

# **Compensating, Motivating and Managing Family Labor**

By Sarah L. Fogleman

Extension Agricultural Economist, SE

K-State Research and Extension

[www.agmanager.info](http://www.agmanager.info)

## **Introduction**

“Nobody beats up my kid brother but me.” It’s an old cliché, but a true one in many cases. Families are sacred, and while family members themselves may jump to criticize their relatives, this old adage only illustrates that families are frequently delicate entities. Perhaps the only balance more delicate is that of a family businesses. Most experts will say that when family businesses are managed well, they are amazing entities formed of a group of people with the same values, goals, and long-run business objectives. But in the instances where conflicts exist and aren’t managed, family businesses can turn tragic as the demise of the business relationship leads, all too frequently, to a destruction of the family.

In this paper, we will examine the structure of a successful family-based business and the methods and strategies owners, managers, and family members can utilize to maintain balance within a family workforce.

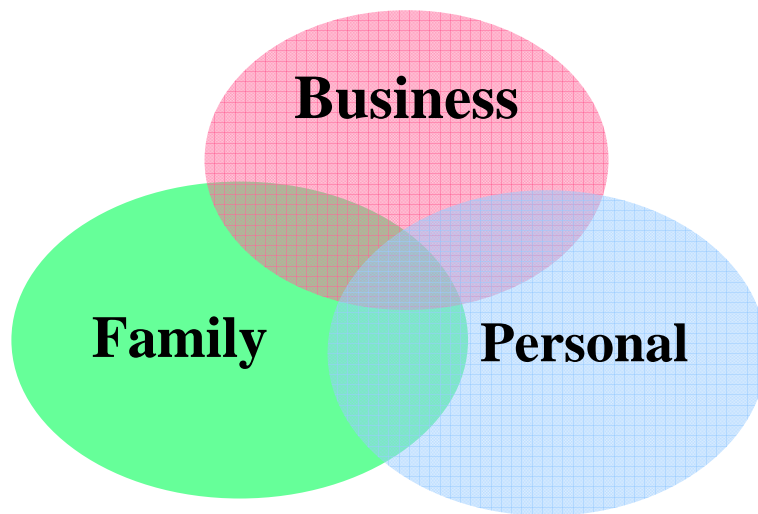
### *The roles present within a family business*

One of the major principles people within a family workforce should understand is that there are multiple roles these individuals must play. At minimum, there are three “hats” a person may have to wear from time to time. Consider the example of the farming operation in central Kansas where a son and daughter-in-law have joined Mom and Dad in the business.

Son assists Dad with the day-to-day management and labor of the farm and Mom is transitioning record-keeping responsibilities over to the son's wife. In this situation, each person in the operation has a family "job" (Husband, Father, Wife, Daughter-in Law, Mother-in-Law, Son, etc.). Each person also has a business title (record keeper, manager, operator, etc.). Both of these instances are fairly easily recognized and appreciated by people in production agriculture. Where things become less obvious is when considering that the family members may also have personal interests and responsibilities.

Mom may respect her new daughter-in-law as both a member of the family and a potential new business asset, but Mom may have no tolerance for her new daughter-in-law's interest in K-State women's

basketball and refuses to support her in her goal to attend a few games every year. Dad may love fishing, but Son is frustrated because that means Dad is "never around" when Son needs him, when, in truth, Dad only indulges in this hobby a few hours every week.



Personal interests are healthy, necessary aspects of life. For individuals working together and living together, it is important to maintain a sense of self. For family businesses to thrive, all three roles that family members play (personal, business, and family) must be recognized and appreciated by everyone within the operation. After all, if a person has a "regular" job where they do not work with the same people they spend major holidays with, that person is able to maintain both a business and a family persona. At the end of the day, they are able to go home and escape their boss, just as work offers them an escape from family. In most instances, the business does not "own" the individual, as is the case with many family operations where people are prevented from pursuing personal interests because they feel they cannot commit any time or resources to a cause that does not directly benefit the operation. In this and many other respects, it is important for family businesses to model their non-family counterparts.

### *Defining the three roles*

One of the most beneficial processes that family member-employees can go through is the process of writing job descriptions for each of their roles. This would mean each person would have a minimum of two job descriptions, one highlighting their responsibilities to the family and a second highlighting their role within the business. This process will help families in conflict to answer the question, “Who am I mad at?” In other words, is the conflict between co-workers or family members? This is one step of drawing the important boundaries around your relationships, hopefully insulating one area of life from the others. All too frequently, the troubles that arise within family-based workforces come from “bleeding” between the roles. Family conflicts that have lain dormant for years may come alive after a business-based disagreement. Those things usually cannot be helped, but having the roles themselves defined is one step toward understanding and managing the situation.

