



# KANSAS FARM MANAGEMENT ASSOCIATION

Your Farm - Your Information - Your Decision

## N E W S L E T T E R

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### COMPENSATION AND BENEFITS FOR FULL-TIME EMPLOYEES

This article summarizes compensation and benefits for full-time employees on KFMA farms using survey information from surveys completed in 2001 and 2008. In these surveys, farm managers across the state were asked detailed questions about employee tenure, demographic information, wages, and benefits. Included were seasonal, part-time, and full-time employees. This article focuses on full-time employees. A full-time employee was defined as any employee working more than 1,800 hours in one year for a given business. There were 241 full-time employees represented in the 2001 survey and 204 full-time employees represented in the 2008 survey. Further information pertaining to seasonal and part-time employees will be summarized on AgManager at a later date.

To meet the labor demands of farms, employees with different skills, experience, and leadership ability are needed. Competency levels vary significantly among farm employees. Farm managers were asked in the surveys to rate each of their employees by competency level. By rating each employee, the degree of change among skill sets can be examined. Five competency levels were used. Level 1 employees were either relatively new to the farm or had no advanced skills. Level 2 employees were specialized individuals who perform anywhere from one to many tasks

which require training. Although these employees may make personal 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 emphasis, or coworkers. As a result, they have no supervisory authority. Level 3 employees are very skilled in at least one specified area. These employees may make decisions related to their area of expertise and may administer those decisions through other employees; therefore these employees have some supervisory capacity. However, their decision-making authority does not extend into other areas of the operation. Level 4 employees have exceptional skill levels and are in a position to make decisions impacting the entire operation. Many employees may have to carry out those decisions, giving this employee a potentially large supervisory authority. Level 5 employees are the most skilled and qualified full-time employees within a farm. They have complete supervisory authority and the most decision-making authority given to any farm employee.

Table 1 summarizes compensation and benefits for full-time employees in 2001 and 2008.

Total compensation includes cash wages as well as cash and non-cash benefits. The percentage of full-time employees that owned part of the business in 2008 was substantially higher than the percentage in 2001. In contrast, the percentage of employees related to the owner declined. The average years in the business and years in industry was 12.2 and 18.6, respectively, in 2008. Full-time employees received a total compensation of \$28,332 in 2001 and \$36,099 in 2008. Total cash wage

*Also in this newsletter:*

- Labor Efficiency and Productivity Benchmarks Pg 5
- Recommendations for Further Reading Pg 8

was \$22,698 in 2001 compared to \$28,669 in 2008. Average hours worked per week was 53 in 2001 and 50 in 2008. To reflect the different number of hours worked between survey years, compensation and wages are also presented in hourly terms in Table 1. Hourly compensation and hourly wage were \$14.06 and \$11.10, respectively, in 2008 or 37.71% and 32.78% higher than hourly compensation and hourly wage in 2001. The three most common types of benefits were farm products, bonuses, and health insurance in 2001 and farm products, use of equipment, and health insurance in 2008.

Table 2 summarizes compensation and benefits for full-time employees by competency level in 2008. As competency level increases; the percentage of employees that own part of the business, the percentage of employees that are related to the owner, average age, years with business, years in industry, compensation, and wage increase. Hourly compensation ranged

from \$10.47 for Level 1 employees to \$16.69 for Level 5 employees. Benefits increase substantially as the competency level increases. Benefits for Level 1 employees averaged \$1,901 while benefits for Level 5 employees averaged \$12,683. The three most common forms of benefits for lower competency level employees were farm products, housing, and bonuses. For higher competency level employees, health insurance, use of equipment, and farm products were commonly used as benefits.

As indicated earlier, this article focused on full-time farm employees. Further information pertaining to seasonal and part-time employees will be summarized on AgManager at a later date.

