Wages and Salary Administration
Index

I. Content ................................................................. II

II. List of Tables ............................................................. VI

III. Abbreviations ......................................................... VII

IV. Case Study ............................................................... 91

V. Bibliography ............................................................. 94

VI. Self Assessment Answers ........................................ 97

Book at a Glance
# Contents

## Chapter I

**Role of Compensation and Rewards in an Organisation**

- **Aim** .......................................................... 1
- **Objectives** .................................................. 1
- **Learning outcome** ......................................... 1
- **1.1 Compensation: The Concept** ..................... 2
- **1.2 Indirect Compensation** ............................ 2
- **1.3 Role of Compensation** ............................ 3
- **1.4 Compensation Structure** .......................... 4
- **1.5 The Compensation Programme: Functions and Responsibilities** ...... 4
- **1.6 Corporate Compensation Policy** ................ 6
  - **1.6.1 Corporate Compensation Policy and Community Concerns** .......... 6
  - **1.6.2 Strategy of Wage Increases** .................... 6
  - **1.6.3 Rationality and Hygiene Factors** ............... 7
  - **1.6.4 Internal Equity** ..................................... 7
  - **1.6.5 External Equity** .................................... 7
  - **1.6.6 Payroll Analysis and Policy Correctives** ....... 7
  - **1.6.7 Wage and Salary Administration Function** ...... 7
  - **1.6.8 Corporate Compensation Structure** .......... 7
  - **1.6.9 Managerial Compensation** .................... 8
- **1.7 Wages and Incomes Policy** ........................ 8
- **1.8 Issues and Current Trends** ........................ 9
  - **1.8.1 Broad-banding** .................................... 9
  - **1.8.2 Pay for Knowledge, Skill and Competency** .... 9
  - **1.8.3 Team Pay Plans** ................................... 9
  - **1.8.4 Documentation and Communication** .......... 9
  - **1.8.5 Coping with Change** ............................ 9
  - **1.8.6 International Compensation** ................. 10
- **Summary** .................................................. 11
- **References** ............................................... 11
- **Recommended Reading** .................................. 11
- **Self Assessment** .......................................... 12

## Chapter II

**Wages and Wage Theories**

- **Aim** .......................................................... 14
- **Objectives** .................................................. 14
- **Learning outcome** ......................................... 14
- **2.1 Introduction** .......................................... 15
- **2.2 Select Wage Theories** ............................. 15
  - **2.2.1 Subsistence Theory** ............................. 15
  - **2.2.2 The Surplus Value Theory** .................... 15
  - **2.2.3 The Wages Fund Theory** ..................... 16
  - **2.2.4 The Marginal Productivity Theory** .......... 16
  - **2.2.5 The Bargaining Theory** ....................... 17
  - **2.2.6 Purchasing Power Theory** ..................... 17
  - **2.2.7 Comparative Advantage Theory** ............ 17
- **2.3 Behavioural Theories and Relevant Issues** ...... 18
  - **2.3.1 Content Theories** ............................... 18
  - **2.3.2 Process Theories** ............................... 19
  - **2.3.3 Equity and Attribution Theories** .......... 19

II
Chapter III

Framework of Compensation Policy ................................................................. 25

Aim .................................................................................................................. 25
Objectives ....................................................................................................... 25
Learning outcome .......................................................................................... 25

3.1 Introduction ............................................................................................... 26
3.2 Macro Policy Framework: Key Considerations Public Policy at Macro Level ................. 26
3.3 Macro Policy Considerations: Company Compensation Policy ........................................ 28
  3.3.1 Attraction and Retention ........................................................................ 28
  3.3.2 Internal Consistency ............................................................................... 28
  3.3.3 External Consistency ............................................................................... 29
  3.3.4 Ability to Pay ........................................................................................ 29
  3.3.5 Pay and Performance ............................................................................ 29
  3.3.6 Labour Costs and Productivity ............................................................... 29
  3.3.7 Cost of Living ......................................................................................... 30
  3.3.8 Merit and Seniority Progression ............................................................. 30
  3.3.9 Motivation ............................................................................................. 30

3.4 Divergent Perspectives of Management and Labour ............................................. 30

Summary ......................................................................................................... 32
References ....................................................................................................... 32
Recommended Reading .................................................................................. 32
Self Assessment .............................................................................................. 33

Chapter IV

Wage Concepts and Definition of Wages under Various Labour Legislations .................. 35

Aim .................................................................................................................. 35
Objectives ....................................................................................................... 35
Learning outcome .......................................................................................... 35

4.1 Wage Concepts .......................................................................................... 36
  4.1.1 The Statutory Minimum Wage ............................................................... 36
  4.1.2 The Bare Subsistence or Minimum Wage and Salary Administration ......... 36
  4.1.3 The Concept of the Living Wage ............................................................ 36
  4.1.4 The Concept of Fair Wage .................................................................... 37
  4.1.5 Minimum Wage .................................................................................... 37
  4.1.6 Need-based Minimum Wage ................................................................. 38