Job descriptions are not important because of the piece of paper. It’s the conversation that leads to the piece of paper that has real value. After all, you will never know if everyone within the business has the same understanding of their roles within the business until they are laid out in black and white.

A *job analysis* is the first step in writing a job description. It is the process of describing and recording aspects of the job. This step is absolutely crucial, as it details the work that is done through observations, interviews with other employees, recommendations of experts, and work diaries. The focus of the job analysis should be answering basic questions. For example: will this person have to read, drive, lift, see, talk, listen, weld, calculate, stand, instruct, etc.?

The analysis should yield the following:

- the physical and intellectual requirements the employee must meet
- a comprehensive list of tasks to be performed
- an organizational chart detailing where the position fits into the overall operation (or family).

The next step is to take the key tasks discovered in the job analysis and create a *job specification*—a list of the abilities, skills, knowledge, or licenses needed to do the job.

Job specifications might include items like a valid driver's license, the ability to drive a tractor, welding capability, and the ability to stand or sit for long periods of time.

Next, combine what you've learned and write your job descriptions. Don't worry about formatting and wording, doing so may prevent you from focusing on the overall message you are trying to convey. Remember, this is in many ways a communication exercise, an assignment if you will, where every family member-employee must outline his or her role in the operation.

Remember that job descriptions are always subject to change. It should evolve with the business, position, and family member. It can be as detailed or general, as need be, as long as it conveys the requirements an employee will have to meet to be successful in the position.

### *Why are you here?*

As we consider the roles in the family business, it's important to consider why individuals are in their roles. Many things can bring an employee and an employer together. As you examine your operation, think about each person and ask yourself the question, "Why are they here?"

In the instance of farm owners and founders, they are there because they are passionate about their business and their way of life. They have built something from the ground up and want to see that it continues to thrive. In the case of employees, they are there, ultimately, because they need income to support themselves and their families and for one reason or another, they have chosen to be a part of your operation. But take the compensation away, and they would likely have no choice but to go elsewhere.

For family employees, these reasons may be far more complex. Is Son working within the business because that is the family's expectation and he doesn't want to let someone down? Is Daughter there because she shares her parents' passion for the operation? Is Mom there, not because she loves a farm, but because she loves a farmer? Whatever the reasons for these people to be involved in the operation, it is important for managers to see things from the family members' perspectives and let this information help them to interpret the expectations, goals, and potential sources of conflicts that the individuals may face.

### *Compensating Family Members*

One of the areas that families tend to “gloss over” when establishing a business relationship between one or more family members is the area of compensation. It seems indelicate to ask mom or dad what your wage would be if, for example, you were a new K-State grad looking to return home to the family farm after graduation. But don’t make that mistake. The issue of compensation can be the first in a series of assumptions that can do permanent damage to your business and/or personal relationships with your family members.

According to Schuler, “Total compensation involves the assessment of employee contributions in order to distribute fairly and equitably both direct and indirect organizational rewards in exchange for these contributions.” In other words, compensation has evolved beyond just an hourly wage. It’s no longer a matter of answering the question, “how much do I have to pay?” Today, successful employers utilize both direct and indirect elements to meet the needs of their employees. This should apply to everyone within a business, family or not.

While many schools of thought exist on what constitutes a fair wage, there are no hard and fast rules. Research indicates that compensation is among the leading things potential employees consider when looking for employment. This may not hold completely true for family members, but it certainly is not irrelevant.

The first thing any employer, especially those compensating family members, should consider when developing compensation packages is fairness. It is crucial that businesses maintain internal and external equity. *Internal equity* refers to fairness between employees in the same business while *external equity* refers to relative wage fairness compared to wages with other farms or businesses. No matter the compensation level, if either internal or external equity is violated, a business will most likely experience employee dissatisfaction and employees will begin to balance their performance through a variety of ways ranging from decreased productivity to absenteeism and eventually to leaving the business (Billikopf).

This pertains equally to employees who are members of the family and those who are not. It’s important to note that even though a family member/employee never complains that he or she isn’t compensated in the same way as the non-family employees, that doesn’t mean it isn’t a problem. Employers need to be employers first, whether they are dealing with family members or not. Remember the three roles within a family business and strive constantly to keep them separate

when possible. That responsibility is perhaps never as important as it is when discussing compensation.

