat: while variable pay systems may work well on some farms, it is important to examine your specific operation to see if variable pay is an appropriate strategy for your farm.

This manual covers three types of variable pay systems: bonuses, profit sharing and employee stock ownership plans (ESOPs). Each section provides an overview of a variable pay strategy including the key reasons for using the strategy and key factors to keep in mind when implementing the approach.

Case study data collected from five California farms accompanies each section. The case studies provide a few examples of ways some farmers are using variable pay to maximize farm success. While not comprehensive of all variable pay options, these examples are intended to illustrate how some farmers are addressing their labor needs through variable pay systems.



Types of Variable Pay on California Farms

The following pages offer an overview of the different types of variable pay systems: formal bonuses, informal bonuses, profit sharing, and employee stock ownership plans (ESOPs).

Bonuses

Bonuses are variable compensation beyond regular wages that is paid directly to an employee. Bonuses can be used to reward individual or group behavior or performance. There are two main types of bonuses: formal bonuses, and informal, or spot bonuses. Formal bonus systems are based on specific criteria outlined ahead of time, while informal bonuses are random or unexpected. The main factors that differentiate these two types of bonuses are timing, degree of structure, and employee expectation.

The tax code encourages us to give back to employees as much as possible to lower our tax burden. We want the people who are making the profit to benefit. We want people to be well paid. I think it is a very strong incentive.

—Central Coast Farmer

Bonus compensation can be calculated based on a number of factors including the following:

- Fixed dollar amounts per hour, day, quarter, or year
- Percentage of employee income or farm profits
- Dollar amount equivalent to a week or month salary
- Tiered approaches based on percentage of sales or different years of service
- Multi-factor approaches (see Appendices)



I am interested in the finances of the company and what the owner says because it is important to know about the farm stand and the farmers' market workers to clarify how the company works and how it is doing. It is important to me that I can contribute ideas and report about what is going on in the fields and discuss it with the supervisor because it helps the company and if it is something that affects the company in a bad way, then it is bad for us as well.
— California Farmworker

Formal Bonuses

A formal bonus is a consistent and anticipated bonus given to recognize or reward employees for individual or farm performance. Formal bonuses are often structured, based upon a specific goal, and issued at a set time per year. (See Appendices for formulas to use in implementing formal bonuses.)

What are the goals of a formal bonus?

- **Reward** employees for their roles in the farm's success
- **Recognize** individual performance
- **Motivate** specific behaviors

Examples of formal bonuses

- **Retention**—Retaining valuable employees; rewarding years of service; celebrating an employment anniversary
- **Seasonal**—Season's end bonus for completing the season or harvest; return bonus given at the beginning of the next season
- **Mid-season motivator**—Given during the season to boost morale and motivate employees through the harvest
- **Annual**—Birthday, holiday

We pay minimum wage and use the bonus program to supplement that. That enables us to protect ourselves in a bad year, since once you raise the minimum wage you can't go back. It gives us more flexibility.

—Central Valley Farmer

- **Health and safety**—Remaining accident-free; participating in a safety team or safety training; completing safety knowledge test
- **Skill development**—Completing ESL program or tractor driving-skills test
- **Performance**—Reducing equipment costs; increasing production

Factors to keep in mind with formal bonuses

- **An annual bonus can become an expected component** of overall compensation and lose its effectiveness as an incentive.
- **As bonuses continue to increase for long term or highly skilled employees, the bonus pool continues to increase.** Placing a ceiling cap on bonuses reduces their effectiveness.
- **Fluctuations in bonus amounts can cause dissatisfaction** among employees, especially when bonuses are lower than previous years.
- **Perceived inequities can result in conflict** among employees and reduce morale.
- **Bonuses for seasonal employees can be particularly important** in encouraging trained employees to continue returning every year until a full time position becomes available.

On-Farm Example #1: Formal Bonuses

The bonuses are really to thank our crew and to let them know that we have noticed and that we appreciate how hard they work. It is a great way for an owner to make the employees feel like they are getting a share. And if it is a good year, then they are going to get a bigger share than if it's not a good year.

—Capay Valley Farmer



Farm location: Capay Valley

Farm type: Diversified fruit & vegetable crops, flowers, livestock

Number of employees: 50-60

Variable pay strategies: Three formal cash bonuses per year

Mid-Season Motivator Bonuses: They pay two peak season bonuses to all employees.