4.2 Definition of Wages under Various Labour Legislation ........................................... 39
  4.2.1 The Payment of Wages Act 1936 ........................................................... 39
  4.2.2 The Minimum Wages Act, 1948 ............................................................ 39
  4.2.3 Payment of Bonus Act, 1965 ................................................................. 40
  4.2.4 Payment of Gratuity Act, 1972 ............................................................... 40
  4.2.5 Employees State Insurance Act, 1948 ................................................... 40
  4.2.6 The Employees’ Provident Fund and Miscellaneous Provisions Act, 1952 ... 41
  4.2.7 Equal Remuneration Act, 1976 ............................................................. 41
  4.2.8 Workmen’s Compensation Act, 1923 .................................................... 41
  4.2.9 Industrial Disputes Act, 1947 ................................................................. 41

Summary ......................................................................................................... 42
References ....................................................................................................... 42
Recommended Reading .................................................................................. 42
Self Assessment .............................................................................................. 43
### Chapter V

**Law Relating to Payment of Wages and Bonus**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law Relating to Payment of Wages and Bonus</td>
<td>45</td>
</tr>
<tr>
<td>Aim</td>
<td>45</td>
</tr>
<tr>
<td>Objectives</td>
<td>45</td>
</tr>
<tr>
<td>Learning outcome</td>
<td>45</td>
</tr>
<tr>
<td>5.1 Introduction</td>
<td>45</td>
</tr>
<tr>
<td>5.2 Payment of Wages Act, 1936</td>
<td>46</td>
</tr>
<tr>
<td>5.3 Bonus</td>
<td>46</td>
</tr>
<tr>
<td>5.4 The Payment of Bonus Act, 1965</td>
<td>53</td>
</tr>
<tr>
<td><strong>Summary</strong></td>
<td>53</td>
</tr>
<tr>
<td><strong>References</strong></td>
<td>58</td>
</tr>
<tr>
<td><strong>Recommended Reading</strong></td>
<td>58</td>
</tr>
<tr>
<td><strong>Self Assessment</strong></td>
<td>59</td>
</tr>
</tbody>
</table>

### Chapter VI

**Regulation of Minimum Wages and Equal Remuneration**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulation of Minimum Wages and Equal Remuneration</td>
<td>61</td>
</tr>
<tr>
<td>Aim</td>
<td>61</td>
</tr>
<tr>
<td>Objectives</td>
<td>61</td>
</tr>
<tr>
<td>Learning outcome</td>
<td>61</td>
</tr>
<tr>
<td>6.1 Introduction</td>
<td>61</td>
</tr>
<tr>
<td>6.2 Minimum Wages Act, 1948</td>
<td>62</td>
</tr>
<tr>
<td>6.3 Important Provisions of Act</td>
<td>62</td>
</tr>
<tr>
<td>6.4 Equal Pay for Equal Work</td>
<td>66</td>
</tr>
<tr>
<td>6.5 Equal Remuneration Act, 1976</td>
<td>66</td>
</tr>
<tr>
<td><strong>Summary</strong></td>
<td>68</td>
</tr>
<tr>
<td><strong>References</strong></td>
<td>68</td>
</tr>
<tr>
<td><strong>Recommended Reading</strong></td>
<td>68</td>
</tr>
<tr>
<td><strong>Self Assessment</strong></td>
<td>69</td>
</tr>
</tbody>
</table>

### Chapter VII

**Design of Performance Linked Reward Systems**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design of Performance Linked Reward Systems</td>
<td>71</td>
</tr>
<tr>
<td>Aim</td>
<td>71</td>
</tr>
<tr>
<td>Objectives</td>
<td>71</td>
</tr>
<tr>
<td>Learning outcome</td>
<td>71</td>
</tr>
<tr>
<td>7.1 Introduction</td>
<td>71</td>
</tr>
<tr>
<td>7.2 Forms and Choice of Performance Linked Reward Systems</td>
<td>72</td>
</tr>
<tr>
<td>7.2.1 Merit Incentive Pay</td>
<td>72</td>
</tr>
<tr>
<td>7.2.2 Incentive Payments</td>
<td>73</td>
</tr>
<tr>
<td>7.2.3 Incentive Schemes</td>
<td>74</td>
</tr>
<tr>
<td>7.2.4 Group Incentive and Productivity Gain Sharing</td>
<td>74</td>
</tr>
<tr>
<td>7.2.5 Productivity Bargaining</td>
<td>74</td>
</tr>
<tr>
<td>7.2.6 Long-Term Incentive (ESOP)</td>
<td>74</td>
</tr>
<tr>
<td>7.2.7 Competency-based Pay</td>
<td>74</td>
</tr>
<tr>
<td>7.3 Steps in Designing Performance–Linked Schemes</td>
<td>75</td>
</tr>
<tr>
<td>7.3.1 Custom-Tailored</td>
<td>75</td>
</tr>
<tr>
<td>7.3.2 Objectives</td>
<td>75</td>
</tr>
<tr>
<td>7.3.3 Selection of Performance Measures</td>
<td>75</td>
</tr>
<tr>
<td>7.3.4 Basis</td>
<td>75</td>
</tr>
<tr>
<td>7.3.5 External Influences</td>
<td>75</td>
</tr>
<tr>
<td>7.3.6 Distribution</td>
<td>75</td>
</tr>
<tr>
<td>7.3.7 Equity</td>
<td>76</td>
</tr>
<tr>
<td>7.3.8 Safeguards</td>
<td>76</td>
</tr>
<tr>
<td>7.3.9 Involvement and Communication</td>
<td>76</td>
</tr>
<tr>
<td>7.3.10 Union Participation in the Design</td>
<td>76</td>
</tr>
<tr>
<td>7.3.11 Review</td>
<td>76</td>
</tr>
</tbody>
</table>
8.1 Introduction
8.2 Compensation Issues
8.3 Compensation Problems
8.4 Compensation Administration
8.5 Compensation Criteria
8.6 Compensation Survey
8.7 Pay Comparison
8.8 Compensation Structure
8.9 Compensation Policy
8.10 Compensation-Future Trends
8.11 Executive Compensation
8.12 Compensation Management