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**Table 1. Compensation and Benefits for Full-Time Employees, 2001 and 2008.**

Variable	2001	2008	2008/2001
Number of Employees	241	204	84.65%
Own Part of Business	17%	57%	335.29%
Percent Related to Owner	33%	23%	69.70%
Average Age	38.2	40.6	106.28%
Years with Business	9.1	12.2	134.07%
Years in Industry	16.1	18.6	115.53%
Average Hours Worked per Week	53	50	94.34%
Total Compensation	\$28,332	\$36,099	127.41%
Hourly Compensation	\$10.21	\$14.06	137.71%
Total Cash Wage	\$22,698	\$28,669	126.31%
Hourly Wage	\$8.36	\$11.10	132.78%
Total Benefits	\$5,634	\$7,430	131.88%
Percentage Receiving Bonuses	37%	25%	67.57%
Percentage Receiving Farm Products	55%	36%	65.45%
Percentage Receiving Health Insurance	37%	35%	94.59%
Percentage Receiving Housing	34%	27%	79.41%
Percentage Receiving Retirement Contributions	11%	20%	181.82%
Percentage Receiving Use of Equipment	16%	35%	218.75%
Percentage Receiving Use of Vehicles	22%	19%	86.36%
Percentage Receiving Utilities	36%	21%	58.33%

Source: Labor Surveys of KFMA Members, 2001 and 2008.

**Table 2. Compensation and Benefits for Full-Time Employees by Competency Level, 2008.**

Variable	1	2	3	4	5
Number of Employees	31	41	45	18	66
Own Part of Business	3%	0%	7%	11%	67%
Percent Related to Owner	10%	12%	22%	50%	86%
Average Age	37.6	32.6	40.4	42.8	46.5
Years with Business	4.4	5.4	9.4	11.5	23.0
Years in Industry	5.4	10.4	18.6	21.2	28.4
Average Hours Worked per Week	45	47	51	54	52
Total Compensation	\$24,495	\$28,572	\$36,924	\$40,974	\$44,372
Hourly Compensation	\$10.47	\$11.88	\$14.23	\$14.93	\$16.69
Total Cash Wage	\$22,594	\$25,663	\$29,512	\$32,280	\$31,689
Hourly Wage	\$9.90	\$11.32	\$11.36	\$11.41	\$12.59
Total Benefits	\$1,901	\$2,909	\$7,412	\$8,694	\$12,683
Percentage Receiving Bonuses	0%	32%	49%	0%	15%
Percentage Receiving Farm Products	23%	37%	44%	39%	33%
Percentage Receiving Health Insurance	0%	22%	33%	39%	52%
Percentage Receiving Housing	23%	27%	31%	0%	32%
Percentage Receiving Retirement Contributions	0%	0%	31%	0%	23%
Percentage Receiving Use of Equipment	0%	22%	33%	39%	52%
Percentage Receiving Use of Vehicles	0%	12%	22%	0%	26%
Percentage Receiving Utilities	0%	0%	27%	0%	33%

Source: Labor Surveys of KFMA Members, 2001 and 2008.

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## LABOR EFFICIENCY AND PRODUCTIVITY BENCHMARKS

This article examines labor efficiency and productivity benchmarks using data for KFMA farms with continuous data from 2004 to 2008. Labor efficiency is measured by dividing total labor cost (unpaid family and operator labor cost plus hired labor cost) by value of farm production. Labor productivity is measured by dividing value of farm production by the number of workers which includes hired labor as well as family and operator labor.

Table 1 contains summary statistics for hired labor cost, unpaid family and operator labor cost, value of farm production, the number of workers, labor efficiency, and labor productivity for the 1,062 farms with continuous data from 2004 to 2008, and for the top and bottom operating profit margin quartiles. Operating profit margin quartiles were determined using five-year average data. Farms with lower labor efficiency indices and higher labor productivity values are doing a better job of managing their labor.

Labor efficiency averaged 0.171 for all farms, 0.134 for the top profit margin quartile, and 0.315 for the bottom profit margin quartile. Figure 1 provides a graphical depiction of individual labor efficiency indices for farms in the top and bottom profit margin quartiles. The green triangles represent individual top profit margin farms while the red circles represent individual bottom profit margin farms. Almost all of the top profit margin farms are below an index of 0.250 while it is typical for the bottom profit margin farms to be above this index value. Note that the labor efficiency index is significant and negatively correlated with farm

size. This means that there is a tendency for relatively larger farms to have lower labor efficiency indices.

Labor productivity averaged \$238,298 for all farms, \$330,957 for the top profit margin quartile, and \$120,450 for the bottom profit margin quartile. Figure 2 provides graphical depiction of labor productivity for farms in the top and bottom profit margin quartiles. The green triangles represent individual top profit margin farms while the red circles represent individual bottom profit margin farms. Almost all of the top profit margin farms have a labor productivity value above \$200,000 while it is typical for the bottom profit margin farms to have a labor productivity value below this value. Note that there were several farms with labor productivity values above \$750,000 which was more than triple the average labor productivity value. Also, note that labor productivity is significant and positively correlated with farm size. This means that there is a tendency for relatively larger farms to have higher labor productivity values.

