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pork industry handbook

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Employer-Employee Relationships on Hog Farms

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Whenever two or more persons are involved in the farming operation, whether as co-owners or employer-employee, interpersonal relationships become a major factor in the continued success of the business. Today most commercial hog operations involve more than one person.

The employer-employee relationship is the focus of this fact sheet, although co-owners, partners in a partnership and those involved in landlord-tenant arrangements experience many of the same interpersonal relationship problems. The employer-employee situation differs in that a pay or wage package is provided to employees, whereas in other business arrangements, the participants are financially rewarded for their capital, labor and management services by sharing in the profits of the business.

Employee Selection

Confinement hog units require an employee with unique traits. Hog production, especially in farrow-to-finish units, covers the entire range of biological production processes and related problems, from breeding to marketing. There must be a willingness and desire to work with animals. It is impossible to supervise every task, so look for potential employees that are disciplined, self-starters and that have a desire to complete assigned tasks correctly. Prior experience with hog production is usually desirable. Some employers have elected to employ part-time trainees to develop an available pool of trained, experienced persons to fill permanent positions as they become open on their farms. This process reduces training time needed for new employees.

A second unique problem of providing labor services to the typical confinement hog unit is the small number of employees, frequently only the owner-manager and one employee. In even larger farm units, there are usually less than five employees. The one-on-one employer-employee situation places great emphasis on the individual's personalities and what it takes to motivate him. Daily interactions with individuals, each of whom possesses individual traits, habits and a background of past experiences, often produce stress situations. This one-on-one relationship, more often than not, extends to a family-family relationship involving spouses and children.

A third unique characteristic is the wide range of building systems and production technologies available to hog producers. Feeder pig producers, feeder pig finishers, and farrow-to-finish operations may each stand alone. Although more standardization of production facilities now exists, there is still a wide spectrum of housing, ventilation, manure removal and feed processing technologies available. Potential employees with experience and training in one production system may be reluctant to move to a new system and/or may require in-service training before becoming productive employees in a new job situation.

Although production facilities vary, one common feature is the pig—his biological processes, nutritional needs, disease and parasite problems and his response to environmental stresses. The willingness to accept in-service training as well as experience in swine husbandry are employee traits that are sought after in potential employees. Universities and vocational programs in junior colleges are sources of potential employees with training in hog production. Other potential employees may come from a farm background, where hog production has been a part of their work experience.

There is also considerable mobility of employees among hog production units as they seek out more desirable working conditions or higher pay or attempt to escape from the boring effect of routine tasks. Another reason for mobility is that many employees, after a period of employment and training in hog production skills, return to home farms to take up or expand existing hog production. Here they may become proprietors and not employees. This situation, where a young man accepts employment on a specialized hog farm with the goal of acquiring valuable training and skills, is viewed by employers with mixed reactions. Some may avoid potential employees who openly state that their goal is to obtain training or where a "home farm" situation exists that may later attract the employee. Other producers feel that the 2-5 year training period provides employees with desirable aptitudes and motivations and ensures a more competent work force than other employees who may have limited opportunity for upward or outward mobility. Such employees may lack motivation and become "clock-watchers."

Discovery and recruitment of potential employees is an unstructured process over the whole hog production industry. Recruiting visits to universities and vocational schools, advertisements in trade magazines, contacts with other hog producers and supply firms, and a keen interest in FFA and 4-H programs in the local community are all used with varying success by employers. A recent development, employment listing services for hog farm employees, is another source. All should be considered and explored when recruiting and selecting employees.

Management oriented positions are usually filled by college graduates with proven performance records or candidates that have the traits and potential to be trained as managers. Other positions may be filled by individuals from the local community, who are less inclined to get tired of the job and will not be moving back to their home communities.

Job Description and Pay Packages

Once a potential employee is located, two important questions are: what work and services will he perform and how will he be compensated for his labor services and production and management skills?

Job descriptions and policy guidelines. Writing a job description and deciding on employment policy guidelines should be completed before any job interviews begin. It should contain and cover the following:

- lines of management authority, including areas of individual responsibility and to whom each employee reports for direction, training and day-to-day supervision;
- scope of work assignment (i.e., hogs only, hogs and crops);
- sufficient detail within the scope of work to be descriptive and to indicate responsibilities that may not be included, such as marketing, selection of boars or other responsibilities retained by the owner or manager. (Some employers set a specific day each month when the total production system is reviewed with each employee. Problems encountered are shared and employee suggestions are solicited.);
- farm policy on normal working hours, weekend, and holiday work schedules, including rotation assignments of employees to provide a reasonable number of free weekends and holidays;
- general farm policy covering restricted contact with other hog production units, housekeeping guidelines, sanitation procedures, admitting visitors to premises, restrictions on release of information to outsiders and similar common sense guidelines. A section of the policy guidelines may cover employee housing, such as distance from the farm, if housing is not provided on the farm premises.