Goal: To show appreciation and reward employees for how hard they have worked and to motivate employees to continue working hard through the difficult time in the season.

Criteria: The factors taken into consideration include longevity at the farm, employee skill level, and a subjective assessment of individual performance, effort, and attitude.

Amount paid: For each mid-season bonus, they give a minimum of \$25 up to \$1,000 to people in key leadership positions.

Distribution: Paid as a cash bonus in July and another in August.

End-of-Season Cash Bonus: They pay an annual end-of-season bonus to all employees.

Goal: To recognize and reward employees for their contribution to farm success.

Criteria: Same as mid-season bonus (above).

“The amount of bonus is a reflection about how we feel that the person has contributed. It is subjective. We look at what we did the last time and we decide if it will be a little bigger or maybe we can't make it bigger this time. The bonus could go lower if the employee did not perform well.”

Amount paid: The year-end bonuses range from \$200 to \$6,000.

Distribution: Each November they hold an end-of-season meeting to thank employees, review the year, and discuss any problems that may have affected the bonus.

“We have a meeting with the whole crew. We tell them, ‘Thank you and this is what went really well this year. We saw you guys working really hard.’ Then we divide up the envelopes with the bonuses and each partner distributes the envelopes to show that we know each person's name and who they are. In the years that we have had problems, we have talked about it and explained, ‘This is why the bonuses are going to be a bit smaller this year.’”



Informal Bonuses (Spot Bonuses)

An informal bonus is a casual or unexpected cash bonus given directly to an employee. Informal bonuses are the most personalized because they illustrate that an employer recognizes and values individual employees and appreciates employee efforts. They are most effective when the reward is given immediately following the event or behavior being recognized.

What are the goals of an informal bonus?

- **Show appreciation** for employee
- **Recognize** individual employees
- **Reward** specific behaviors that exceed normal job expectations

Examples of informal bonuses

- **Exceptional behavior/performance**—Recognition of crop issue, pest problem or disease;

outstanding behavior toward the safety of others; exemplary display of cooperation or teamwork; exceptional display of leadership or performance

- **Employee ideas/suggestions**—Efficiency improvements; problem-solving ideas

• **Special circumstances**—Meeting a harvest crunch such as a CSA or farmers' market deadline; working late/early for frost control; preventing an accident; helping someone in need

- **Special occasion**—Marriage; birth of a child; community service award

Factors to keep in mind with informal bonuses

• **Informal bonuses can be difficult to track** since they are often given on the spur of the moment. Developing a structured approach with a yearly budgeted amount for distribution can increase bonus program effectiveness.

• **It is important to standardize awards** so that the awards are consistent for the same behavior. Each employee receives the same award for the same event or behavior.

• **Informal bonuses have the potential to cause dissatisfaction** or decreased employee morale due to perceived inequities among employees.

We try communicating to people that positive performance in the business is to their benefit as well as to ours.

—Central Valley Farmer

Creative Approaches for Engaging Employees with Bonuses

- **Develop a randomized drawing** for bonuses prizes to motivate and engage employees.
- **Allow other employees to nominate co-workers** for recognition to encourage teamwork and cooperation.
- **Develop a point system** structure through which employees can collect points from spot bonuses and then redeem points for a cash bonus on a quarterly basis.
- **Allow employees to select bonus** from a menu of options such as gift certificates, bonus gifts, and cash.
- **Engage employees in developing the bonus system.** Have them help identify performance criteria and behaviors that improve farm performance or save money.

On-Farm Example #2: Combination System

Our fundamental core value is that you ought to share the success with those who helped bring it to you. It has a way of returning to you. The more successful you are, the more ability you have to share that success.

—Sacramento Valley Farmer



Farm location: Sacramento Valley

Farm type: Field crops

Number of employees: 180

Variable pay strategies:

Formal cash bonus, informal cash bonuses, and a deferred profit-sharing plan

Informal (Spot) Bonus: Occasionally the farm gives out an informal cash bonus. For example, they gave one employee a \$100 spot bonus for preventing an accident between a distribution truck and a train.

Formal Bonus: They pay an annual cash bonus to all employees.

Goal: To reward employees for their individual performance.

Criteria: Individual performance reviews and farm performance.

Amount paid: The cash bonus runs around 2 - 12% of base pay. They determine the cash bonus by comparing the annual crop performance to their average yield per acre, calculated over time, and factor in each employee's individual performance evaluation. Individuals with lower performance evaluations receive less cash bonus than they would otherwise. Employees employed for less than one year receive a pro-rated bonus. (See appendix for ideas for calculating bonuses).