What about family members who don't work for the business? Let's take the example of a Kansas farm family where Mom and Dad have three kids, Adam who lives and works in Kansas City, Beverly who lives ten miles away from the home farm and still helps out during busy times like harvest, and Clint who is employed full-time by the farm. There are many operations around Kansas that are in a very similar situation. The major threat this operation faces is that Clint may not be paid a competitive wage and yet he works on the farm for many years under the promise of inheriting the operation when Mom and Dad pass away or retire. This is fine, except that Mom and Dad love their three children equally and so they want to divide their estate three equal ways. Unless Mom and Dad also have a wealth of non-farm assets, that probably means that Clint has been working hard for several years to inherit what he would have received whether he worked there or not.

The problem with this scenario is that it isn't fair to Clint to take away the operation he'd been promised, and it isn't fair to Adam and Beverly to leave them out of their parent's will. The simplest solution to this problem is to pay Clint a fair and competitive wage all along. Perhaps he can even begin to buy into the farm or transfer equity to his name early on to ease the transition process and to make more cash available for Adam and Beverly for their share of their parents' estate.

### **Compensation Package Values in Kansas**

Perhaps the most common labor-related question asked of extension professionals is in regard to employee compensation. Unfortunately, "What should I pay my employee?" is not easily answered. There are dozens of factors to consider and they will vary with every situation. But the fact that the question is not easily answered does not mean that it does not address an important issue. To help producers make more informed decisions in regards to employee compensation, the Kansas Farm Management Association conducted a survey of its membership during the fall of 2001. In this survey, participating operations provided detailed information about employee characteristics and compensation, including cash wages and complete benefit information.

### *Employee Competency*

To help respondents and researchers better understand the variation seen in agricultural workforces, farm owners and managers were asked to provide information on employee competency when filling out the survey. As a result, survey respondents were asked to classify each employee reported on this study into one of the following five competency levels:

**Level 1:** Employees who are either new to the farm or have no advanced skills. They are, for example, individuals who are assigned their tasks by another person and who then perform miscellaneous jobs that require no previous training or experience.

**Level 2:** Specialized individuals who perform anywhere from one to many tasks that require training. Although these employees may make decisions such as the order in which to perform certain tasks, they do not have the authority to make decisions relating to their job responsibilities, area of production, or coworkers. As a result, a Level 2 employee has no supervisory authority.

**Level 3:** Employees who are highly skilled in at least one specified area. These employees may make decisions related to their areas of expertise and may administer those decisions through other employees, therefore giving a Level 3 employee some supervisory capacity. However, this person's decision-making authority does not extend into other areas of the operation.

**Level 4:** Because of his or her exceptional skill level, this person is in a position to make decisions that impact entire areas of the operation. Many employees may have to carry out those decisions, giving this person a potentially large supervisory authority.

**Level 5:** Level 5 employees are the most skilled and qualified full-time employees with a farm. They have complete supervisory authority and the most decision-making authority given to any full-time employee.

Another important distinction was made in regard to the various workloads that individual employees may carry. Some farm workers are certainly full-time but the seasonality of agriculture lends itself to a reliance on part-time and seasonal workers that are available during busy times. For reporting purposes, the number of hours an employee works and the number of months he or she is employed dictated that every employee included in the survey was classified into one of the following categories:

**Full-Time:** Any employee working more than 1,800 hours in one year for a given business

**Part-Time:** Any employee employed twelve months per year who works fewer than 35 hours per week

**Seasonal:** Any person employed fewer than twelve months per year for a given business

#### *Survey Participant Information*

Overall, information was submitted for 446 employees, with the majority of those individuals classified in Levels 2 and 3. While, overall 13% of participating employees owned all or part of the business, that number rose to 63% of employees in Level 5. The same is true when considering the percentage of employees related to the owners, with 34% of the overall group holding that distinction as compared to 79% of Level 5 employees.

The sample was predominantly male, 87%, with 12 years of formal education and 15 years of experience in the agricultural industry. Overall, employees have been with their current businesses an average of 8.6 years but that number is dramatically different for employees in Level 5 where the average employee has spent over 21 years with his/her current employer.

Fifteen percent of employees received sick leave, from 3% of Level 1 employees to 28% of employees in Level 5. The same trend holds for vacation time but it is a more common benefit, with 39 percent of respondents receiving that particular benefit.

#### *Employee Compensation Results*

Table 1 outlines the compensation packages found during the 2001 Kansas Farm Management Association survey. Compensation packages can be broken down into their individual elements (annual cash wages, hourly cash wages, benefit values and prevalence) or considered as a

whole (total compensation and hourly total compensation.) As you look through the following tables you will likely notice some interesting trends.