Summary
References
Recommended Reading
Self Assessment
List of Tables

Table 3.1 Divergent perspective of management and labour on wages/salaries................................. 31
Table 7.1 Scale of distributing incentive opportunity points.............................................................. 73
Table 7.2 Definition of a point on the merit rating scale .................................................................... 73
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCA</td>
<td>City Compensatory Allowance</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>DA</td>
<td>Dearness Allowance</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
</tr>
<tr>
<td>SBU</td>
<td>Small Business Units</td>
</tr>
</tbody>
</table>
Chapter I
Role of Compensation and Rewards in an Organisation

Aim
The aim of this chapter is to:

- define compensation
- explain indirect compensation
- explicate the role of compensation

Objectives
The objectives of this chapter are to:

- explain corporate compensation policy
- elucidate rationality and hygiene factors
- explicate external equity

Learning outcome
At the end of this chapter, you will be able to:

- define internal equity
- understand compensation structure
- describe indirect compensation
1.1 Compensation: The Concept

The term compensation is used to mean employees’ gross earnings in the form of financial rewards and benefits as part of employment relationship. Compensation may also be viewed as:

- a system of rewards that motivates employees to perform
- a tool used by organisations to foster the values, culture and the behaviour they require, and
- an instrument that enables organisations to achieve their business objectives

Compensation is typically divided into direct and indirect components. The term direct compensation is used to describe financial remuneration, usually cash and includes such elements as basic pay, dearness allowance, overtime pay, shift allowance, incentive, bonus, profit sharing bonus and commissions, etc. Indirect compensation or wage supplements or fringe benefits refer to such benefits as provident fund, pension scheme, medical and health insurance and sick leave and various other benefits and perks.

1.2 Indirect Compensation

Wage supplements, indirect compensation and fringe benefits are used interchangeably. These can be described as a general category of employee benefits which may include statutory, non-statutory, social security and welfare-oriented benefits. The statutory benefits, for example, will include, pension, provident fund, gratuity, medical insurance, etc. Voluntary benefits may include such elements as employee care benefits including medical reimbursement, educational allowances, vacation, family leave, tuition reimbursement, child family care, housing and relocation services, etc.

Wage supplements have grown partly due to favourable tax policies. Subject to certain income tax rules, employers and employees are allowed tax deductions for expenditure related to the pension and welfare programmes as well as reimbursement to employees.

Wage supplements roughly contribute 20 to 25 per cent or more of the total wages in the industry. The question arises as to why an employer spends so much money on wage supplements or fringe benefits as they are sometimes called. The answer is that there are considerations other than legal obligations. Some of these are:

- To attract and retain labour
- To induce a sense of commitment to the organisation
- To promote more harmonious employer-employee relations
- To generate good morale in the employees
- To provide a satisfying healthy and safe work environment
- To promote employee welfare
- To help in the image building of the organisation
- To meet the statutory and legal requirements for protection of the employees against old age, sickness and contingencies such as accident
- To avail tax benefits applicable to expenditure on various employers welfare programmes and activities

Wage supplements or fringe benefits, as they are sometimes called, vary as a consequence of the organisation’s compensation policy and human resource philosophy, its location, the type of business and the type of job that an individual holds. The strategy of employee benefit programmes is also determined by specific business objectives, cost factors, organisational compensation policy, employee preferences, collective bargaining issues, benefit programmes of competitive employers, taxation, legal and regulatory implications, the human resource management philosophy of the organisation and other organisational considerations, such as job hazards and risk factors.

There is also a trend towards cafeteria style benefits plans. Cafeteria plans enable the employees to select a benefit package from a list of available options, thus providing a match between the individual employee’s needs and what is offered. The simplest and most common form of cafeteria plan is the reimbursement account which allows employees to pay for certain benefits in a tax-free manner. Other models prescribe a good benefit package plus operational add-ons. With the increased sophistication in computer software and consulting firms providing specialised services in employee benefit programmes, this type of benefit programme is likely to become more popular.
1.3 Role of Compensation

Compensation has an important role to play in an organisation. Typically, it has the following characteristics:

- It enables an organisation to attract and retain the manpower it requires
- It motivates employees and provides directions to their efforts
- It induces employees to develop skills and competencies which the organisation requires or may require in future
- It is used to foster values and culture in an organisation

Traditionally, the focus of compensation management has been primarily on enabling an organisation to recruit and retain employees while complying with legal and statutory requirements. Pay was primarily related to status and hierarchical position. It is now being viewed increasingly as a key to acquire competitive advantage. Innovations in compensation are considered necessary to do more with reducing labour cost per unit of output, motivating employees to higher performance, providing an impetus to skill development and higher quality and so on.