Distribution: Paid as a cash bonus in January or mid-February.

"We do a year-end review on an individual and aggregate basis. At the annual meeting we present how we did as a company; we review the numbers with them, show them the yield and how we did."

Deferred profit sharing: The farm contributes to a profit-sharing plan for all employees.

Goal: To help employees save for retirement and to reward employee contribution to farm success.

Criteria: Farm profits.

Amount paid: The farm contributes approximately 5% of wages depending upon pre-tax farm profits. In higher profit years they increase the amount shared with employees.

Distribution: The farm contributes a percentage of profits to a profit sharing plan through a third party administrator who invests shares for employees. Employees may collect shares or roll shares into a separate retirement account when leaving the farm.

On-Farm Example #3: Formal & Informal Bonuses

We have a lot of longevity in our workforce. We have a lot of people who have worked for us for 25 years. People have a tendency to stay with us and that is the proof in the pudding for us.

—Central Valley Farmer



Farm location: Central Valley

Farm type: Diversified vegetable crops

Number of employees: 60 - 100

Variable pay strategies: Informal & formal bonuses

Informal (Spot) Bonus: This farm buys hamburgers or pizza for employees on days that they have to work overtime in order to make a harvest deadline.

Birthday Bonus: They provide a birthday bonus for each employee. The employer explains, "I used to buy everyone a cake for their birthday, but now I give everyone a gift card to the grocery store for food only for their birthday."

Annual Bonus: They pay an annual year-end cash bonus to all permanent employees with 12 months of uninterrupted employment.

Goal: To recognize and reward employees for leadership behaviors, high performance, attention to quality, proper care of equipment, and level of cooperation.

Criteria: Employee skill level, comparison to the previous year's bonus amount, and a subjective assessment of employee performance, ability to work independently, and level of cooperation.

Amount paid: They give a minimum of \$300 up to \$4,000 to people in key leadership positions. Each November they evaluate the profit and loss report, compare them to the previous years, estimate upcoming capital expenses, and determine a target amount for the bonuses for that year.

Distribution: Bonus checks are distributed at annual Christmas party.

Seasonal Employee Bonus: At the annual Christmas party, they give a small bonus to employees who have not been employed for a full year. As the employer explains, "*Everybody gets at least \$50 regardless of whether they have only worked here a week. Everybody deserves to have a Christmas dinner and that's about all that \$50 will buy anyways.*"

Notes from the Farmer...

"Our bonus system is very top-loaded for people in key leadership positions. We are trying to reward people that are doing a superlative job, that are leading and are setting an example for other people. We reward the people who, if we lost them, might take us years to replace. Those people are in the top echelon in the bonus system. It becomes a subtle communication tool."

"The main challenge is when you have an off year and you can't be as generous as you have in the past. It is very challenging to face your crew and give them a check that is significantly less than they are expecting... But, at the same time, it is our responsibility as the owners of the business to make sure that the business stays up and running and is sustainable."

Employee Recognition: Gifts & Rewards

Non-monetary gifts are another approach for providing bonus compensation to your employees. Non-monetary gifts have several advantages. For example, giving a gift can be more memorable to employees than cash especially if the gift is specifically tailored to the employee. Additionally, when farm finances are tight, a special gift can have more impact than cash.



Examples

- Occasional food bags (provide a selection of staples such as tortillas, rice, beans, meat, fruit, etc.)
- International phone cards
- Pizza night (during busy times that keep employees working late)
- Grocery gift cards (choose stores that are nearby or accessible without a car)
- Hats, bandanas, or other popular clothing items used on the farm
- Special gifts (TV, iPod, DVD player, etc.)

Things to Keep in Mind

- **Non-monetary gifts/ rewards can help employees better differentiate a bonus** from regular anticipated compensation.
- **Make sure the gift or reward is desired.** Lower-income employees may prefer cash and migratory workers may not appreciate large items.
- **Giving a choice of prizes can help engage employees** in the reward system and give them a sense of empowerment to make their own decisions about what they receive.
- **Some gift bonuses are subject to taxes.** Be sure to consult an accountant or the IRS Farmer's Tax Guide (see **Resources**, page 19) regarding tax implications for the farm or farm employees.





