7

Internal Wage Structure

Jack Kelly Clark

Jobs that call for creativity, autonomy, analysis, and personal growth may provide the best motivator of all: intrinsic rewards. Such satisfaction originates from *within* the worker. An intrinsically motivated worker does not obtain his motivation from external stimulation provided by the employer. An overemphasis on external rewards may be responsible for elimination of internally originated ones. There are personal and organizational objectives that simply cannot be realized through pay.

On the down side, intrinsic motivators, as wonderful as they may appear, are not equally found among all workers, nor do they always motivate the type of performance you may desire. Pay can be a powerful management tool and a compelling motivator. Employees often consider pay as a measure of individual achievement and social status. The importance of pay, then, ought neither be over or underrated.

To be effective, pay must be tied to performance. While incentives (Chapter 8) can yield the clearest link between performance and pay, they are not suitable to all jobs. In this chapter we will look at wage structures, or time-based pay. Even though its relationship to performance may not be as salient as incentive pay, time-based pay can also motivate increased worker performance.

Pay issues covered in this chapter include (1) pay fairness; (2) what is behind pay differences; (3) job evaluations and market considerations; (4) elements of a wage structure; and (5) maintaining a pay structure.

Pay Fairness (pay equity)

In a casual survey I conducted, workers said that they expected wages to: (1) cover basic living expenses, (2) keep up with inflation, (3) leave some money for savings or recreation, and (4) increase over time.

Workers also become concerned later in their careers about supporting themselves during their retirement years. Personnel who have lived in farm-provided housing will find it especially difficult to afford payments on a new home after they retire.[1] Although beyond the scope of this work, farmers may want to look into retirement and tax deferred plans to cover some of these future needs.

Even if a farmer devises a wage structure to satisfy these expectations, worker dissatisfaction may arise if either *internal* or *external* equity principles are violated. Simply put, internal equity refers to the relative fairness of wages received by other employees in the same organization. External equity is fairness relative to wages outside the organization. Depending on the type of work and location, tests of external equity may involve comparisons with other farms or even nonfarm corporations.

Employees will act to restore equity if they perceive an imbalance. In evaluating the fairness of their pay, employees balance *inputs* (e.g., work effort, skills) against *outcomes* (e.g., pay, privileges). Workers may experience guilt or anger if they feel over or undercompensated. The greater the perceived disparity, the greater the tension.[2] Employees may seek balance in the following six ways:

(1) modify input or output (e.g., if underpaid, a person may reduce his effort *or* try to obtain a raise; if overpaid, a person may increase efforts or work longer hours without additional compensation);

(2) adjust the notion of what is fair (e.g., if underpaid, a worker may think himself the recipient of other benefits—such as doing interesting work; if overpaid, an employee may come to believe he deserves it);

(3) change source of equity comparison (e.g., an employee who has compared himself with a promoted co-worker may begin to compare himself with another worker);

(4) attempt to change the input or output of others (e.g., asking others not to work so hard or to work harder);

(5) withdraw (e.g., through increased absenteeism, mental withdrawal or quitting);

(6) forcing others to withdraw (e.g., trying to obtain a transfer for a co-worker or force him to quit).[3]

The issue of fairness is critical to compensation administration and most every phase of labor management. Generally, workers and managers agree, in principle, that wages should take into account a job's (1) required preparation, responsibility, and even unpleasantness,[4] and (2) performance differences and/or seniority. Less agreement exists about the relative importance of each of these factors. Challenges in applying differential payment stem from subjectivity in the evaluations of both jobs and workers.[5]

Equity considerations influence the satisfaction of the workforce. Within a broader view, the stability of a nation may be affected when the contributions of any segment of society are either greatly exaggerated or undervalued.

Workers expect wages to: (1) cover basic living expenses, (2) keep up with inflation, (3) leave some money for savings or recreation, and (4) increase over time.

WHAT IS BEHIND PAY DIFFERENCES?[6]

Philosophical differences affect judgments employers make about their wage structures. Some think all members of a society should receive enough income to meet their necessities. Such employers may base pay more on the needs than on the contributions of the individual worker. To some, all jobs contribute equally to farm productivity and, therefore, all employees should be compensated equally. By this standard, pay differences are based on *how well* a job is performed rather than *what* job is performed. In a contrasting system the nature of the job—besides the quality of performance—is an important part of how pay differences are set at the ranch.

In making pay decisions at the farm, you have much flexibility within the constraints of the law, labor market, and local norms. The choices you make will affect employee recruitment, retention, satisfaction and performance.

Alan, a former Farm Bureau president, was asked by his workers why irrigators were paid less than tractor drivers. After considering the question, Alan concluded these wage differences among his workers were rather arbitrary. He decided to start paying everybody the same hourly rate. Another grower, Cecilia, increases wage rates as employees move up the job ladder from general laborer to irrigator, to supervisor, and so on.

What do Alan and Cecilia gain or lose from their respective approaches? The single rate Alan has settled on is fairly high. He has raised lower wage jobs to the level of better paying positions, rather than the reverse. His total wage bill is probably higher than it need be, but it is buying him a relatively content work force. Simplicity is one advantage of this approach. Alan does not have to adjust rates for employees when they work outside of their usual assignments—which is often.

Most farmers require flexibility in employee assignments. Individuals are called on to wear several hats and use a variety of tools in their jobs. On a livestock ranch, a worker who is digging fence post holes and fixing corrals today, might be herding cattle tomorrow, pouring cement the next day, and entering herd data into a computer next winter.

Despite the practical advantages of paying everyone identical rates, more skilled workers may resent being paid the same as others. Cecilia forgoes the simplicity of Alan's method in hopes of using pay as a tool to attract, retain, and motivate qualified employees.

