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RightRisk™

Dates to Remember

NAP Coverage (Spring-planted crops)
- county specific deadlines

Spring crop acreage reporting deadline
- July 15

Margin Protection Program Dairy (MPP-D)
- 2018 crop year
July 1 - Sept. 30th, 2017

Forage Insurance
- September 30th

RI-PRF Coverage
November 15th, 2017 for 2018 crop year coverage

For more information see:
http://www.rma.usda.gov
http://www.fsa.usda.gov

RightRisk News

Labor Management: Issues and Strategies for Incentive Pay Programs

Adding incentives to an employee pay structure may result in several potential benefits for a firm's labor management program, as well as the operation's overall profitability. In addition to lowering turnover among valued workers, incentive pay may also improve the goodwill and productivity among employees in the operation. Alternatively, for those who hire primarily seasonal workers, incentive pay may reduce concerns about choosing the best workers, and in the long run, may help to attract better workers without requiring high-level recruitment activities.

Incentive Pay: Who Stands to Gain?
The primary reason for employers to consider incentive pay plans is the expected increase in productivity. The concept behind offering incentives is to provide additional compensation to workers for performance "above and beyond" a set standard. This standard may relate to quantity (harvest or milking yields), quality (achieving specific grades or avoiding penalties imposed by elevators or processors); other production-related accomplishments (livestock mortality rates or irrigation efficiency); or worker activity (minimal absenteeism or no worker compensation claims). In all cases, any incentives program should share the economic benefit for workers reaching the standard between workers, managers, and owners.

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Other possible benefits from incentive pay programs relate to developing a positive workplace environment. Farm and ranch work is often considered an unskilled, underpaid profession. This is especially true for workers with no vested interest in the long-run profitability of the farm. Yet, incentive pay programs allow for employees to "share" in not only the profits of the firm, but also in the pride of a job well done. Moreover, workers tend to feel their extra effort is noticed. An incentive-based pay program may also lead to lower employee turnover, easier recruitment of good workers, and possibly lead some workers to develop their skills in hopes of higher pay in the future.

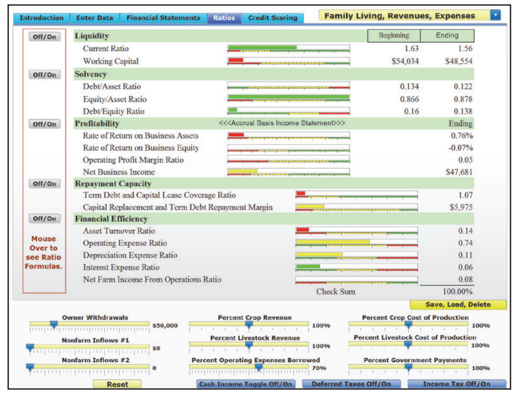
Incentive Pay: What are the Shortcomings?
Incentive plans rely on measuring worker performance above some standard to determine total compensation. However, if standards are biased towards one type of effort (quantity vs. quality), the other attribute may suffer. This example is most clear in the case of piecework harvesting. Although a higher rate of harvesting per hour may occur, the quality of the produce harvested, and the eventual grade, may suffer.

Regardless of the specifics of the incentive-based pay program, good records must be maintained. In addition to communicating often with workers about standards and incentive levels, it will be important to give them accurate, timely feedback about performance. Workers paid on an incentive basis will only be motivated if they immediately see or know how their efforts affect their take-home pay.

It is important that the performance incentives do not have unintended effects which may increase the overall liability of the firm. For example, it will not help the farm's bottom line if, in an effort to harvest more quickly, more workers are injured and file worker's compensation claims.

How Much Risk is Right for You?

Highlighted Tool



The *RD Financial* tool was developed to assist managers evaluate "big picture" adjustments in the financial management of their entire operation. Users enter basic information about their crop and livestock enterprises to get started. *RD Financial* then presents the five basic financial statements: beginning and ending balance sheets, cash flow statement, accrual income statement, and statement of owner's equity. In addition, it calculates sixteen financial ratios/indexes, covering the 5 areas of financial performance: liquidity, solvency, profitability, repayment capacity, and financial efficiency. In addition, the tool offers a tab showing credit scoring for operating and term debt.

Most importantly, *RD Financial* presents a series of tools (sliders and adjusters), allowing the user to propose alternative management adjustments and instantly evaluate the results through changes in the on-screen measures of financial performance.

To access *RD Financial* see: http://RightRisk.org > Resources > Risk Management Tools > RDFinancial

Labor Management continued from pg. 1

Employers should always make sure that all labor law standards are met to avoid legal liability. For example, some incentive plans may leave room for under-minimum wage payment if inferior performance is measured. Incentive pay programs should complement the production, marketing, and financial objectives of the firm. For example, a producer who aspires to grow in size to capture more economies of scale might choose to give quantity (hours worked) incentives, whereas a value-added, small producer may be more likely to encourage quality (based on grading or standards measures) incentives.

Employers should consider recent employment history as they consider the approach and timing of implementing an incentive-based pay program. If a producer has mostly long-term employees, the program should be implemented after fair standards are developed, suggestions are solicited from long-term workers, and goals and standards are communicated to all workers. If a grower hires mostly seasonal workers, the programs should be implemented early in the season so that incentives are established before hiring any short-term workers.

Conclusion

Incentive pay plans have been used for almost a century throughout the world. There are numerous advantages to implementing such a plan, but it requires careful consideration and planning. Using the guidelines discussed above, feedback from workers, professional advisors, and your own intuition about what type of rewards you can offer workers, carefully consider whether it might be feasible to implement an effective performance-pay plan.

There are three rules-of-thumb for employers to remember: 1. Offer incentives that would be attractive to you as a worker, 2. Reward the best workers while encouraging average workers; and 3. Monitor and communicate with employees how the new incentive-based pay plan affects production, marketing, and their own financial success.

RightRisk™

RightRisk helps decision-makers discover innovative and effective risk management solutions.

- Education
- Coaching
- Research

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RightRisk News is brought to you by the RightRisk Team

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How much risk is right for you and your operation?

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