Profit Sharing

Profit sharing is a system by which a percentage of profits are shared with employees for their contribution to farm success. Based upon the assumption that employee performance contributes to farm performance, profit sharing plans aim to encourage employees to work toward increasing farm profits. Employees receive a share of profits using a pre-determined formula based upon a percentage of income, an equal distribution of shares among employees, or an approach that

incorporates multiple factors.

There are two main approaches to profit sharing: 1) a cash-based profit sharing plan distributes a percentage of profits directly to an employee in a cash bonus on an annual, semi-annual, or quarterly basis and 2) a deferred profit sharing plan contributes a percentage of profits to a pooled or individual retirement plan for employees.

I am very interested in how the company spends money and how much money they have because how the company does affects everybody.

—California Farmworker

What are the goals of profit sharing?

- **Motivate employees** to pay attention to factors and engage in behaviors that will increase profits
- **Increase employee commitment** to and sense of investment in farm
- **Help employees save** for retirement

Profit-sharing variations

- **Standard profit sharing plans** share a percentage of profits based upon positive organizational profits.

- **Gain sharing plans** share a percentage of profits based on revenue gained from improvements in productivity over a designated baseline level.

- **Cost savings plans** share a percentage of revenue saved due to increased cost-saving efficiencies or lower operating costs comparable to a baseline year.

Factors to keep in mind with profit sharing

- **Profit sharing can help draw the connection** between farm profits and employee performance.
- **Profit sharing can address some of the conflict associated with perceived disparities** because it rewards employees based on a pre-determined and known formula rather than subjective evaluation.
- **Deferred profit sharing plans provide tax benefits** to employees for retirement savings. However, because they are not paid out immediately, deferred plans are less effective at connecting farm profits with individual behavior.
- **Profit sharing may be most effective if combined** with a more immediate cash bonus system.
- **Clearly communicating the link between employee behaviors, farm profits, and the profit sharing bonus** improves plan effectiveness.
- **Profit sharing plans that defer money for retirement may not be attractive to all employees** because they may not believe they will ever receive the money, they may be too young to appreciate the need to save for retirement, or employees may have a greater immediate need for the money.
- **Employee Retirement Income Security Act (ERISA)** laws require that all employees are eligible to participate in the profit sharing plan.

On-Farm Example #4: Formal Bonus and Profit Sharing

The bonus modifies behavior because it is tied to the evaluation. The profit sharing is to foster good cooperation – so if everybody cooperates then we are going to make a decent profit.

—Central Coast Farmer



Farm location: Central Coast

Farm type: Nursery crops

Number of employees: 60 - 105

Variable pay strategies: Formal bonus & deferred profit sharing plan

Formal Bonus: They pay an annual bonus to all employees.

Goal: To recognize individual employee performance.

Criteria: A combination of individual employee performance evaluation scores and personnel/payroll records (tardiness, not calling in, time card errors, etc.). See appendices for example formulas for calculating bonuses.

Amount paid: The maximum bonus for field workers is \$500 or the equivalent of one week's pay. For foremen, the bonus can be up to \$5,000, or three weeks' pay. For sales staff, the maximum pay is 20 - 25% of their gross earnings. Sales staff receives a bonus based on a percentage of net sales because their activities have a direct connection to sales.

Distribution: The bonus is paid as an additional check in December. Each year they calculate the total cost of the bonuses and evaluate whether they have enough money to cover the additional bonus compensation. If not, they don't pay a bonus that year. They hold meetings as soon as they think that they cannot pay the bonus to explain the financial situation to employees.

Deferred Profit Sharing Plan: The farm contributes to a profit sharing plan for all employees.

Goal: To encourage cooperation among employees and to help employees save for retirement.

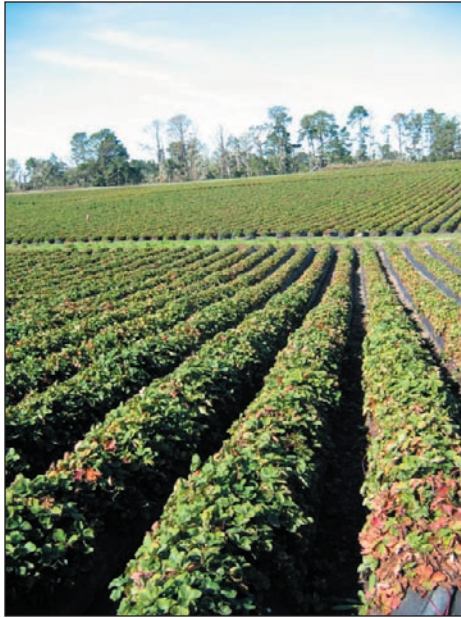
Criteria: Farm profits.