Paying different wages for different jobs, however, tends to make people more sensitive to job boundaries. Workers may resist taking on tasks outside their normal routine. On her ranch, Cecilia handles this by paying her workers their regular rates when they perform lower paid jobs. When employees perform more highly classified tasks—which is not often—she pays them extra.

When several positions receive a similar assessment, they can be combined to create a pay grade. To simplify, we will mostly speak of pay grades, but it is understood that pay grades may sometimes consist of a single position.

Of course, pay is not the only factor that affects workers' resistance to taking on tasks outside their normal duties. Employees quickly sense when lower

Employees compare what they earn to what others within the organization (internal equity) and outside (external equity) make. External equity may involve comparisons with other farms or even non-farm corporations.

SIDEBAR 7-1

Illegal Pay Differences

It is illegal to base pay differences on such protected personal characteristics as sex, race, color and marital status. The term "protected" is used because employees are safeguarded by law against discriminatory practices based on these personal characteristics. Federal law, established in the Equal Pay Act of 1963, explicitly requires men and women performing the same work to be paid the same—with four key exceptions:

> . . . where payment is made pursuant to (i) a seniority system; (ii) a merit system; (iii) a system which measures earnings by quantity or quality of production; or (iv) a differential based on any other factor other than sex. . .[7]

Blatant cases of sex-based discrimination include instances where men and women hold the same jobs yet are paid differently with none of the defensible reasons applying. Somewhat veiled, but no less illegal, are cases where sex-segregated jobs are equal, except for their titles, and yet are paid differently.[8]

paying jobs are not as valued by management. An occasional chance for a manager to milk the cows may underscore the importance of the job, and also serves as a good reminder of what the employee does.

Once you decide whether persons holding *different* jobs should be paid different rates, the next question is whether pay rates should vary for workers performing the *same* job (e.g., tractor driver). If so, what factors could determine pay differences within a job?

Since abilities and actual performance vary remarkably among individuals, even in the same type of job, individual differences can be acknowledged if each job has a *rate range* (as in Figure 7-1). Higher rates or "upper steps" in the range could be given to employees with longer seniority, merit (i.e., better performance evaluations), or a combination of the two.

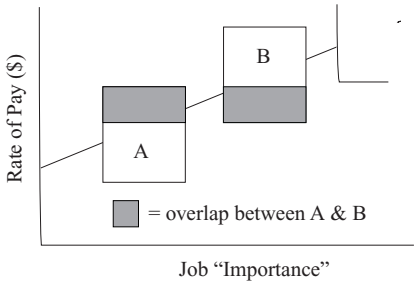


FIGURE 7-1

Pay grades can have rate ranges. Each pay grade is represented by a rectangle; rate ranges by the height of the rectangle.

Establishing rate ranges requires careful consideration. The relationships between grades and ranges have symbolic and practical consequences. A person at a top step within a pay grade, for example, may earn more than a person in a higher pay grade, but at a lower step (Figure 7-1). Whether and how much overlap to build into a pay structure is discussed later in this chapter.

While not recognizing differences in the importance of positions, Alan could also establish rate ranges (not pictured here) within his flat *wage line*. Like Cecilia, he would need to consider the basis for pay differences with a given job.

JOB EVALUATIONS AND MARKET CONSIDERATIONS

You can arrive at appropriate wages for positions on your farm on the basis of two main management tools: (1) *job evaluations* (based on compensable factors such as education, skill, experience, and responsibility), and (2) the going rate (or *market* value) of a job.

Job evaluation

A farmer such as Cecilia who pays different rates for different jobs usually first classifies the jobs on her ranch. Through a *job evaluation* she rates the jobs on the farm according to their relative "importance." Each job might be given its own rate, or jobs of comparable

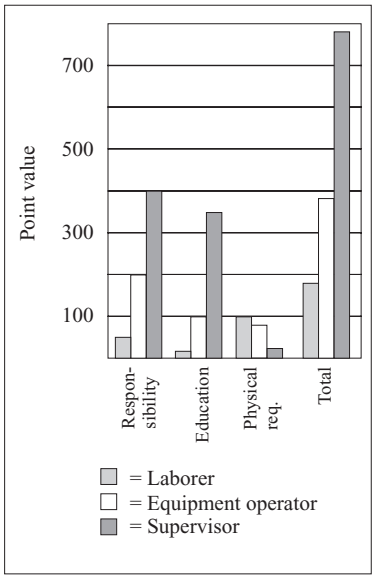


FIGURE 7-2

Compensable factors.

importance may be grouped or banded into a single wage classification, or *pay grade*.[9]

Job evaluations compare positions in an organization with respect to such factors as education, responsibility, experience and physical effort. Figure 7-2 shows a sample job evaluation. In it, for instance, much more value is given to responsibility and education than to physical requirements. The supervisor in this example would earn about twice what an equipment operator would.

Figure 7-2 uses education as a compensable factor. You may prefer to think in terms of what combination of experience and education would qualify a person for the job. This is an important step for determining the value of the position to be filled. However, when it comes time to hire someone, you may not care what combination of education or experience an applicant has as long as he can do the job.

If education is used as a compensable factor, a bachelor's degree might be worth 200 points, a junior college degree 150, a high school diploma 100, and an elementary diploma 50 points. Some of the jobs in the ranch might require a high school diploma, thus earning 100 points in this category, while others might have no education requirement (0 points allotted)—regardless of the educational qualifications of the person who may actually apply. Similar ratings of jobs would be made for responsibility and other factors worth compensating.

You decide how much weight to allot various compensable factors and how to distribute points within each job. For the job evaluation to be useful, a detailed list of compensable factors needs to be articulated. (The *job analysis* created during the selection process can help.) You can test the job evaluation by comparing a few jobs you value differently. Does the tentative evaluation match your expectations? If not, are there any job factors missing or given too much or too little value?