Labor efficiency and productivity vary by farm size and farm type. For example, it is important to note that the farms in the top profit margin quartile in Table 1 were relatively larger than average and the farms in the bottom profit margin quartile. Future newsletter articles will provide further labor efficiency and productivity benchmark information by farm size and type.

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**Table 1. Labor Efficiency and Productivity Benchmarks.**

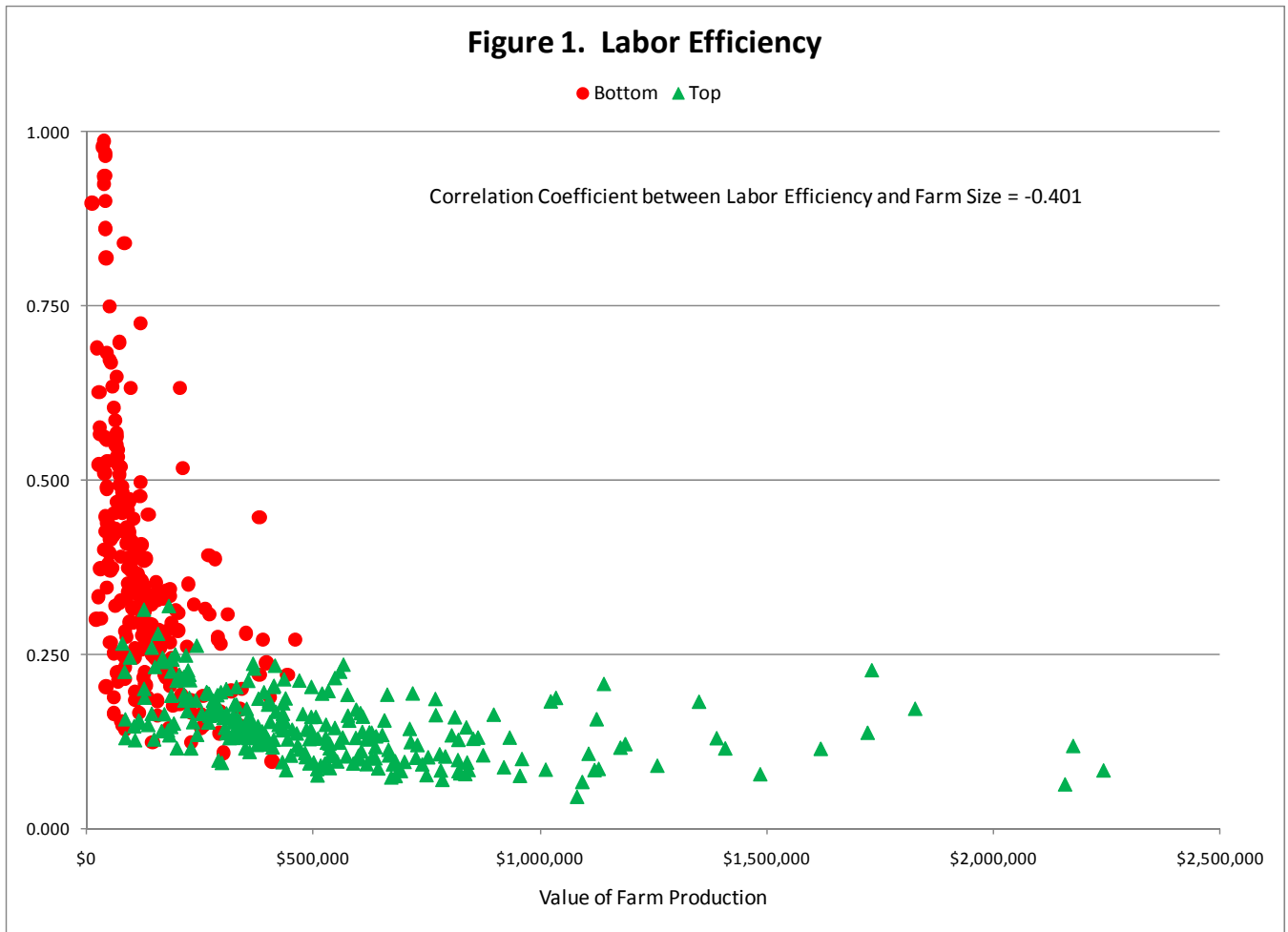