Payroll costs have necessarily been seen in the context of corporate strategy and performance and its ability to attract and retain adequate manpower. Payroll cost considerations have impelled many multinationals to increasingly hire host-country managers, in preference to assigning its employees for overseas duties. Unions can also influence compensation level and practices. Collective bargaining agreement induces rigidity in wage rates. With the emergence of new employees with higher levels of education and skills along with the flat structure of the organisation, the union influence on pay determination and compensation management is decreasing and its role as a management tool is getting strengthened. Compensation policy and practices are being considered as important factors in an organisation’s survival, profitability, long-term growth and competitiveness. Organisations are concerned with pay because of its importance for finding the manpower to do business; it motivates important decisions of employees about taking a job, leaving a job and working on the job.

While designing direct compensation plans, it is important that an organisation chooses an approach that is in alignment with its organisational philosophy, values and culture and is supportive of the organisational and business goals. Due to the basic changes in an organisation today in the form of strategic business units (SBUs) and the new challenges and opportunities, there is a growing search for innovative direct compensation strategy. Such approaches compel them to focus on motivating employees to achieve organisational goals through broad-banding, skill-based pay and team pay plans. However, so far, there is no conclusive evidence on the effectiveness of these approaches.

Direct and indirect compensation programmes must be assessed for the extent to which they attract, retain and motivate the workforce required relative to major competitors. The cost of labour is critical to corporate performance, it must be constantly reviewed and analysed to examine where costs can be reduced without any prejudices to the productivity and fulfilment of business goals.

When skills for competitive advantages are in greater demand, companies that do not respond with competitive pay packages will phase out, they will have less labour cost at the expense of organisational capability. Dynamic organisations make sure that while reducing and controlling labour costs, their compensation packages attract and retain the persons required for maintaining the competitive edge.

Organisations also need to ensure that individual and group results are measured and performance is reflected in pay. An effective pay for performance programme can be a powerful tool to attract, retain and motivate a competent workforce. Many high-tech and knowledge-based organisations are moving towards compensation system with relatively more pay in the form of stock options for its key employees. In software development organisations, employee stock option plans are becoming increasingly popular.
1.4 Compensation Structure

Typically, an employee’s gross earnings from employment may comprise the following elements:

- Basic wage
- Dearness allowance (DA)
- Overtime
- Profit bonus
- Incentive bonus
- Fringe benefits Social security benefits

For the pay-packets to be rational the basic wage should be the major item and viewed as the price for 'normal' output on a job; it should be protected against inflation and adjusted against productivity or profitability improvement. In practice, however, basic wage typically constitutes a small element which is rarely related to output or the outcome of a job. Further, the wage rate is usually not adjusted against inflation and the trend in productivity or profitability. Instead, we have two adjuncts, viz., DA and statutory bonus. These two elements are unique in this country and have a few parallels abroad.

DA is determined and influenced by numerous factors. These include union and management policies, wage board awards, labour court decisions, government policy and movements in the Consumer Price Index (CPI). The influence of these factors is not uniform across regions and grades. Further, the rate of growth of CPI in different stations and centres is uneven. As a result of these, disparities in DA between centres and stations are created, posing industrial relations problems. This is especially true when DA constitutes a major element in the pay packet.

The differences in DA can be understood and explained in terms of the factors referred to above. The wage levels by themselves were fairly high. So the conflict was not over levels; it was rather over disparities and inequities as perceived by employees. In fact, it implies a violation of the principle of equal pay for equal work. The situation is typical of an Indian scene and calls for the merger of most, if not all of DA with the basic wage and the adoption of a rational DA system.

The other adjunct in the pay-packet, namely, statutory bonus has been perceived by unions and workers as a deferred wage. The quantum has often been determined in the past through bargaining over the statutory minimum. In practice, it has become a major irritant in industrial relations and constitutes a major source of conflict. There has been a trend to replace it by productivity-linked bonus. This was also possible under Section 32(vii)-(a) and (b) of the Payment of Bonus Act, 1965. However, only a few companies took advantage of this provision.

Incentive bonus in the pay-packet should be viewed differently from the statutory or productivity bonus. In the latter, the focus is on the economic or productivity performance of an organisation, whereas under an incentive bonus scheme, differences in performance among individuals are recognised and rewarded. Thus, the nature, purpose and operational details of these two types of bonuses are quite different from each other.

1.5 The Compensation Programme: Functions and Responsibilities

The functions and responsibility in a compensation programme involves essentially three aspects:

- The determination of wage rates and wage structure
- Maintaining the rationality of wage structure
- Determining methods of wage payment

A wage structure is a body of wage rates differentiated by difficulty or degree of responsibility of work in an organisation. The wage rate is for a job rather than compensation to an individual. 'Equitable' wage structure or 'internal equity' implies that wage differentials reflect the degree of difficulty. In other words, the differences in wage rates for jobs correspond to differences in the evaluated contents of jobs.
'Job evaluation' is a systematic method of evaluating each job in relation to other jobs in an organisation. It is a major method of ensuring equity in the internal rates for jobs. Job evaluation is usually undertaken to resolve existing irrationalities and inequities in wage rates which constitute a source of conflict. However, when actually undertaken, it upsets existing pay relationships. Some jobs get upgraded, while others may get downgraded. Very often, implementation of a programme of rationalisation of differentials through job evaluation gives rise to conflict and agitation. It is, therefore, necessary to take precautions before undertaking a job evaluation programme. These precautions will include the following:

- The adoption of systematic procedures for job analysis, description, specification and evaluation
- The constitution of a job evaluation committee with a union functionary on it
- Recognition and treatment of wage grievances as distinct from matters pertaining to and arising out of the job evaluation programme

It needs to be noted and stressed that wage rate differentials for jobs are quite different from differences in remuneration of employees doing similar jobs. The latter is taken care of in several ways. For instance, wage for age and experience is given by differently locating an employee in a wage or salary range. Similarly, differences in performance of individual employees can be recognised and remunerated through a wage incentive plan, a merit increment scheme, merit awards or merit incentive pay.