Workers may also participate in the process of evaluating jobs and can add valuable insight into the essential job attributes for various positions.[10] Personnel involved in evaluating their own jobs, nevertheless, are likely to experience conflict of interest.

Although supervisors will normally make more than those they supervise, this is not always the case. A very skillful welder or veterinarian will probably make more than his farm supervisor. Some workers harvesting at a piece rate often make more than the crew leaders supervising them. Supervisors may be offered additional pay during labor-intensive periods.

Job evaluations, then, reflect the relative value or contribution of different

A very skillful welder or veterinarian will probably make more than his farm supervisor. Piece-rate paid workers often make more than the crew leaders supervising them, as well.

Those who pay at or below the market may have difficulty attracting workers, and may find themselves frequently training people who leave for higher paid positions.

jobs to an organization. Once a job evaluation has been completed, market comparisons for a few key jobs need to be used as *anchors for market reality*. In theory, other jobs in the job evaluation can be adjusted correspondingly.

Market considerations

In practice, results of job evaluations are often compromised—or even overshadowed—by market considerations. Labor market supply and demand forces are strong influences in the setting of wages. No matter what your job evaluation results may indicate, it is unlikely you will be able to pay wages drastically lower or higher than the going rate.

Supply and demand factors often control wages. When there are many more pickers than available jobs, for instance, the going wage decreases. If few good livestock nutrition specialists are available for hire, they become more expensive in a free market. The market may also influence the migratory patterns of farm workers, for example, whether a worker stays in Mexico or travels to Texas, Florida or Oregon.

Of course, the market is not totally free. Legal constraints affect wages (e.g., equal pay, minimum wage). Labor groups, in the form of unions, can combine forces to protect their earnings. They may prevent employers from taking advantage of a large supply of workers. At times wages are driven so high that corporations cannot compete in a broader international market. Some professional groups can also impact the market. By limiting acceptance to universities, a limited supply of available professionals is set.

To establish external equity, employers need information about what other employers pay in the same labor market. While some employers are content to lean over the fence and simply ask their neighbors what they pay, others conduct systematic wage and salary surveys.[11]

Wage surveys need to describe jobs accurately as positions may vary widely even for jobs with the same title. Surveys should seek information about benefits given employees (e.g., farm products, housing). Of course, there are other "intangible benefits such as stability, the prestige of the position or the institution [and] the possibility of professional development."[12] Surveys need to consider the number of workers per farm in a given classification. Wages on a farm employing many employees affect the going rate more than one with few. In some cases, farmers may compete for labor within a broader labor

market. When compensating mechanics or welders, for instance, you may have to check what those in industry are paid.

An important pay decision is whether one will pay the going market rate. Those who pay at or below the market may have difficulty attracting workers. Further, they may find themselves training people who leave for higher paid positions. Merely paying more than another farm enterprise, however, does not automatically result in higher performance and lower labor costs. Even when well paid, workers may not see the connection between wages and their performance. Farmers who pay too much may find it difficult to remain competitive. Furthermore, there are other factors valued by employees besides pay, such as working for an organization that values their ideas and allows them to grow on the job.

Reconciling market & job evaluations

In wage setting, it is usually more beneficial to reconcile market information and job evaluation results than to singly rely on either. Unique jobs are more appropriately priced on the basis of job evaluations. You may depend more heavily on the job market for common jobs.

In most cases, farmers have freedom to satisfy both job evaluation and the market. Where the market pays a job substantially less than a job evaluation does, however, you can either pay the higher wage, reconsider job evaluation factors, or pay the reduced wage. The farmer has fewer viable options when the market would pay a higher wage than the job evaluation.

ELEMENTS OF A WAGE STRUCTURE

Wage structures, we have said, help illustrate many of the decisions you can make about pay. We have already introduced most of the elements of a wage structure (review Figure 7-1) and will revisit them here.

Wage lines reflect *wage differentials* between jobs. The *steeper* the wage line

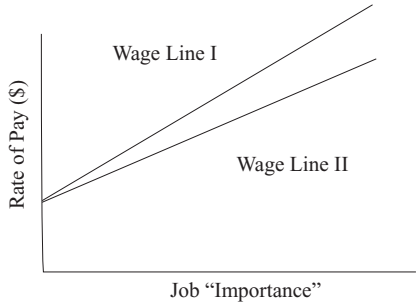


FIGURE 7-3

Wages may begin at the same level but rise steeper at one farm.

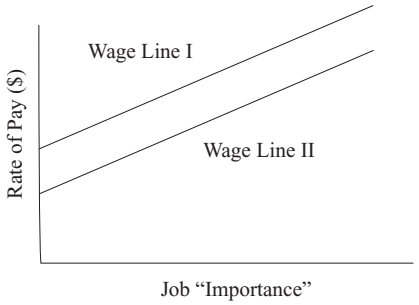


FIGURE 7-4

Pay differential maintained.

slope, the greater the differences in pay between jobs. In Figure 7-3, two farm enterprises pay their lowest level job the same. From this point on, wages for one farm rise at a steeper rate.

Wage lines also reflect the *overall pay level* of the organization. Figure 7-4 illustrates two farms whose differential between the highest and lowest paid job are the same despite the differences in the total wages paid.

The number of *pay grades* (job groupings sharing the same wage levels) and the scope of *rate ranges* may vary. Rate ranges are represented by the height of a pay grade, that is, the difference between the lowest and highest pay within the grade. For example, the minimum and maximum salaries for tractor drivers might be $10 and $14 per hour, with a potential $4 pay range.