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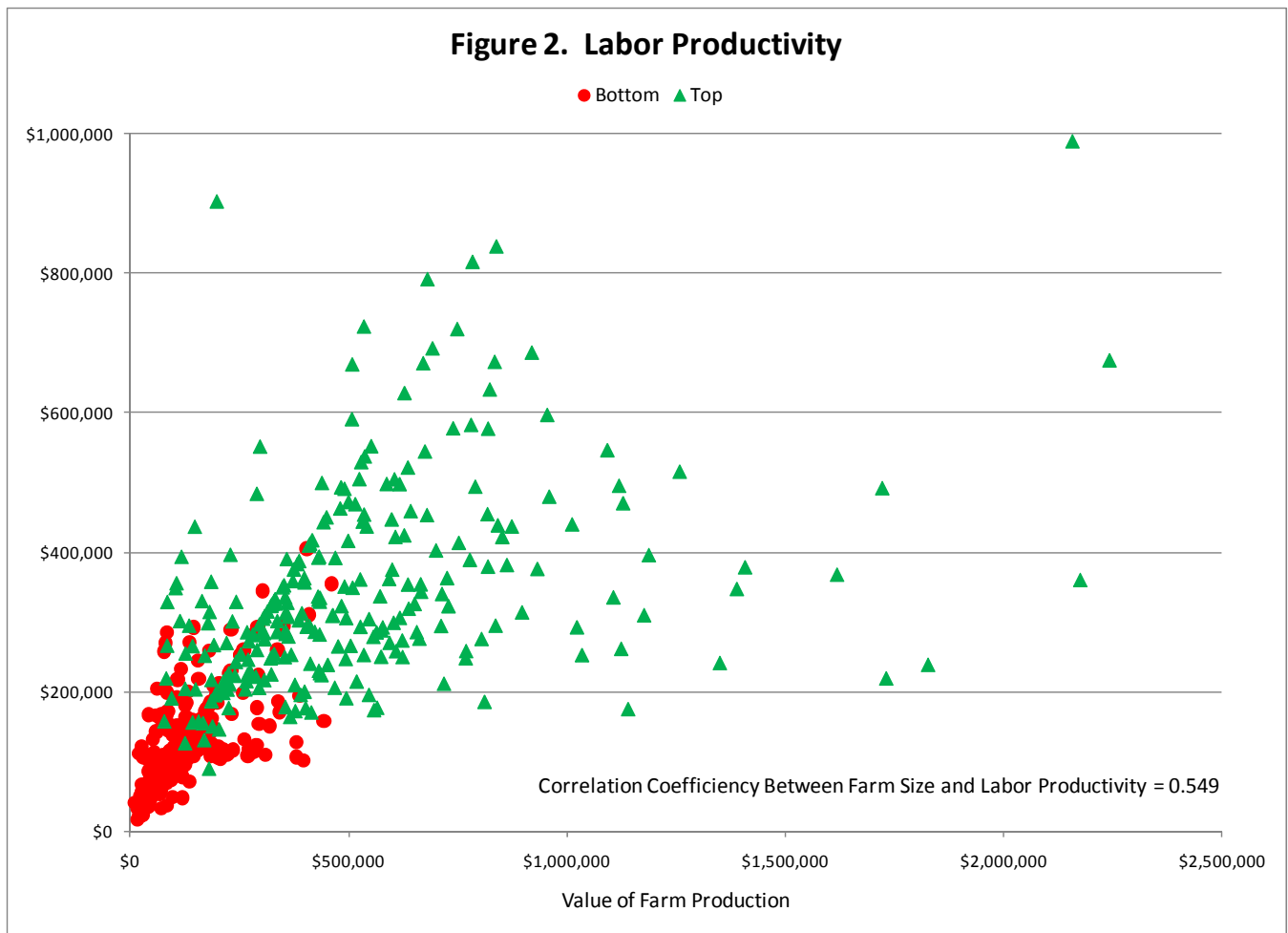
Variable	Average	Top	Bottom
<u>Labor Efficiency</u>			
Hired Labor	\$13,489	\$15,032	\$5,196
Unpaid Family and Operator Labor	\$47,370	\$55,993	\$35,270
Value of Farm Production	\$355,001	\$528,932	\$128,531
Labor Efficiency	0.171	0.134	0.315
<u>Labor Productivity</u>			
Value of Farm Production	\$355,001	\$528,932	\$128,531
Number of Workers	1.49	1.60	1.07
Value of Farm Production per Worker	\$238,298	\$330,957	\$120,450

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Source: KFMA Databank, 2004-2008.