The job description and policy guidelines, which may be separate or combined, should indicate that they are subject to review and revision, provided employees are informed and consulted *in advance* of any proposed changes. This will permit changes in job assignment as new employees gain experience or show aptitude or preference for some tasks and allow for future changes among assignments of co-workers.

Compensation packages. Employees not in an ownership position respond to a variety of motivational rewards, including monetary and non-monetary items. Also, individuals usually will differ in their subjective reactions to varying reward systems. Careful thought and planning must be given to the way compensation is provided because of its importance in the rewards system, or conversely, as a likely area for employee dissatisfactions.

Two different approaches to compensation or pay packages have been used on hog farms. One approach is to specify the cash wages to be paid and list the noncash benefits to be provided such as housing, medical insurance, life insurance, farm supplied food items, vehicles for farm related transportation and similar fringe benefits.

The second approach is to specify the total pay package, listing the actual or allowable monetary value of each benefit provided to arrive at the net cash wage to be paid annually, with a monthly or weekly breakdown of the annual salary. This second approach allows the employee the option to accept the allowed monetary value of a specific benefit or to provide for his own needs. An example is housing. An employee may elect to provide his own housing, rather than move his family into the specific housing that is available on the farm premises. Just the knowledge that this option is available to the employee may help foster more satisfactory employer-employee relationships. There are also income tax implications to the employee to be considered, if he accepts a cash allowance, rather than an employer provided benefit.

Bonuses, incentive pay and profit sharing plans. There is probably a wider range in supplemental pay plans than any other attribute of employee-employer relationships. A scheme that works in one farm situation and for a specific employee may fail to accomplish its objective in other situations. Guidelines for these supplemental pay arrangements among employees and employers on hog farms are not as clear-cut or well-defined as may be the case in large industrial firms. Some guides and principles may be provided, however.

A **bonus** is money or equivalent given in addition to an employee's usual compensation. The amount and frequency is usually determined by the owner and provided to the employee in a random or unscheduled pattern. The traditional Christmas bonus, if expected and anticipated by the employee as part of his regular pay, may cease to provide a motivational effect on the employee. On the other hand, a bonus or award for exceptional services or sharing with employees part of a windfall financial success of the business can be extremely effective in employee motivation and morale.

Incentive plans provide additional payment for above average or superior performance by the employee. The performance measure used to determine when incentive payments are earned should be directly related to the job assignment of the employee and a tangible, measurable unit that can be affected or changed by employee performance. The base pay schedule is set, based on minimum or expected performance levels, and incentive payments are provided for exceeding the minimum acceptable standards of performance.

The employer's view of an incentive plan is based on the economic premise that superior employee performance will increase the owner's profits, reduce costs, or both, and that the measure used to reflect employee performance will directly contribute to the increase in profits.

Typical incentive plans in hog production may be tied to observable and measurable physical production standards, such as pigs weaned per litter, total hogs marketed and conception rate percent in the breeding herd. Base line standards should be set from the averages of past performance so that genetics, chronic disease levels and building environment (factors not readily controlled by the employee) do not eliminate the potential for an incentive payment. The owner's viewpoint on paying incentives for added physical production assumes a longer run profit potential or reduction of loss during cyclical low hog prices.

Profit sharing plans are based on a measure of net income or profits to the hog enterprise. This measure requires an "open book" accounting record with employees and is best applied to those employees having overall management control of the production process. A modification of the profit sharing incentive is the profit pool, shared by all employees, that is allocated in proportion to each employee's partial contributions to overall production and financial success. Some producers have suggested that the profit pool concept may encourage team work among employees.

Problems with profit sharing plans arise when profits are affected by the owner's actions, unrelated to production performance by the employee. Examples are hedging gains and losses, forward contracting of feed supplies, remodeling or expansion of hog buildings, variations in inventory numbers, valuing inventory and prepaid cash expenses made for tax planning purposes.

Accounting problems also arise if the hog enterprise is separated from the cropping system or from ownership of buildings and where general farm machinery and equipment is used only part-time on the hog enterprise. Choice of rental rates and custom charges for these capital inputs affect profits. Also, the choice of an inputed interest return on equity investments by the owner, when factored into the profit determination, will affect residual profits. Reasonableness in setting these rents and returns on equity is required and a full explanation of the rate setting process should be reviewed in advance with profit sharing employees.