The more pay grades, the finer the distinctions between jobs. Alternatively, *broadbanding* is the use of fewer pay grades with larger rate ranges. Broadbanding allows employees to step out of very narrow or rigid job

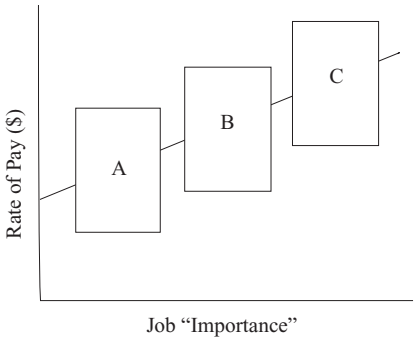


FIGURE 7-5

Few pay grades (broadbanding), with taller rate ranges.

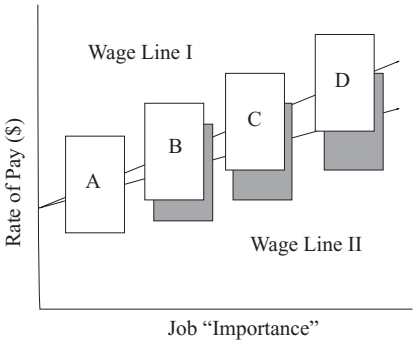


FIGURE 7-7

Flatter slopes lead to increased overlap. Note: Wage Line II is flatter than Wage Line I, and thus contains more overlap.

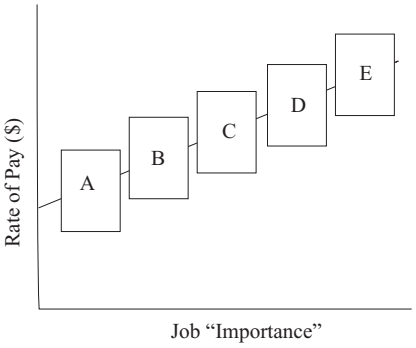


FIGURE 7-6

Many pay grades with shorter rate ranges.

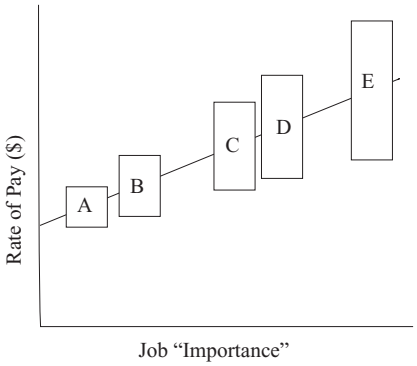


FIGURE 7-8

A fan type structure.

descriptions. Broadbanding may result in significant differences in jobs going unrecognized, and *pay equity* concerns may arise.[13] In organizations with few pay grades, it may be that there are taller rate ranges within each grade (Figure 7-5). This allows room for pay increases within a grade. Where many grades exist (Figure 7-6) workers may also obtain an increase by moving from one pay grade to another (i.e., being promoted) as they are by getting a raise within their grade. Some farms may have few grades and short rate ranges, also.

There tends to be more overlap where a pay grade slope is flatter (Figure 7-7), or with larger rate ranges. We shall return to overlapping rate ranges once more, as we discuss pay as a function of employee promotions.

Up to here—for simplicity—we have depicted wage structures containing equal rate ranges for all pay grades (i.e., the differential between the starting and top wages within each pay grade are the same). A fan structure is closer to reality (Figure 7-8).[14] In this kind of structure the rate ranges are comparatively taller for jobs at higher pay grade classifications. To someone earning $9 an hour, an increase of 50 cents an hour would be significant. To someone making $40 an hour, the 50 cent raise would not be nearly as meaningful.

When asked how large pay raises should be, consistent with this principle, employees at the lower end of the pay scale often respond in terms of specific dollar amounts (for example, $0.50 per hour), while those at middle and higher levels tend to speak in terms of percentage increases.

MAINTAINING A PAY STRUCTURE

Maintaining pay equity within a compensation structure after it has been

developed is an ongoing challenge. Here we will look at:

- seniority-based raises
- merit-based raises
- promotion pay
- out-of-line or color rates
- cost of living adjustments (COLAs)
- flat vs. percentage COLAs
- wage compression and minimum wage

Employees traditionally progress within a grade on the basis of merit and/or seniority. Decisions about pay increases should be fair, sound, and well communicated to workers.

A herdsman who has one cow and has earned a second one will be very pleased, while one who has many will hardly notice the addition of one more cow to the herd (Weber's Law). When it comes to pay increases, those at the lower end of the pay scale may ask for a specific dollar amount, while those at higher levels tend to speak in terms of percentage increases.

Seniority-based raises

Systems providing periodic raises regardless of evaluated merit may be based on the *assumption that ability grows with time on the job*, which simply is not always true. Many companies use pay increases to reward workers for "belonging" and for their length of employment with the farm. As long as worker performance meets minimum standards, they continue to receive periodic raises.

Personnel value the certainty of seniority-based pay, and workers' needs for increases in pay through time are served well. Seniority-based pay also promotes continuous service and may reduce turnover.

Employers who give raises on the basis of seniority value the maturity and experience of senior workers, but they are sometimes relieved when senior workers leave. In some instances, senior workers cost organizations disproportionately higher wages and benefits (e.g., longer vacations) than their contribution to the organization. This is not a reflection on the senior employee, but rather, on a system that undervalues the new employee with the promise that in due time, new personnel will be able to earn greater amounts.

In order to avoid having employees climb the pay scale too quickly, smaller but more frequent pay increases may be given early in an employee's career. Increases later on are given at a slower pace. These increases, without being overpaid, must be large enough to motivate employees to stay.

Merit-based raises

Merit wage increases are designed to recognize improved worker performance and contribution to the organization. In theory, in a merit system workers earn wage increments proportional to their performance. As with the seniority system, however, once someone climbs to a given wage level his wages are rarely reduced. Incentive pay plans (Chapter 8) can solve the problem of giving "permanent" raises based on present and past performance.