'External' is as important as 'internal equity'. External equity implies that wage rates in an organisation are commensurate with wage rates for similar jobs in the industry, region or community. Lack of 'external equity' can result in demoralisation of employees and a high rate of labour turnover. It can also be the cause of dissatisfaction, conflict and agitation.

Wage survey is the main instrument for ensuring external equity; it is the connecting link between the internal evaluation procedures and external rates prevailing for jobs in the region or industry. Several forces operate almost continuously and tend to distort internal and external equity in the wage structure. These forces include:

- DA on a sliding scale
- The impact of trade union movement and collective bargaining
- The effects of implementation of wage board recommendations
- Labour court decisions
- Progressive rates of taxation
- Minimum wage legislation
- Ceiling on salary levels
- The changing nature of jobs

In addition to these influences, differentials in earnings can also get distorted when new methods of payment such as an incentive scheme are introduced. With the inclusion of incentive bonus, average earnings on a job with a lower job evaluation point score very often exceed those on a job with a lower rating. Illustratively, after the introduction of an incentive scheme, average earning per hour of a machinist supervisor with a job evaluation point score of 355 was 128 paise, whereas for lead sawyer, pipe covering, with a score of 223, it was 184 paise. This implies the need for constant analysis, monitoring, and timely correctives to reduce strife.

In view of the complexity of factors, there is a need to define and develop the compensation function in an organisation and determine its location and manning. The functions and responsibilities of a compensation programme will be as follows:

- To formulate compensation plans
- To establish criteria for wage and salary determination
- To establish job evaluation systems, i.e., rating of jobs, job differentials and job standards
- To ascertain on-going rates for jobs in industry/community
- To analyse government wage regulations, company wage policies, and agreements with unions to maintain up to date wage-rates
- To make policy recommendations
- To rate employees and recommend wage increases
- To establish fringe benefits and other supplementary compensations
- To recommend and administer plans for wage incentive systems
- To supervise and maintain records pertaining to all matters or compensation
- To help the management in framing a compensation policy aligned to
  - Business goals and objectives
- To promote and foster the desired values and organisational culture through
  - Compensation policy
- To promote team effort and unit performance through compensation policy.

The function should be manned by someone who has specialised knowledge and skill in compensation programmes. In addition to specialised skill, such a functionary should have an adequate exposure to and appreciation in the principles and practices of general management, organisation and employee relations. The function should be preferably located in the personnel division at a senior level. To ensure the effectiveness of the functionary, a co-ordinating committee should be constituted. Represented on the committee should be divisional heads from personnel, industrial engineering, and finance.

1.6 Corporate Compensation Policy

The compensation policy of a corporation or an industrial organisation has to consider the following:

- Community concerns economic and social,
- Company’s own objectives and plans for expansion and diversification
- Employees’ concerns

1.6.1 Corporate Compensation Policy and Community Concerns

Corporate compensation policy should not be conceived in isolation from the community goals and environment. In the current context, price stability, improving standards of living of workers, generating more employment and meeting the demands of competitiveness will need to receive prior attention in the formulation of corporate compensation policy. This will imply that wage rates must go up, but these should be non-inflationary.

This can happen if:

- The bulk of wage increases are linked to cost reduction or gains in productivity
- The wage-output relationship is optimised or at least stabilised with wage and cost controls providing an aid; and
- Employees are motivated to give higher performance by operationalising, among other things, the concepts of merit pay and performance-linked reward system. Viewed thus, building community goals in corporate compensation policy appear in perfect harmony with the interests of the company, the shareholders, the community and employees.

1.6.2 Strategy of Wage Increases

Formulation and introduction of productivity or cost reduction plan should be considered the strategy for securing wage increase for employees. Only in this way, the increase in compensation could be financed out of realised improvements in productivity or cost reduction. Productivity bargaining can be considered as an alternative. This will involve the identification of areas of cost reduction and determination of a link between the proffer of economic concessions and savings in cost. This exercise would demand intensive management communication with unions, workers and different levels of management.
1.6.3 Rationality and Hygiene Factors
To achieve company objectives and avoid dissatisfaction among employees, it is desirable to ensure:

• Rationality of pay-packet
• Internal equity; and
• External equity

Rationality of pay-packet should imply, among other things, that:

• The bulk of remuneration is linked to the job and its outcome
• Basic wage is a predominant element in the pay-packet
• The basket of fringe benefits is determined by employee needs

1.6.4 Internal Equity
'Internal equity' will imply that wage differentials are structured in such a way that they correspond to relative differences in job contents. The absence of such structured differentials can be responsible for employee dissatisfaction, grievances, industrial strife, alienation and de-motivation. Job evaluation is generally used to ensure internal equity. Considerations of team building, employee empowerment and flat flexible organisation have led to the adoption of broad-banding. Internal equity in the process should not be given a go-by.