Partial ownership of the enterprise. Profit sharing incentives, paid in the form of optional or required assignment of stock in corporations, partnership capital accounts or partial ownership of hogs and feed inventory, appear in some incentive agreements. The intended objective is the belief that employees who are part owners of the business will share the same profit goals and objectives as the owner. In reality, these ownership arrangements represent a deferred payment of the incentive income. The employee, who is not likely to become a majority or full owner, can recover his allocated ownership assets only by terminating employment and selling his share back to the original owner. This technique is widely used and frequently successful when transfer of the operation to second generation family members is the underlying objective, such as in father-son partnerships. It is usually less attractive to nonrelated employees, especially when interest rates are high and the net present value of future rewards is diminished by high discount rates.

The bonus and incentive features of employment arrangements, regardless of the specific terms, share some common objectives.

- The incentive should be based on performance levels that are observable, measurable and controllable by the employee.
- The earned incentive payment or bonus award should be paid promptly and regularly. The objective of the incentive or bonus is to motivate employees to perform above minimum levels. The rewards, or lack of rewards where incentive levels are not met, should reinforce this performance goal.
- The exact terms and conditions of incentive payments should be in writing and included in written employment agreements with a copy of the complete agreement provided to each employee affected by the arrangement.
- Base pay scales should be reasonable and adequate for services performed so that failure to achieve the incentive level of performance due to extraordinary causes does not result in a substandard pay level for the employee.
- The incentive plan should be reviewed regularly and modified as the employee gains in skills or is assigned to new duties and responsibilities.
- Each individual employee probably possesses a unique set of values, personal security goals, career objectives and long-term financial goals. Not all individuals will respond the same way to a given incentive plan, nor should they be expected to respond uniformly.
- The incentive plan should not be a substitute for good labor relations and personal interactions between employers and employees, where each employee is treated with consideration and respect.

Employee Evaluations

A part of the employee-employer relationship should be a regular evaluation of employee performance. The objective of the evaluation is twofold, to give the employee feedback on his job performance and allow for two way interaction between the employee and employer on ways to improve job performance. To evaluate performance, constructive ratings are preferred to criticism or negative ratings. "Needs improvement" is a preferred rating, rather than "poor," where the employee may be lacking. "Superior" and "satisfactory" are other suggested ratings on selected areas to be evaluated.

The evaluation should be scheduled in advance and conducted in private with only the supervisor and employee present. Use positive feedback where the employee is doing a good job. Where the rating is "needs improvement," be prepared to offer training or suggestions on how he might improve his work efforts.

The areas to be covered will vary with each job assignment. However, timeliness, initiative, safety practices, machinery and equipment maintenance, relationships with other employees and attitude should be covered, along with specific job assignments in the hog production area.

Termination of Employment

Part of the written employment agreement should specify probationary periods for new employees and the notice requirements to be given if either the employee or the employer desires to terminate employment after the probationary period. Typical notice periods may be 60 days for mutually agreed termination of employment. Where reasonable labor relationships exist, there is little likelihood that employees need to be "fired" or will "quit" without a reasonable notice period. However, provisions may be made for severance pay and withholding incentive payments when an immediate dismissal is indicated or sudden resignations occur.

Termination due to unsatisfactory performance or failure to fulfill conditions of employment usually causes stress to both the employee and employer. Remedies and attempts to overcome potential reasons for dismissal should be part of the ongoing evaluations and feedback to the employee. When the final decision to terminate is made, the employee should be informed immediately. Little is gained by reconsideration or continuing an unsatisfactory employment arrangement.

Summary

Successful employer-employee relationships start with the employer or owner and depends greatly on his skills, both as a businessman and as a people-oriented supervisor. The other component is the employee, who provides labor services and production and management skills. The effective employer, in addition to operating a successful business, provides a working environment where the employee is interested in his work, has a feeling of being part of the team and that his contributions are important and recognized by the employer.

In addition to working conditions and job security, financial rewards rank near the top in any list of desired motivational rewards of employees. The base pay schedule should be competitive and proportional to the services and job skills expected of the employee. Bonuses or incentives provide additional financial rewards to motivate employees to put forth extra job effort. Effective incentive plans are usually simple, easy to understand and promptly paid.

Written job descriptions, employee performance reviews and adequate in-service training are all part of the system. Personal relationships are usually the key to a successful employer-employee experience. Both individuals, the employer and the employee, are a part of and contribute to the success of the relationship.

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