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## RECOMMENDATIONS FOR FURTHER READING

The purpose of this section of the newsletter is to briefly discuss articles and web sites that may be of interest to readers. In general, the articles discussed will not report on original research. Rather, the articles will contain citations to web sites and articles that discuss topics of general interest.

A recent USDA-ERS publication written by Harris et al. discusses the debt finance landscape for U.S. farms. The article notes that debt levels in the U.S. have been increasing in recent years. However, these increases have been outpaced by increases in asset values. As a result, farm equity has increased. Despite these increases in equity, recent declines in farm income and falling land prices in many parts of the country,

have increased concerns regarding the financial position of farms. The article also notes that farm debt has become more concentrated in fewer, larger farm businesses. Given recent trends in farm debt and income, and possible increases in interest rates, it is important for farms to monitor liquidity and repayment capacity ratios. The USDA-ERS article is posted on my contributor site under “Recommendations for Further Reading”.

A recent book by Johnny Taylor, Jr. and Gary Stern entitled “The Trouble with HR: An Insider’s Guide to Finding and Keeping the Best Talent” does a good job of discussing how to select, train, and retain employees. In Chapter 1, the authors discuss ten major hiring mistakes

and what to do about them. Some of the mistakes are self-explanatory so I will briefly discuss only some of the ten major hiring mistakes below. Mistake #1 is that management thinks it is control. Given current demographic trends, the best and brightest workers are in high demand. Thus, it is important for managers to sell their position to employees. Mistake #2 is making a hiring decision based exclusively on a resume and references. The author notes that most resumes and references obfuscate more than they reveal. Thus, it is important to determine the employee's core skills and whether the employee fits into the firm's culture. Mistake #3 is focusing on the short-term only. Even though vacancies often need to be filled quickly, it is important to hire with the long-term in mind. Mistake #4 is ignoring the cultural fit. Mistake #5 is not knowing your competition. Mistake #6 is asking softball questions during the interview process. It is important to determine how an employee will react to real-life situations, thus role playing is often useful. Mistake #7 is treating all job applicants as your mirror image. Mistake #8 is ignoring key motivators. Hiring an employee with the right skill set is not enough. It is important to determine what will keep an employee. Mistake #9 is that managers take control of hiring on their own. Mistake #10 is hiring for replacements only. Just hiring when someone leaves often leads to problems. It is important to develop a strategy for hiring good employees.

This is particularly important if you have numerous employees or you are expecting to expand in the near term.

In a couple of recent articles, Karen Dynan at the Brookings Institution has discussed the outlook for consumer spending and broader economic recovery. She indicates that, unlike economic growth in recent downturns, most economists are not expecting a rapid snapback in economic activity. She notes that forecasters are expecting the economy to expand approximately 2.75 percent during the first year of recovery which started last quarter. In contrast, in previous business cycles, real GDP averaged 5 percent growth over the first four quarters after the trough. The most important implication of the expected slow recovery is that the economy is unlikely to see full employment for many years. The articles by Karen Dynan can be found on my contributor site under "Recommendations for Further Reading".

In addition to providing information on individual stocks, mortgage rates, and exchange rates; the Yahoo Finance web site provides stories on the economy, investing, and personal finance. The Yahoo Finance web site can be accessed using the following link: [www.finance.yahoo.com](http://www.finance.yahoo.com).

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The Kansas Farm Management Association (KFMA) Newsletter is distributed monthly to provide farm management information to farm decision makers. Further farm management information can be found on the KFMA program website: [www.agmanager.info/kfma](http://www.agmanager.info/kfma); and, on the Extension Agricultural Economics website: [www.agmanager.info](http://www.agmanager.info). The Newsletter is edited by Michael Langemeier, Professor, Department of Agricultural Economics, Kansas State University.



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