Amount paid: 5 – 6% of gross employee earnings for each employee.

Distribution: The farm contributes a percentage of profits through a third party administrator who allocates and invests the contributions for the employees until they leave the company. Each February, the company board of directors holds a meeting to evaluate the previous year's profits and determine if they have enough profits to contribute a minimum of 5% to the profit sharing plan. If not, they don't contribute to the profit sharing plan.

Notes from the Farmer...

"The primary motivation of the bonus is to encourage cooperation; to have people recognize that their collective efforts are very important to our annual success. By offering a bonus we can encourage that level of cooperation. It is evidence to the employee that the company is very interested in being successful."



Employee Stock Ownership Plan (ESOP)

A small but growing number of farmers are participating in employee stock ownership plans. ESOPs are an innovative way of achieving a shared sense of ownership for the farm and provide a vehicle for potential farm succession.

Under an employee stock ownership plan, each employee is an owner with shares in the company. Similar to profit sharing plans,

ESOPs contribute cash or shares to a company ESOP trust fund. Within this ESOP trust, each employee receives shares based on a pre-determined formula. After a period of typically three to six years, employees are eligible to cash out 10 to 0% of their shares upon departure from the farm. (See the Resources section, page 19, for more information regarding ESOPs).

What are the goals of ESOPs?

- **Increase employee commitment** to the farm
- **Motivate employees to see themselves as co-owners** and engage in behaviors that contribute to farm success
- **Help employees save** for retirement
- **Provide a mechanism** for the farm's succession

ESOP variations

- **Non-leveraged ESOP** – With a non-leveraged ESOP, the company simply contributes shares and/or cash to the ESOP trust and employees receive cash or shares when they leave the company.

- **Leveraged ESOP** – In a leveraged ESOP, the business or ESOP trust borrows money from a lender and uses the money for capital investments or to buy out a retiring owner. The ESOP trust pays back the loan with annual tax-deductible contributions made by the company to the trust. Employees receive cash or shares when they leave the company.

Factors to keep in mind with ESOPs

- **ESOPs are a powerful tool for promoting employee commitment** to the farm and dedication to farm success.
- **An ESOP business can be 100% or only partially owned** by employees.
- **ESOPs provide special tax benefits** to both employees and business owners.
- **A leveraged ESOP provides an excellent vehicle for farm succession** with significant tax benefits.
- **ESOPs are most effective when combined with an open-book management** approach that engages employees and educates them about farm finances.
- **The set-up and ongoing management of an ESOP require the assistance of a financial and legal consultant.** ESOP set-up and ongoing management expenses can be relatively high.
- **An ESOP requires an annual stock valuation** to determine the price of the shares.
- **The business must be prepared to buy back shares** when an employee leaves the farm.
- **ESOPs don't allow for distribution formulas that favor some workers.** This reduces perceptions of inequity, however ESOPs alone are not as effective at rewarding specific behaviors or individual performance because everyone receives the same amount regardless of their perceived relative "value" to the farm in terms of level of skill, responsibility, or performance evaluation.

Other companies do not offer this benefit and it is a good thing to be partial owner. The longer that I stay here, the more my share of the company will be worth.

—California Farmworker

On-Farm Example #5: Employee Stock Ownership Plans and Bonuses

I realized that it was a good idea to try to institutionalize things and de-personalize the farm's dependence on one person. It is fairness. We are all in this together. It is sort of appropriate that employees own a certain percentage of the business.

—Central Coast Farmer



Farm location: Central Coast

Farm type: Diversified vegetable crops

Number of employees: 30-50

Variable pay strategies: Informal bonuses, profit sharing cash bonus, & an employee stock ownership plan (ESOP)

Informal (spot) bonus: Periodically this farm provides an informal bonus when they have a big bulge in production and need to get through a tough spot in harvesting.

Profit sharing cash bonus: Each manager receives a cash bonus based on farm profits as a part of their overall compensation. The bonus is an incentive payment for farm managers because they have more direct ability to affect the outcome of farm profits through their decision making.

ESOP: Currently employees own 8% of the farm through the ESOP.

Goal: To provide an incentive for employees, to engage employees to think like co-owners, and to provide a mechanism for farm succession.