1.6.5 External Equity
External equity will require that wage rates for jobs are equitable with rates for similar jobs in the same, industry or similar firms in the region. External equity can seriously affect an employer’s ability to recruit the right kind of workers, besides being responsible for flight of personnel and industrial strife and employee de-motivation and demoralisation. External equity is usually ensured by using the results of a wage and salary survey.

1.6.6 Payroll Analysis and Policy Correctives
There should be a continuous analysis of payrolls and wage and economic trends. This should be supplemented with projections of wage and cost trends and monitoring of unintended disparities. Based on this, policy measures to reduce disparities and prevent their recurrence should be formulated.

1.6.7 Wage and Salary Administration Function
Achieving an optimal wage and salary programme is an evolutionary process. Unless the programme is kept current and is maintained continuously, disparities and irrationalities creep in time. More positively, a wage and salary programme should be viewed as an aid to achieve corporate objectives. This is not possible without building a specialised wage and salary administration function in the organisation.

1.6.8 Corporate Compensation Structure
In long term, we need to develop a single integrated compensation plan for all hierarchical levels including supervisory and managerial. Ideally, this should form part of a systemic analysis of the whole organisation - classification-compensation nexus. Quite often, however, workers’ wage and salary system is treated distinctively from managerial remuneration system. Though the latter cannot be viewed in isolation, there are distinctive features about it.

First, the elements of managerial remuneration are not identical with those of wages. Tax considerations have led to the introduction of perks such as allowance for repair and maintenance of flats, entertainment and club allowance. Rent subsidy, medical facilities, superannuation benefits and leave travel allowance are differently structured and are given on a more liberal basis. Dearness allowance, overtime and incentive bonus which constitute the bulk of worker’s remuneration are rarely admitted to managers. Second, managerial salaries are sometimes capped. Third, in practice non-monetary benefits are available more significantly to managers than workers. These, for instance, are perks and facilities, enriched nature of jobs, and opportunities for growth and promotion. In the context of these realities, it is necessary to consider comprehensively the different facets of managerial remuneration and also examine the desirability and viability and adopting a comprehensive and systems approach to remuneration. This has acquired added significance in the current move towards a flat, flexible matrix organisation.
1.6.9 Managerial Compensation
Managers make vital contributions to the industry. It is relevant to ask, how regulatory measures such as the punitive rates of taxation affect their motivation and performance. Do these violate the sense of equity? Again, the tapering off effect of dearness allowance results in the shrinking of salary differentials. Do the narrowing salary differentials adversely affect motivation and performance of managers? Another point to be raised is that of salary differentials of managers between sectors. The salary rates for similar levels of work are known to be higher in the private sector. Do non-monetary items, such as, career prospects, authority, responsibility, job security, decision making, etc., neutralise the effect on motivation of the relatively lower compensation of managers in the public sector?

At the entry point, if the salaries are unfavourable to the public sector enterprises, then obviously they won’t be able to attract the very best. It is this kind of resource which will be the source of supply of higher order managerial skills in the internal labour market of the public sector enterprises. If they are not able to attract this kind of resource at the entry point; they won’t have the right kind of supply from their internal sources.

Managers often suffer from a sense of frustration because of the lack of advancement in salary and career. This kind of situation, per se, will adversely affect their motivation and performance and potentially may give rise to the phenomenon of unionisation among managers in the public sector. As a matter of fact, we have some indications of the emergence, of this phenomenon of necessity, therefore, career planning and compensation get inter-linked. This should be equally true of wage earners. A brief reference to perks may be in order. The structure of perks is not always functional. Often they have status orientations, in the sense that they increase with salary and status level and are not necessarily related to job needs.

An implicit assumption is that they act as motivators. Whether, it is true or not is not established. It has not been inquired into whether with the lapse of time, they are taken for granted or have some motivational appeal. Pending answers to these questions, it seems safe to state that the perks need to be related to the emerging social standards. They have appositive role to play, probably they do provide a stimulus for better performance; but the nature, the form and the mix of these perquisites, need to be changed. These might include anti-inflationary benefits especially in the form of some benefits on retirement, giving them some post-retirement income security. For instance, medical benefits after retirement are one such area.

Measuring managerial performance, no doubt, involves problems, but it is not an altogether impossible task. We have some operational methods and we need to examine these and build, at least, a proportion which is geared to performance. In this regard, it may be noted that the Government of India have issued guidelines to the public sector enterprises to the effect that five percent of distributable profits can be given to executives in the form of incentives linked to individual performance. These guidelines are based on the Mohan Committee Recommendations.

1.7 Wages and Incomes Policy
Rationalisation of wages and incomes in different sectors and for different categories of employees can be attempted only as a part of an integrated policy on wages, incomes and prices. In a country where non-wage incomes and black money constitute the bulk and the efficacy of physical measures is limited, it is extremely difficult to conceive, formulate and implement an integrated wages, incomes and prices policy. To enforce ceiling on the incomes of some selected category of employees and regulate wages of workers may be difficult to enforce and may even be counter-productive. The primary dependence will, therefore, have to be on fiscal measures to regulate income and restrict and restrain consumption and provide positive inducement for savings and investment.

