Remuneration strategies

Why is fair remuneration important?

Cash and non-cash rewards for work need to be fair for both an employee and employer so that the employment relationship remains strong and effective. Fair pay is a prerequisite to good work performance.

How to determine fair remuneration:

Remuneration rates must be at least the current minimum wage rate. However, paying the minimum wage is not likely to attract the best applicants to a job.

When determining what to pay employees, remember that remuneration is influenced by:

- The knowledge, skills and abilities required to perform the job;
- The value of the job to the business;
- The physical demands of the job;
- The amount of training or experience required;
- The working conditions associated with the job;
- The amount of responsibility associated with the job; and
- Current market rates as a result of the supply and demand for labour.

Job sizing:

Job sizing is about determining the value of a job compared to other jobs on other farms and to similar jobs in the outside labour market. Unfortunately this sort of information can be hard to find, as people do not readily share wage or salary details.

When looking to other farming operations to get an idea of the wages to pay, remember to compare like jobs. For example a “herd manager” role can vary hugely from one farm to another. In some situations the herd manager may simply be responsible for milking and moving stock. In others a herd manager may be responsible for all aspects of the farm management including having some financial responsibilities.

Be sure to clarify what the employee will be doing, and also clarify what the comparison employee is doing before making any judgements about pay. It can be useful to get an idea of wages paid in other
industries for a similar level of work, but, once again, be sure the job carries a similar level of responsibility and skill.

For information about current market wage and salary rates refer to the Federated Farmers Remuneration Survey.

Remuneration strategies:

Salary or wages?

Salary is an annual remuneration package that is usually paid in even amounts at various intervals over the year – for example a salary may be divided into 26 equal payments and paid fortnightly. Salaries are usually paid in the same amount when a person is on annual leave.

Wages refers to payments that are made to an employee on an hourly basis. This means that employees and employers keep track of the number of hours worked and the employee is directly remunerated for those hours.

There has been an increase in the number of farms opting to pay hourly wages over the past two to three years. Hourly rates often work well for people because employees can see more clearly that they are being fairly paid for the hours they have worked and therefore they do not begrudge working long hours.

The down side of hourly rates is situations where an employee may extend the amount of time it takes to do the job, in order to be paid more. Alternatively, an employee may choose to work longer hours than they safely should, in order to get more money. Both situations require monitoring.

Making remuneration transparent:

Remuneration can become complicated in the dairy industry when there are several parts to the remuneration package. For example, people frequently have housing or livestock as part of their remuneration package. It is important for employers and employees to understand exactly what value the remuneration package holds, otherwise perks and bonuses associated with working can go unrecognised and unappreciated. For this reason, it is useful to talk in terms of total package values (TPVs) when working with remuneration. Total package value is the total value of the remuneration package when all components are taken into consideration.

Example of TPV:

Cash salary: $37,000
House value ($150/week): $7,800
Meat (1 cattle beast/year): $900
Total package value: $45,700

Most non-dairy farming businesses quote their remuneration in this way, so adopting this technique as common practice will help avoid underselling the true value of a job. Using TPV will also help employers meet their legal obligations in terms of taxing employees correctly for perks and bonuses associated with their remuneration package.
Non-cash options for remuneration:

Employers may choose to provide some of these non-cash rewards to their employees:

- Accommodation
- Milk
- Meat
- Firewood
- Dog food and dog treatments from vets
- Power
- Phone rental
- Mobile phone
- Farming papers.

All of these non-cash rewards are taxable and will incur fringe benefit tax (FBT) if not incorporated into remuneration and taxed with PAYE. If you are unsure, talk to an accountant to be sure of the tax implications of these bonuses.

Remember that when a house is provided to an employee in conjunction with their employment the Residential Tenancy Act must be considered through the use of a service tenancy agreement.

Annual increases:

It is not always necessary to give an employee an annual increase in their salary or wage. Employers should consider the employees performance, the value the position brings to the farm and the current market for wages to determine the size, if any, of a wage increase.

Remuneration – incentives and bonuses:

Incentives are usually part of the employment agreement and work best for management staff who have control over the performance of the farm.

Bonuses are one-off payments that are unexpected, generally come “out of the blue” to reward staff and do not need to be financial.

Incentive and bonus systems can be difficult to make effective. A poorly implemented incentive can work as a disincentive and cause frustration and disgruntlement for both the employer and the employee.

For incentives and bonuses to work effectively, they need to be carefully managed to ensure they are driving the right behaviour and do not adversely impact another area of the work performance. For example a bull-rearing incentive may compromise the quality of heifer rearing, as heifer and bull calves are in direct competition for feed and care.

Some people enjoy having incentives in the remuneration package while others do not. Incentives will only work if an employee views it as achievable and fair, so consultation with the employee is essential to make an incentive system work.

When using incentives and bonuses it is important to differentiate between rewarding behaviour that is meeting the normal standards that are required by the job, and behaviour that is exceptional performance. A fair wage should be paid for a fair job, before starting with incentives and bonuses.
Profit sharing:

Profit sharing is a strategy used to help retain quality staff in the farming business. Some farmers allow staff to buy into a percentage of the business (e.g., 10% of the cows) and then share the profit according to the investment each person has in the business. Generally, the employee buys into a larger portion of the business over time, until an agreed upper limit is reached.

Profit sharing can work as an effective incentive for top work performance because of the direct benefits of good farm performance to the employee.

It is recommended that legal advice be sought and a sound business plan put in place, before embarking on a profit sharing venture.