Criteria: Farm profits and desire to build the percentage of employee ownership to a significant enough level to serve as an incentive for employees.

Amount paid: Annually, the primary farm owner contributes a combination of stock and cash to the ESOP trust. The amount depends on farm profits. "In a bad year I may only contribute 1,000 shares of stock and no cash and in a good year I have contributed 2,000 shares and \$30,000 in cash."

Distribution: Each employee is allocated a percentage of shares based on their proportional share of the payroll; the shares are held in the trust until they leave the farm. Employees are entitled to the full amount of their shares after a period of seven-years.

Notes from the Farmer...

"You have to meet a certain size of company and you have to have the temperament for ESOPs – being interested in the concept of democratic management, shared ownership, and employee education. You have to really believe in this kind of thing for it to be worthwhile. With a more direct profit sharing where people actually get a check as a bonus, then you would see the results right away. But the idea with an ESOP is that they get ownership and that is abstract. You have to take a long-term view and you can't expect immediate results. It takes five years or so for an ESOP to sink in..."

Being a partial owner makes me want to try harder so the company can do better.

— California Farmworker

Practical Considerations for All Variable Pay Systems



- **Variable pay should only be used as a supplement** to fair wages, not a replacement.
- **Identify key factors** for farm success that employees can control. These include specific behaviors that contribute to increased farm profits and areas for savings or increased efficiency. Tie variable pay to these factors and clearly communicate them to employees.
- **Communicate in advance** the specific behaviors that are related to desired outcomes. Let employees know how bonuses are calculated, method of payment, and timing of payments. Show an example of how the bonus or profit sharing is calculated so employees can see the factors involved and have clear expectations.
- **Variable pay systems work best** when combined with a high degree of transparency about farm finances including annual production targets, sales goals and actual

farm performance. This can be particularly important in low profit years.

- **Do not make mid-season changes** to the criteria or methods for calculating variable pay. Review the variable pay system annually and make any necessary adjustments between production seasons.
- **Consult tax accountant** about potential tax benefits for spending more money in variable pay to employees. Also, it is important to check tax implications for employee gifts and bonuses and inform employees about tax liabilities.
- **Try to avoid variable pay systems** that encourage employee competition rather than cooperation.
- **Beware of providing safety bonuses** for remaining accident-free. This can incentivize employees to avoid reporting accidents in order to receive the bonus. However, if done well, this type of bonus has the potential to save employers' money by reducing workers compensation costs.
- **Try to incorporate objective criteria** such as a systematic evaluation process that involves multiple supervisors/managers, performance goals, or skill level attainment, to reduce the level of subjectivity and potential perception of favoritism.
- **Variable pay is only one component** of a well-designed compensation package. For more information about additional (monetary and non-monetary) ways to increase employee satisfaction through improving employee relations, consult the resources appendix.

Understand what behaviors you are trying to generate or reinforce, and reward those. It is pretty easy to reward the wrong things and then scratch your head and say, "Why are we getting these weird behaviors?" Make sure what you are rewarding is what you want to have happen.

—Sacramento Valley Farm Manager

Appendix I: Point-System Bonus Formula

Follow the steps below to develop a point-based bonus system to use with a pre-determined amount of money available for the bonus pool. Calculate potential scenarios and make adjustments before implementing. After the point categories are set, describe the process to employees at the beginning of the season.

Set Up a Point-Based Bonus System Using these Steps:

- Step 1.** Identify point categories and attach a maximum point value to each category based on relative importance to farm operations.
- Step 2.** Determine maximum points.
- Step 3.** Total each employee's points individually, and then total all employees' points together. Adjust points as necessary to provide appropriate weight to each category. (Do not adjust mid-season.)
- Step 4.** Determine employee points as a percentage of total points.
- Step 5.** Multiply employee percentage by total bonus pool.

Example of a Point-Based System

Step 1. Identify point categories

- **Key employee levels.** Set points for each skill level.
 - Highly skilled = 150
 - Semi-skilled = 100
 - Entry level = 50
- **Tenure.** Set number of points per year worked.
 - 2 points per year worked
 - Maximum points = 40 (for 20-year employee)
- **Spot bonuses** for skill development, exceptional behavior, etc. Set number of points.
 - 5 points each
 - Maximum points = 30
- **Subtract points for employee file demerits** for tardiness, discipline issues, no shows.
 - 5 points each
 - Maximum points = -30

Step 2. Maximum point value = 220

Highly skilled (150) + 20-year employee (40)
+ 6 spot bonuses (30) = 220

Step 3. Total the employee points individually and then add them together to get total points for all employees.

