do the job, degree of responsibility, difficulty or unpleasantness of tasks) and "individual factors" (e.g., quality of performance, length of service, age). The principle of paying more for work in jobs that involve more skill, responsibility, or unpleasantness and for better or longer service within jobs is well accepted. Problems in applying this concept often stem from the difficulty in measuring all these factors except age and length of service.

Ways in which wage structures can differ

- Number of classifications
- Number of job titles per classification
- Size ("height") of ranges for each classification
- Amount of overlap between ranges of adjacent classes
- Size of permissible increments within range
- Basis for individual advancement within a range
- Frequency of consideration for rate adjustments
- Overall level of pay and triggers for adjustment of the whole scale *(Each is subject to management choice.)*

Job Factors and Comparisons for Internal and External Equity

A process of job "evaluation" can be used to rate jobs on the farm or ranch according to their relative importance. Jobs of similar importance may be grouped into a single classification within an associated pay rate or range, or every job might have its own wage range. Setting ranges is tricky business. The relationships between ranges for different jobs have symbolic and practical implications. A person at the top of one range may be earning more than a person at the bottom of the next higher range. Whether and how much range overlap to build into a pay structure is a basic pay policy choice.

If workers in the business see pay rates as commensurate with job importance or contribution, a sense of "internal equity" exists. While internal equity is important to establish, employee response to the pay structure also depends on its "external equity," how it stacks up against those of other employers in the labor market. Even when jobs are priced fairly in relation to one another, they all might be too cheap or too expensive. If the overall wage level in the firm is too low, it encourages employees in all classifications to look elsewhere. Workers always have the option to move on to where their skills are more highly valued. If overall wages are much higher than the local norm, the business is probably foregoing some profit, though keeping its workforce happy. While employers may not want or be able to keep up with others, it is useful to be aware of what those others are paying.

Achieving external equity requires obtaining information about what others pay for comparable work in the same labor market. The information can be obtained through varied means such as a mailed survey, a round of phone calls, or a conversation in the coffee shop. See *AgHelpWanted.org* for links to public sources of data for evaluating external equity.

Individual Factors and Means for Advancement

For farmers and ranchers who do want to pay different wages for different jobs, the next question is whether to have a single rate or multiple rates for a particular job or pay classification. Even if tractor drivers are paid more than general laborers, should all workers in either respective category have identical wage rates? Differences in contribution or value to the farm business among individuals in the same type of position can be easily built into pay, if a range of rates is established for each job.

What factors should determine individual pay differences? Higher rates (or "upper steps") within the range are typically associated with greater length of employment (seniority), better-evaluated performance, or a combination of the two. It is important to have clearly understood policies about how employees can move up in a range and when adjustments can be made. A yearly review of pay scales with consideration given to individual adjustments is most common. Many farmers and ranchers review all employees at the same time of the year, usually in a period of low activity; others consider each worker around the anniversary of initial employment; and others do it irregularly, adding to their employees' sense of wonder.

So called "merit plans" provide for variable periodic increases in hourly or weekly wages, the size of raise correlating to evaluated performance during a previous period. If the pay range for drivers is from $7 to $10 per hour, for example, new drivers might be brought in at the $7 level and advanced to higher rates after showing good work. This approach relies on input from performance appraisals that measure merit.

Unlike piece rate and most other incentive plans (discussed later in this chapter), merit systems do not tie current pay to current performance. Instead, they motivate by linking future pay and position to current performance. They have strong effects on employees when (1) the performance appraisals on which raises are based are accepted as objective and fair, (2) differences between raises given for different levels of performance are large enough to be worth working for, and (3) employment is stable enough that people can actually look forward to a future with the business.

Failing any of these conditions, a merit system contributes little if anything to employees' motivation to perform. The temporal and psychological distance from effort exerted to a merit reward is much greater than that to an output-based paycheck. While some merit systems operate effectively, many become "demoralized" and resemble seniority plans, in which everybody in a job