Whereas, these considerations are relevant for the top-level incomes, for the determination of the minimum wage we will need to take into account the impact of the minimum wage on the volume and level of employment, sympathetic and induced movements in the sectoral, regional and national wage structures, cost-output ratio, especially of marginal units, price movements, etc. An indiscriminate upward movement in the minimum-wage level might not serve the interests of the working class, for it might, among other things, affect the viability of marginal units, adversely influence the creation of employment opportunities and induce inflationary pressures. These are conjectures which are based largely on theoretical considerations. Very little empirical data is available to validate these observations.
1.8 Issues and Current Trends

The following are the issues and current trends:

1.8.1 Broad-banding

Several organisations are adopting broad-banding as an approach to base pay. Through broad-banding the traditional narrowly structured pay grades generally determined through job evaluation are replaced by fewer and wider bands. Through this approach management grades acquire greater flexibility in setting and adjusting pay rates. Where a typical pay grade may have a 50 per cent spread in pay between the minimum and maximum, for example, ₹ 30,000 to 45,000, job bands may have 200 to 300 per cent spread, for example, ₹ 25,000 to ₹ 75,000. A banded approach is considered to be more consistent with the down-size flatter organisations. It also helps in breaking structural pay barriers among jobs and facilitates team work and empowerment of employees. Further, it gives to management greater flexibility. However, traditional cost control in pay structure is lost. Job pricing becomes more difficult. It may also be more difficult to communicate to employees, as to how their remuneration has been fixed.

1.8.2 Pay for Knowledge, Skill and Competency

This approach visualises that knowledge; skill and competency get eventually translated into improved employee performance which ultimately results in superior organisation effectiveness. Pay for knowledge has been a traditional practice in scientific, technical and traditional discipline. For example, traditional institutions typically pay more to a professor with a Ph.D. and experience. In modem times this thinking has been applied in designing and implementing skill-based pay. In this system, employees are paid on the basis of an inventory of skills. This approach encourages workforce flexibility and enhanced competencies. Employees are motivated to improve their knowledge and skills. On the other hand, skills may not be used and pay cost may get out of control. In a typical skill-based pay plan, pay is determined on the basis of knowledge, skills and competency organised with the organisation values.

1.8.3 Team Pay Plans

This approach visualises a form of compensation for team results. This pay plan supports team work and their empowerment and helps in improving organisation’s culture and achieving business goals. Individual performance may, however, get de-motivated. At the moment, there are few plans for team pay. Organisations tend to adopt a package approach through which they encourage individual performance, acquisition of skills and competencies and organisational effectiveness.

1.8.4 Documentation and Communication

Several organisations tend to document and communicate their compensation policy to staff. The objective of doing this is primarily to retain and motivate staff; they can understand the basis of their compensation in relation to others in the organisation as well as outside. They can also have rational expectation on what to expect, should they acquire higher knowledge, skills, and competency and improve their performance level on the present job. For example, one company in the policy statement mentioned that their objective was to have good people who should give their best and that was important for the survival and growth of the company in a strengthening competitive environment.

In the statement of the policy, they stated that they wanted to be the best employers in their field. This meant that the whole range of salaries and benefits including business hold and seek when compared favourably with other organisations in their field. The policy clearly stated that they would be related to performance and willingness to expect a more demanding role when vacancies occurred. The statement gave objective of the method of fixing salary, the variation in salary levels in the same grade performance appraisals and other related aspects.

1.8.5 Coping with Change

Every organisation wants rapid changes. There are at least 6 major changes that can be considered common to almost every organisation. These are:

• Rapidly expanding technologies,
• Growing competition, both at the national and international level,
• Increase demand for individual and organisational competencies and capabilities,
• The higher customer expectations,
• Decreasing cycle times
• Changing manpower and skill requirements

Organisations are formulating compensation strategies to facilitate and cope with these changes. For example, the computer fundamental changes the jobs and business process. In the light of such change, many organisations are restructuring around teams and processes rather than individual jobs with a view to increasing cost effectiveness as well as improvement flexibility, speed and services. This means that fewer employees but with multiple skills and competency are required by such organisations. This is a direct bearing of compensation policy and strategy. They produce more and get more. Few does, compensation policy is few as an element of performance, management and human resource management geared towards organisational objectives and needs.

1.8.6 International Compensation

With globalisation and the emergence of global corporate citizens, compensation strategy in the global environment has acquired increasing importance. In general, multi-nationals have been standardising the pay policy and strategy on a global basis. This, however, does not mean that they pay everyone who does the more work, the more pay regardless of the host country, compensation environment. As a matter of fact, employee cases both direct and indirect compensation play a major role and corporate decision regarding relocation of plans and their closure. The cost of direct and indirect compensation along with regardless is the main reasons for motivating manufacturing and even services organisations away from the United States and Japan to other countries.
Summary

- The term compensation is used to mean employees’ gross earnings in the form of financial rewards and benefits as part of employment relationship.
- Compensation is typically divided into direct and indirect components.
- Wage supplements or fringe benefits, as they are sometimes called, vary as a consequence of the organisation’s compensation policy and human resource philosophy, its location, the type of business and the type of job that an individual holds.
- Payroll costs have necessarily been seen in the context of corporate strategy and performance and its ability to attract and retain adequate manpower.
- Compensation is typically divided into direct and indirect components.
- The term direct compensation is used to describe financial remuneration, usually cash and includes such elements as basic pay, dearness allowance, overtime pay, shift allowance, incentive, bonus, profit sharing bonus and commissions, etc.
- Indirect compensation or wage supplements or fringe benefits refer to such benefits as provident fund, pension scheme, medical and health insurance and sick leave and various other benefits and perks.
- Wage supplements roughly contribute 20 to 25 per cent or more of the total wages in the industry.
- Incentive bonus in the pay-packet should be viewed differently from the statutory or productivity bonus.