Incentives, however, can have a disrupting effect on an internal wage structure. Employers who use incentive pay systems for some jobs and not others may find workers in some lower "value" jobs earn more than those in

higher level ones.[15] Companies sometimes abandon their incentive programs or expand them to cover more jobs.

Where pass/fail merit reviews are conducted at specified time-service intervals—and where employees tend to pass—the process may be viewed as a "glorified seniority system." Length of employment and wages are closely correlated within each job category. In such a system workers would experience the same positive and negative benefits of a seniority system.

Managers may feel unduly constrained when given a choice between recommending a worker for a full step raise or nothing. To deserve no raise an employee must have performed quite poorly. If the choices were even slightly expanded to include half or quarter steps (e.g., half step, step and a quarter), managers may be more likely to reward workers commensurate with their performance.

Whenever performance reviews affecting raises are given at specified time intervals, merit systems automatically include a seniority factor. Alternatively, performance reviews for raises could be triggered by other events, such as specific performance accomplishments, or skill acquisition (skill-based pay).

Some workers may merit faster advances to the top of the pay scale than others. Unfortunately, employees who advance too quickly may not have any further economic increase to look forward to, and experience a feeling of stagnation. The only growth may mean trying for a promotion—or a job elsewhere.

In order to avoid having employees climb a merit scale too quickly, upper levels of the scale must be harder to achieve. Also, if the merit system incorporates seniority (i.e., performance reviews are triggered by time spent on a given pay step) reviews need to take place less frequently as people move up the pay scale.

It turns out, then, that there are fewer differences than expected between seniority and merit based pay systems. In order to fully take advantage of merit based pay, it is critical that employees understand how they will be evaluated. That is where the negotiated approach to performance appraisal can play a key role along with the more traditional appraisal.

Promotion pay

How much of a pay increase should accompany a promotion? If there is a pay structure policy, the boundaries of such a decision already exist. A tall rate range or steep wage structure may permit room for larger wage increases after raises or promotions. The wage differential will also depend on the height of rate range occupied by the employee within the present pay grade, as compared to the height in the grade promoted to. Obviously, a greater pay increase will accompany those promotions where the employee moves up more than one pay grade.

Any time there is an overlap between jobs, some workers in a lower grade may earn more than some workers on the adjacent higher grade. If workers are seldom promoted from one grade to another, this structural characteristic rarely creates a dilemma.

When workers move from one grade to another, difficulties may arise. There might be some pay overlap between the jobs of "assistant mechanic" and "mechanic." Consider an assistant mechanic who, because of many years of work, has reached the top of his scale and makes more than a journeyman mechanic who has been working for a couple of years. The journeyman mechanic is likely to tolerate the wage discrepancy because even though the assistant is earning more temporarily, due to seniority, in time the wages of the journeyman are likely to surpass those of the assistant, due to the higher potential earnings in the journeyman's pay grade.

The challenge arises when this assistant mechanic, who has topped out in his grade, decides to seek a promotion to mechanic. The assistant is unlikely to want to start at the bottom step of the mechanic scale where he would be making less than in his previous job.

One solution would be to start the assistant mechanic at a higher step level in the mechanic grade. But if the newly promoted mechanic ended up with higher pay than the more experienced journeymen, questions of internal equity may be raised. Both employees are now performing exactly the same job but the one with less experience (although more overall seniority) is earning the same as or more than the other. This pay equity situation may become even more pronounced when the accomplished mechanic has to help train the one who just obtained the promotion.

You may help employees manage career and development plans to avoid losing pay when obtaining a promotion. They will have to apply for promotions early enough in their careers as not to lose the potential economic advantage. Another possibility is to give the promoted employee a one-time lump sum, or *pay adder*, to make the transition into the temporarily lower paying job more palatable.

Another promotion pay consideration is the inherent risk of failure in the new position. In Chapter 4 we spoke of a farm where those promoted to supervisory positions immediately lost their seniority. The greater the risk of failure a promoted employee faces in a new position, the larger the wage increase should be.[16]

Out-of-line or color rates

Sooner or later you will encounter situations where jobs are paid more or less than their actual worth in the labor market. Different "color rates" are commonly used by compensation specialists[17] to indicate particular out-of-line pay relationships (Figure 7-9): *red* and *green* illustrate either over or under compensated jobs—when compared to current worth.

Although the colors imply the farmer loses money with the first and gains with the latter, both situations can be quite costly. If out-of-line rates are not corrected speedily, both internal and external equity will be disturbed.

Red rates (so called because they represent overpaid jobs). If rates are allowed to stay out of proportion to the rest of the farm jobs, other workers may feel mistreated. Also, the wage bill will likely be higher than it need be. When red-grade rates are cut abruptly, workers may experience difficulty meeting their financial obligations. Smoother alternatives include combinations of freezing raises until internal equity is reached; exerting efforts to transfer workers to higher paying jobs consistent

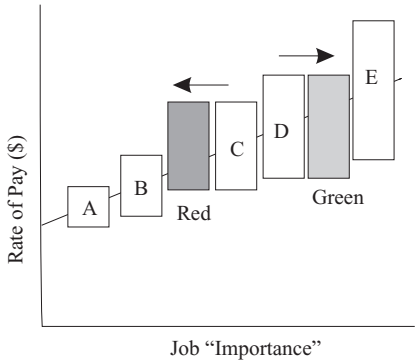


FIGURE 7-9

Red and green rates.

A grower who does not keep wages competitive may feel forced to start inexperienced new workers up near the middle of a pay grade. If this is the case, there may remain no sound basis for pay differences among workers.