**Compensation across levels**—As seen in the following tables, compensation and wage rates tended to trend upward across the competency levels. Unsurprisingly, as competency increased, so did compensation. But that typically did not hold true in regard to employees in Level 5, where compensation typically dropped off below that of employees in Level 4. This is something which researchers were not expecting and, as a result, have formed a couple of theories.

Employees in Level 5 were more likely to be business owners and/or related to the owners. The results seen here could be explained by the tendency for owners or family members to take less in compensation and more in business equity.

The average Level 5 employee has been with his/her current employer over 21 years, as compared to just under 9 years for average employee in Level 4. This information means that Level 5 employees are under less market pressure than their counterparts in Level 4. In other words, Level 5 employees are probably very situated in their jobs and do not frequently negotiate raises.

**Hourly wage vs. hourly wage equivalent**—The average hourly wage represents the average amount paid to employees who are paid on a per hour basis. However, the hourly wage equivalent is a figure that is calculated to represent the amount that a salaried employee is paid for an hour of his/her time. The trends present throughout the compensation results show that, for the lower competency levels, employees paid an annual salary receive more per hour of work than their coworkers who are paid an hourly wage. But as competency increases, typically so does the number of hours worked per week, resulting in the higher level salaried employees actually receiving less per hour worked than the employee paid an hourly wage.

**Prevalence of benefits**—Cash compensation, rather through hourly wages or annual salaries, are certainly the backbone of most compensation packages. But as seen in the following tables, benefits are very prevalent, particularly with full-time employees who receive, on average \$5,537 in non-cash compensation per year. The most common benefit was farm products, followed by health insurance and bonuses. While housing was not the most common benefit, it was, on average the

most costly, valued typically at just over \$4,000 per year. Profit sharing was the least common benefit, received by 2% of all employees and 4% of full-time employees.

Table 1.

<b>Full-Time Employees (&gt;1800 hours/year)</b>						
	All	Employee Competency Level				
		1	2	3	4	5
Count <sup>1</sup>	245	22	60	64	42	54
Employees paid an annual salary, #	130	4 <sup>3</sup>	22	35	28	40
Employees paid an hourly wage, #	114	18	38	29	13	14
<b>Compensation and Wages</b>						
Total compensation, \$	28,188	20,871	25,008	29,016	33,060	30,139
Hourly compensation, \$	10.13	8.07	9.10	10.77	11.73	10.21
<b>Compensation and Wages (continued)</b>						
Total cash wage (hourly & salaried)	22,651	18,415	20,462	23,527	27,155	22,351
Annual cash wage (salaried)	23,126		18,963	23,176	27,229	22,710
Hourly wage (\$paid/hour)	8.36	7.01	7.94	8.88	10.63	7.94
Hourly wage equivalent (salaried)	8.08		6.78	8.65	9.27	7.52
<b>Benefits<sup>2</sup></b>						
Health insurance, \$	3,676		3,118	3,382	3,987	4,281
Receive health insurance, %	38	18	25	41	45	54
<b>Housing</b>						
Housing, \$	4,036	4,300	3,914	3,552	5,520	4,060
Receive housing, %	35	27	45	42	24	26
<b>Utilities</b>						
Utilities, \$	1,828		1,724	2,047	1,925	1,770
Receive utilities, %	37	18	38	38	38	43
<b>Farm products</b>						
Farm products, \$	934	392	472	832	1,569	1,266
Receive farm products, %	56	55	60	48	67	52
<b>Personal use of vehicles</b>						
Personal use of vehicles, \$	1,160		1,132	1,113	1,171	1,275
Receive use of vehicles, %	21	14	25	23	17	22
<b>Use of equipment</b>						
Use of equipment, \$	2,011		357	1,692	3,400	3,714
Receive use of equipment, %	16	0	20	19	14	17
<b>Retirement program contribution</b>						
Retirement program contribution, \$	1,538		675	972	1,900	2,935
Receive retirement contribution, %	11	1	8	14	12	11
<b>Profit sharing</b>						
Profit sharing, \$	3,767					
Receive profit sharing, %	4	0	5	3	0	7
<b>Bonuses</b>						
Bonuses, \$	730	360	968	681	1,014	481
Receive bonuses, %	38	55	45	45	26	24
<b>Average hours worked per week</b>						
Average hours worked per week	53	49	52	52	54	57

<sup>1</sup> Competency information was not provided for three of the full-time employees included in the study.

<sup>2</sup> Benefit values are included in the average only when an employee receives that benefit.

<sup>3</sup> Due to confidentiality concerns, results are not reported when responses < 5.