Total points: Employee A (185) + Employee B (145)
+ Employee C (84) = 414

Step 4. Calculate individual employee points as a percentage of total points for all employees.

Employee A: $185/414 = 0.45 \times 100 = 45\%$
Employee B: $145/414 = 0.35 \times 100 = 35\%$
Employee C: $84/414 = 0.20 \times 100 = 20\%$

Step 5. Bonus pool = \$4,000

Employee A: $0.45 \times \$4,000 = \$1,800$
Employee B: $0.35 \times \$4,000 = \$1,400$
Employee C: $0.20 \times \$4,000 = \800

Employee	Employee A	Employee B	Employee C
Skill level	Highly skilled (150 points)	Semi-skilled (100 points)	Entry level (50 points)
Tenure	Employed for 10 years (+ 20 Points)	Employed for 15 years (+ 30 Points)	Employed for 2 years (+ 4 Points)
Spot Bonuses	3 spot bonuses @ 5 points each (+ 15 points)	4 spot bonuses @ 5 points each (+ 20 points)	6 spot bonuses @ 5 points each (+ 30 points)
Demerits	no demerits (- 0 points)	1 demerit @ 5 points (- 5 points)	no demerits (- 0 points)
Total Points	185	145	84

Appendix II: Multi-Factor Bonus with Multipliers Formula

Follow the steps below to develop a multi-factor bonus system. Determine standardized scores and calculate potential scenarios. If necessary, make adjustments before implementing. After the points are set, describe the process to employees at the beginning of the season. This formula is not based on a pre-determined amount of money in a bonus pool. Calculate maximum bonus for all employees to determine the amount of money necessary to pay the bonus.

Set Up a Multi-Factor Bonus System Using these Steps

Step 1. Decide on performance evaluation criteria (attitude, skill development, etc.)

Step 2. Create standardized evaluation form

Step 3. Develop scoring structure (each performance evaluation = maximum of 5; each demerit = 0.05 late, 0.25 no call, etc.)

Step 4. Develop skill-based multipliers based on skill set, importance of position to farming operation, supervisory status, and consequence of person leaving (e.g., field worker = 1, lead = 2, foreman = 3)

Step 5. Conduct performance evaluations (supervisor, self-evaluation, or peer-evaluation)

Step 6. Review employee file and payroll records for demerits (tardiness, not calling in, timecard errors)

Step 7. Determine the composite score for each employee based on performance evaluations minus demerits

Step 8. Determine the employee base bonus by multiplying the equivalent of wages for one day by the composite score

Step 9. Calculate final bonus amount by multiplying base bonus by skill-based multiplier

Example of a Multi-Factor Bonus System

Employee & Calculations	Employee A	Employee A Calculations	Employee B	Employee B Calculations
Performance Evaluation				
Supervisor 1	4.5		4	
Supervisor 2	5		3.75	
Co-Worker 1	4.25		4.75	
Total Performance Evaluation Score	13.75	(4.5 + 5 + 4.25) = 13.75	12.5	(4 + 3.75 + 4.75) = 12.5
Average Performance Evaluation Score		13.75/3 = 4.6		12.5/3 = 4.2
Personnel File Demerit¹	no call = 0.25 x 1	0.25	late 3 times = 0.05 x 3	0.15
Composite Score		4.6 - 0.25 = 4.35		4.2 - 0.15 = 4.05
Bonus Base (Wages)	\$90 per day (\$9/hr for 10 hrs)	\$90 x 4.35 = \$391.50	\$150 per day (\$15/hr for 10 hrs)	\$150 x 4.05 = \$607.50
Skill-Based Multiplier	Field worker = 1	1	Foreman = 3	3
Final Bonus		\$391.50 x 1 = \$391.50		\$607.50 x 3 = \$1,822.50

¹ It is important to standardize the points for each type of demerit ahead of time to maintain consistency, equity and clearly defined expectations.