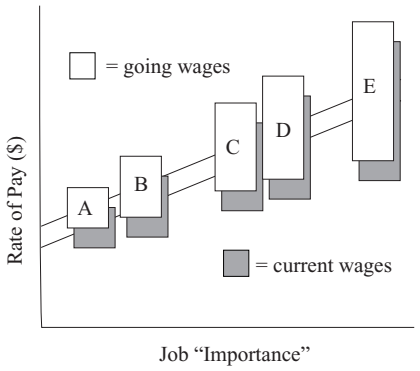


FIGURE 7-10

Current wages have failed to keep up with market reality.

with present wages; or even adjusting rates downward immediately while giving workers a lump sum (or several) to offset the downward adjustment.[18]

Green rates (underpaid jobs). Green-grade rates can be brought up into line immediately in one or two steps.[19] A grower may attempt to cut labor costs with green rates, but the benefits may be short term as it will be difficult to retain valuable workers.

Two likely green-grade indicators are (1) increases in turnover (with employees seeking better paying jobs); and (2) feeling forced to start inexperienced new workers up near the middle of a pay grade. If the latter approach is taken, no sound basis for pay differences among workers may remain.

Of course, it is possible an employer does not have a green-grade rate problem, but rather, her whole wage structure may have failed to keep up with the market (Figure 7-10).

Cost of living adjustments (COLAs)

Inflation can have especially devastating effects on a worker's ability to make ends meet. We have seen how farmers whose pay structures fall below market values may have difficulty attracting and retaining personnel. Some corporations (and often union contracts) stipulate a COLA based on the Consumer Price Index (CPI).[20] The index is supposed to reflect cost-of-living changes. The prices of common commodities purchased by most consumers are observed and compared.

While the CPI can be a useful tool, some observers feel the list of common articles used to come up with the index is not so common. The greatest challenge posed by the CPI is that it acts independently from labor market wages. In doing so, it may exaggerate and perpetuate inflation. Instead of using the CPI, farmers may prefer to monitor changes in the labor market through periodic wage surveys. Geographical transfers—especially international ones—may involve upward or downward COLAs to reflect substantial differences in cost-of-living requirements.

Flat vs. percentage COLAs

COLAs may be given in terms of flat dollar amounts or percentage increases. Those who argue in favor of flat increases feel workers at the lower end of the earning scale need the COLA increases more than those at the higher end. Across-the-board percentage increases, they contend, have the effect of "further widening the gap in already disparate incomes" between the haves and have-nots. Some even feel it would be fair to give greater increases to those who make less.[21]

Those who favor percentage across-the-board increases allege flat increases cause wage compression. Wage compression means differentials between higher and lower paying jobs decrease. For instance, if workers making $8 an hour and workers making $18 an hour both get a $2 an hour increase, the first group obtained a 25 percent increase while the second group only a 11 percent increase. If such a trend continues, proportional differentials between occupational wages can be all but eliminated. A conceivable compromise may mean alternating between giving straight and percentage increases.[22]

Wage compression & minimum wage

Increases in the minimum wage can also cause pay compression in agricultural enterprises paying at, or

SIDEBAR 7-2

Comparable Worth Doctrine[24]

We will first distinguish between *comparable worth* and *equal pay for equal work*, and then briefly review arguments in favor of and against comparable worth.

Some types of jobs are held mostly by women, such as sorting tomatoes and peaches. Others are filled mostly by men, such as picking peaches and grapes, and driving tractors. This is slowly changing with fewer jobs being categorized as "men's work" or "women's work." But it is not changing fast enough for those who feel "women's work" is underpaid in comparison with different but comparable "men's work." The move to correct such pay differences is based on the "comparable worth doctrine." While the debate has dealt mostly with jobs segregated by sex, discussion can also focus on jobs held mostly by minority groups, as is so common in farm work.

Earnings gap

Both advocates and critics of the *comparable worth doctrine* agree some jobs are dominated by women and some by men, and that women often earn less than men. Solutions and reasons offered by advocates and critics are different.

The earnings gap between men and women has been cited by comparable worth advocates as clear evidence of sex discrimination.[25] When men and women who do the same type of work and bring similar experience and skill to the job are compared, their present wages[26] and future pay outlooks[27] appear more even.

Many reasons have been offered to explain why men earn more than women. The results of one study suggest gender-differentiated values and preferences are a factor. Males may choose higher paying occupations more frequently while women may place greater value on more stimulating jobs.[28]

Some believe women in the past did not invest as much time as men in higher education, resulting in higher wages for men. This argument does not hold up today, however, when a greater percentage of women are pursuing professional occupations. Another reason given for the higher earnings of males is their longer work experience in general as well as greater seniority with a given employer.[29] It is more common for women to leave the labor force to raise a family or to leave a job to follow a spouse who has been transferred.[30]

Market vs. job evaluation

Advocates of comparable worth feel market values used in wage settings perpetuate inequities: "We're talking about fundamentally altering the marketplace because the marketplace is inherently discriminatory."[31] Though advocates acknowledge the subjectivity of job evaluations, they favor basing wages on job evaluations rather than on market comparisons.

Critics of comparable worth feel that as long as women have a choice of jobs, there is no need for the comparable worth doctrine. Today, women are free to choose work in male-dominated jobs and obtain higher wages.[32] The law already requires that women holding the same jobs as men be paid the same wages. Assuring widespread education and opportunities to all who desire them can help reduce inequities between the sexes and races.

Instituting comparable worth would result in massive government intervention. This may mean either setting a national comparable worth policy or requiring the validation of job evaluations within organizations.[33] If government—rather than individual employers—would determine the value of compensable factors, the farmer's prerogative to manage would be substantially curtailed. Finally, in a growing world-market economy, a nation that ignores market forces would certainly be at a competitive disadvantage.

near, the legal minimum. For instance, if starting hourly wages for irrigators and hoers are $8.15 and $7.20, respectively, a new minimum wage of $8.00 would bring both to essentially the same starting wage (Figure 7-11).