## **Tips for Successfully Managing a Family Workforce**

### 1. Become better communicators.

There are several keys to communication in a workplace. The first is to remove any barriers to communication. An obvious example of this is the manager who tries to give an employee instructions while talking on a cellular phone with a bad connection. The employee hears about half of what the manager says because static is a barrier to communication. This is an obvious, physical, impediment to clear communication. But other barriers may not be so easy to diagnose. Bad blood between employees or family members can cause one to skew what the other is saying. In family workforces, this is a very real threat because people tend to have very long memories and old wounds can come open when conflicts arise. Misconceptions can also hinder communication, especially if all parties assume everyone is on the same page when they are not.

An important key of particular importance when communicating is for all parties to maintain their composure at all times. Miscommunication can often be compounded when tempers flare out of control. When explaining processes or information, try saying it in several different ways, not just louder and slower. Remember, communication success is the responsibility of both the sender and the receiver. Maintaining composure can ensure that the message doesn't get lost in the translation.

In modern agriculture there is certainly a heightened awareness of the importance of working with people with different native languages. Believe it or not, this can be especially challenging in family workforces, particularly when new people are brought in. After all, families have their own short-hand cues and inside jokes that can make it very difficult for outsiders to get along. If a person is new to your family or your business it will take him/her some time to learn your family's language.

What is the hardest part about communication? Remembering to do it. Marriages fail, employees leave, friends grow apart all because people forget to communicate. The number one key to communication is just doing it, even if that means doing it badly. If there is something someone needs to know, tell them, show them, help them to understand. People aren't mind readers. They may be busy and they may be stressed but they will usually stop what they are doing to learn, to share, and to communicate when given the opportunity.

## 2. Provide training

In family workforces many things can be taken for granted. Training is frequently something that is overlooked both for new family members coming into the operation and existing employees who may need the opportunity to expand their current skill sets. By utilizing a formal and informal training process, this helps to formalize the employer/employee relationship and strengthen the relationship boundaries. In other words, the more professional the business practices, the less likely it will be the business conflicts will interrupt family life.

Of course, training is a time-consuming and frequently frustrating process. It takes one full production cycle for an employee to see everything that is commonplace within the operation and one full year for him/her to experience the seasonal differences that are common within agriculture. After all, the situations an employee encounters during the month of July may be very different than those he/she will see in February. Even in instances where the people being trained have grown up within the context of the business, training is an important step in ensuring the employees will have the skills and abilities necessary to thrive within their new roles.

The most important part of training is not the process itself, but rather, the communication between managers, existing employees, and newer members of the team as to what is going on and what can be expected, especially during stressful periods. New employees will need and want to be in the loop, if only to understand what is happening and how it will affect them.

## 3. Have a system for feedback and evaluation

Research has shown that feedback is the element of employee satisfaction that some employees struggle with the most. And in family workforces, feedback may be even less likely to happen, because family members are more likely to take things for granted. It is impossible to talk about the keys to business communication without discussing feedback and evaluation. Having a formal system for feedback, meaning a designated time when managers and employees sit across from one another and discuss performance, will ensure that this happens. Of course, informal feedback, meaning that performance is discussed casually whenever the opportunity arises, is vital to business success but, unfortunately, those opportunities are frequently missed when operations are short-staffed or managers have other, more pressing, issues to deal with.

What is the magic formula for feedback and evaluation? There really is none. It depends upon the personalities and philosophies of the manager, the employee, and the business itself. But no matter what that formula looks like, it should probably include both formal and informal elements. Like most aspects of communication, the hardest part about feedback and evaluation is simply doing it. It may be awkward. It could sometimes be tense. But it is vital if you intend to have a satisfied and self-sufficient workforce.

## **Conclusion**

A family-based workforce can be a very valuable business asset. However, with complicated relationships come complicated problems. The informality of many modern farming operations frequently leads to miscommunication and unreal expectations. To help stem some of these challenges, managers should strive to define business and family roles and help to build an appreciation of these roles within the workforce. Competitive compensation is just one element of human resource management that should be utilized within the family workforce to ensure equity for all family members, whether they are involved in the operation or not. In addition, formal business practices such as job descriptions, employee training and performance evaluation can help to improve the job performance of the business employees as well maintain a border of professionalism to help insulate the family relationship from business conflicts.

In conclusion, people should understand that family workforces require open communication and the ability to walk a fine line. It simply isn't for everyone. People come to businesses with different objectives in mind and understand that, when conflicts arise, those objectives will ultimately direct a person's reactions. In some cases, family relationships can only be saved by severing professional ties. There is no shame in that, understanding when family members should or should not have professional relationships is vital to doing what is ultimately right for both your family and your business.

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