Resources

Farm Labor

Ag Help Wanted: Guidelines for Managing Agricultural Labor

By H.P. Rosenberg et al. 2002

www.aghelpwanted.org

University of California

Agricultural Labor Management

By Gregorio Billikopf

www.cnr.berkeley.edu/ucce50/ag-labor

How to Stabilize Your Workforce and Increase Profits, Productivity and Personal Satisfaction

By Suzanne Vaupel et al. 1995

<http://anrcatalog.ucdavis.edu/Labor-Management/Relations/SA004.aspx>

Farm Employers Labor Service (FELS)

Wage and Benefits Surveys

www.fels.org/Data/Survey/Surveys.htm

Ag Manager Info

Kansas State University

By Sarah Fogleman

www.agmanager.info/hr/compensation/default.asp

Agricultural Economics & Agribusiness Management

Michigan State University

By Vera Bitsch

www.msu.edu/~bitsch

CIRS Research

Positive Practices in Farm Labor Management: Keeping Your Employees Happy and Your Production Profitable

California Institute for Rural Studies

www.cirsinc.org/Documents/Pub0608.3.pdf

Best Labor Practices on Twelve California Farms: Toward a More Sustainable Food System

By Ron Stochlic and Kari Hamerschlag 2006

www.cirsinc.org/Documents/Pub1205.3.pdf

Farm Labor Conditions on Organic Farms in California

By Stochlic, et al. 2008

California Institute for Rural Studies

www.cirsinc.org/Documents/Pub0608.1.pdf



General Human Resources

ERI Economic Research Institute

Distance Learning Center

Chapter 18 Incentive Pay Plans

www.eridlc.com/index.cfm?fuseaction=textbook.chpt18

World at Work

www.worldatwork.org/waw/home/html/home.jsp

Employee Stock Ownership Plans

National Center for Employee Ownership (NCEO)

www.nceo.org

The ESOP Association

www.esopassociation.org

Tax References

IRS Farmer's Tax Guide

Publication 225

www.irs.gov/pub/irs-pdf/p225.pdf

DOL Frequently Asked Questions about Pension Plans and ERISA

www.dol.gov/ebsa/faqs/faq_consumer_pension.html

IRS Guide on Profit Sharing

www.irs.gov/retirement/article/0,,id=108948,00.html

Incentive Pay Consulting

Ownership Thinking

www.ownershipthinking.com/otms.html

Another handbook produced by California Institute for Rural Studies and National Center for Appropriate Technology

Positive Practices in Farm Labor Management by Erin Hardie and NCAT staff, 2008. This user-friendly handbook provides growers with information about how to implement a range of positive farm labor practices. Included are specific strategies to improve employee satisfaction and retention, and increase productivity while reducing costs. The practices will improve access to markets seeking products from farms with fair labor practices. Based on findings from earlier CIRS research on sustainable farms with positive farm labor conditions. Available to download from CIRS or ATTRA.

Some of the other publications available from California Institute for Rural Studies

Best Labor Practices on 12 California Farms: Toward a More Sustainable Food System by Ron Strohlic and Kari Hammerschlag, 2006. Based on case study research on 12 California farms with a reputation for positive workplace conditions, this report features a broad range of positive workplace practices that result in a more satisfied and motivated workforce, and numerous benefits for growers, including increased retention, reduced training and supervision costs, and increased revenues. The research also identifies workplace conditions that farmworkers most value, including many that are no- or low-cost, yet greatly contribute to satisfaction and motivation.

California Water Stewards: Innovative On-Farm Water Management Practices by Lisa Kresge and Katy Mamen, 2009. The case study findings provide information for growers interested in implementing more sustainable water practices.

Water Stewardship: Ensuring a Secure Future for California Agriculture by the California Agricultural Water Stewardship Initiative workgroup, 2008. The report calls for producers and policy-makers to recognize the importance of agricultural water stewardship as a key element of a strategy to better manage the state's dwindling water resources and reduce farmers' reliance on insecure inputs. Please visit www.agwaterstewards.org for more information on this initiative.

Breaking Down Market Barriers for Small and Mid-sized Organic Growers by Alida Cantor and Ron Strohlic, 2009. Based on interviews and surveys with growers, buyers and others, the findings provide a detailed picture of key marketing challenges with recommendations for improving marketing opportunities.

Beyond Basic Compensation: Using Bonuses, Profit Sharing, and Employee Ownership to Motivate and Retain Workers on Your Farm

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The National Center for Appropriate Technology is a private nonprofit organization that since 1976 has helped people by championing small-scale, local and sustainable solutions to reduce poverty, promote healthy communities, and protect natural resources. ATTRA—the National Sustainable Agriculture Information Service—is a project of NCAT, funded through the USDA Rural Business-Cooperative Service.

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