In order to avoid raising the complete wage structure a farmer may, without raising the top wage, make minor adjustments all along the wage structure. Although one pay grade would not take the brunt of the wage compression, this approach may create pay compression throughout the organization.[23]

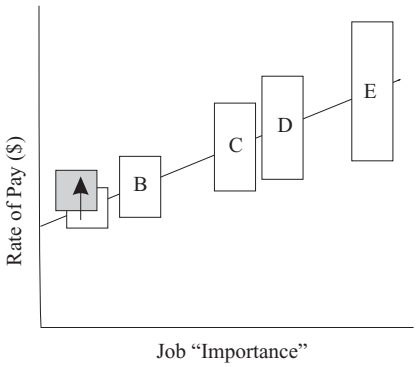


FIGURE 7-11

Sample wage compression.

SUMMARY

This chapter focused on internal wage structures, the framework for establishing and maintaining pay relationships in a farm organization. An important feature of a well-designed pay system is the provision for rewarding performance achievements with increased pay, either within the present job or through a promotion.

Pay is an important work reward for most people. Workers expect their wages will: (1) cover their basic living expenses, (2) keep up with inflation, (3) leave some money for savings or recreation, and (4) increase over time.

Farmers can set wages based on (1) job evaluations, and (2) market values. In practice, results of job evaluations must often defer to market considerations. Once wages are set, pay structures must be continually evaluated to assure competitiveness in attracting, retaining, and motivating personnel. In Chapter 8 we will consider pay based on worker output rather than time on the job.

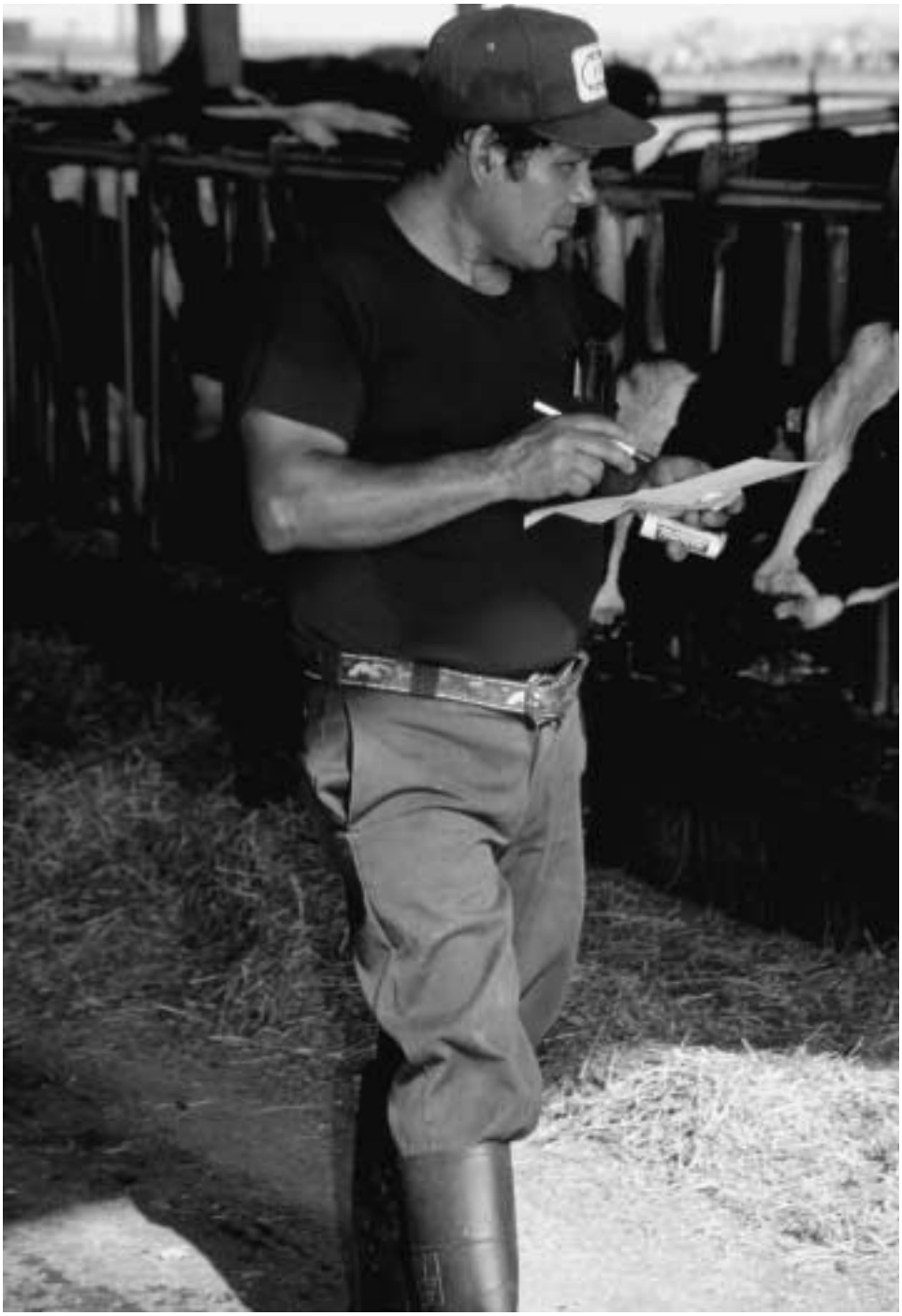
Some believe women in the past did not invest as much time as men in higher education, resulting in higher wages for men. This argument does not hold up today, however, when a greater percentage of women are pursuing professional occupations.

Kathy Kelley Anderson collection

CHAPTER 7 REFERENCES

1. The Executive Program for Agricultural Producers (TEPAP) (1994, January). Year II participant comments, Texas A&M University, Austin, Texas.
2. Adams, J. S. (1965). Inequity In Social Exchange. In *Advances in Experimental Social Psychology* (Vol. 2: 267-299). Edited by L. Berkowitz. New York: Academic Press, Inc.
3. Adams, J. S. (1965). Inequity In Social Exchange. In *Advances in Experimental Social Psychology* (Vol. 2: 267-299). Edited by L. Berkowitz. New York: Academic Press, Inc.
4. Why Pay More? (1979, December 1). *The New Republic* (pp. 5-6).

5. Billikopf, G. E, and Rosenberg, H. R. (1994, December). What Is Behind Pay Differences? (pp. 12-13, 24) *Western Grower and Shipper*.
6. Section was adapted from Billikopf, G. E., and Rosenberg, H. R. (1994, December). What Is Behind Pay Differences? *Western Grower and Shipper*.
7. Equal Pay Act of 1963, 29, U. S. C., 206 {d} {1}.
8. Lorber, L. Z., Kirk, J. R., Samuels, S. L., and Spellman, D. J. (1985). *Sex and Salary: A Legal and Personnel Analysis of Comparable Worth*. Alexandria, VA.: The ASPA Foundation. Also see, Cooper, E. A., and Barret, G. V. (1984). Equal Pay and Gender: Implications of Court Cases for Personnel Practices (Vol. 9-1). *Academy of Management Review*.
9. Billikopf, G. E., and Rosenberg, H. R. (1984, December 12). What Is Behind Pay Differences? *Western Grower and Shipper*.
10. Lawler, E. E. (1977, February). Workers Can Set Their Own Wages Responsibly (pp. 109-110, 112). *Psychology Today*.
11. Billikopf, G. E., and Rosenberg, H. R. What Is Behind Pay Differences? *Western Grower and Shipper*.
12. Rodríguez Silva, W. (1999, April). Universidad de Santiago, Santiago, Chile. *RHumanos Forum* [RHuman 349].
13. Henderson, R. I. (1982). *Compensation Management*: *Rewarding Performance* (3rd ed.) (pp. 284-285). Reston, Va.: Reston Publishing Co., Inc.
14. Henderson, R. I. *Compensation Management*: *Rewarding Performance* (pp. 299). Also see Belcher, D. W. (1974). *Compensation Administration*. (p. 285) Englewood Cliffs, N. J.: Prentice-Hall.
15. Sayles, L. R. (1957, May). The Impact of Incentives on Inter-Group Work Relations—A Management and Union Problem (pp. 483-490). *Personnel*; and Whyte, W. F. (1957, March-April). Economic Incentives and Human Relations (pp. 73-80). *Harvard Business Review* in Belcher, D. W. (1974). *Compensation Administration* (p. 308). Englewood Cliffs, N.J.: Prentice-Hall.
16. Patten, T. H., Jr. (1977). *Pay: Employee Compensation and Incentive Plans* (pp. 291-298). New York: Free Press.
17. Sibson, R. E. (1967). *Wages and Salaries* (Revised ed.) (pp. 129-131). New York: American Management Association; cited in Belcher, D. W. *Compensation Administration* (p. 287).
18. Belcher, D. W. *Compensation Administration* (pp. 287-288).
19. Belcher, D. W. *Compensation Administration* (pp. 286-287).
20. Van Giezen, R. W. (1982, November). A New Look At Occupational Wages Within Individual Establishments. *Monthly Labor Review.* U. S. Department of Labor, Bureau of Labor Statistics.
21. Mullinax, P. E. (1978, March 13). Our Unfair Pay Raises (p. 19). *Newsweek*.
22. Belcher, D. W. *Compensation Administration* (pp. 246-247).
23. Thompson, D. R. (1972). *Handbook of Wage and Salary Administration* (Chapter 4: 29-32). New York: McGraw-Hill.
24. Billikopf, G. E. (1987, April 1). A Look at the Controversy Surrounding Comparable Worth (pp.55-56, 58, 50-51, 64, 68-70, 72, 74-75). *American Nurseryman*.
25. Greenfield, S. (1984). Review of *Women, Work, and Wages: Equal Pay for Jobs of Equal Value*, by Treiman, et al. (Vol. 9-3). *Academy of Management Review.*
26. Gold, E. M. (1983). *A Dialogue on Comparable Worth*. New York: ILR Press, Cornell University.
27. Major, B., and Konar, E. (1984). An Investigation of Sex Differences in Pay Expectations and Their Possible Causes (Vol. 27-4). *Academy of Management Journal.*
28. Major, B., and Konar, E. An Investigation of Sex Differences in Pay Expectations and Their Possible Causes.
29. Lorber, Kirk, Samuels, and Spellman. *Sex and Salary: Legal and Personnel Analysis of Comparable Worth*.
30. Bunzel, J. H. (1972, Spring). To Each According to Her Worth? *The Public Interest*. Also see, Gold, E. M. (1983). *A Dialogue on Comparable Worth*. New York: ILR Press, Cornell University.
31. Bunzel, J. H. To Each According to Her Worth?
32. Gold, E. M. *A Dialogue on Comparable Worth*.
33. Lorber, Kirk, Samuels, and Spellman. *Sex and Salary: A Legal and Personnel Analysis of Comparable Worth*.



There is much that farmers do not have control over, and what they do control, they control through people. How these people are hired, managed and motivated makes a huge difference. Labor management is much more than forms and paperwork. It is more about finding creative new ways of increasing productivity and reducing loss.