References


Recommended Reading

Self Assessment

1. Which of the following will imply that wage differentials are structured in such a way that they correspond to relative differences in job contents?
   a. Internal equity
   b. External equity
   c. Rational equity
   d. Rationality of pay-packet

2. Which of the following is usually ensured by using the results of a wage and salary survey?
   a. Internal equity
   b. External equity
   c. Rational equity
   d. Rationality of pay-packet

3. Achieving an optimal wage and salary programme is an ____________ process.
   a. revolutionary
   b. compensation
   c. evolutionary
   d. compulsory

4. In ____________ organisations, employee stock option plans are becoming increasingly popular.
   a. software development
   b. automobile
   c. textile
   d. telecom

5. ____________ is a systematic method of evaluating each job in relation to other jobs in an organisation.
   a. Job empowerment
   b. Job enlargement
   c. Job rotation
   d. Job evaluation

6. The term ____________ is used to mean employees’ gross earnings in the form of financial rewards and benefits as part of employment relationship.
   a. payroll
   b. wages
   c. compensation
   d. job evaluation

7. ____________ is the main instrument for ensuring the external equity.
   a. DA
   b. Incentives
   c. Bonus
   d. Wages
8. __________ of wages and incomes in different sectors and for different categories of employees can be attempted only as a part of an integrated policy on wages, incomes and prices.
   a. Compensation
   b. Rationalisation
   c. Inspection
   d. Evaluation

9. Every _______ wants rapid changes.
   a. employee
   b. organisation
   c. consumer
   d. manager

10. Wage supplements roughly contribute ________ per cent or more of the total wages in the industry.
    a. 20 to 25
    b. 30 to 35
    c. 40 to 45
    d. 10 to 15
Chapter II
Wages and Wage Theories

Aim
The aim of this chapter is to:

• explain select wage theories and economic issues
• explicate behavioural theories and relevant issues
• explain subsistence theory

Objectives
The objectives of this chapter are to:

• elucidate the surplus value theory
• explicate the wages fund theory
• enlist the limitations of economic theories

Learning outcome
At the end of this chapter, you will be able to:

• understand the marginal productivity theory
• understand the bargaining theory
• describe content theories
2.1 Introduction

Wages are determined by the supply and demand for that particular type of labour. The factors which influence wages are supply price, skill, experience, ability and reputation (for artists, models, professionals like doctors and lawyers, etc). In professions, trained personnel (teachers, nurses, etc.) get more than the untrained ones. By regulating the supply of trained personnel, professions can maintain or hike the supply price. Public policy, company policy, collective bargaining pressures, trends in cost of living, technology and productivity, unit labour costs, capacity to pay and other aspects also play a vital role in determining the wage rates and wage levels for different occupations in different industries/regions.

Though, wages theories have important policy implications and some relevance for certain occupations or in certain regions, none of these is adequate as a general theory having universal applicability. The economic theories of wages fail to provide a complete explanation of the problem of wage determination. Studies conducted by behavioural scientists to some extent fill the gaps in the earlier theories, which have highlighted the importance of psychological and sociological factors on wages. The key issues developed by economic and behavioural theorists are briefly reviewed in this chapter.

2.2 Select Wage Theories

Following are different wage theories:

2.2.1 Subsistence Theory

David Ricardo through his famous book 'Principles of Political Economy and Taxation' propounded 'The Subsistence Theory of Wages'. Ricardo states that, the price of labour depends on the subsistence of labour. This price equals the amount of commodities necessary to feed and clothe a worker and his family, which represents the cost to the society to enable the labourers to subsist and perpetuate their race.

The subsistence wage theory is based on the assumption that labour, like any other commodity, is purchased and sold in the market. In long run, the value of labour tends to be equal to the cost of production. This labour cost is equal to the amount necessary for the maintenance of the worker and his family at the subsistence level.

This theory relied on the Malthusian Law of Population. According to Ricardo, if the supply of labour falls short of the demand for it, the workers will be paid higher than the subsistence level, which would induce the workers to have more children. This will increase the labour supply and as a consequence the wage rate would inevitably fall to the subsistence level. Conversely, if the wages fall below the subsistence level, children would die off or some workers may decide to have fewer children, which would eventually bring down the birth rate. This will result in decreased labour supply, which will ultimately be equal to the demand for it. Ricardo viewed that the market price of labour could not vary from the subsistence level for a long time. For this reason, The Subsistence Wage Theory was also known as the “Iron Law of Wages”.

The subsistence theory of wages has been criticised by many on the following grounds (a) the assumption that the supply of labour is perfectly elastic at the subsistence wage level is incorrect. The theory does not consider wage differentials, which are bound to exist across regions. Ricardo himself maintained that habit and custom were instrumental in determining the natural price of labour and it varied at different times in the same country and in different countries (b) the theory ignores the importance of the role of the demand for labour and the role of trade unions in wage determination.

2.2.2 The Surplus Value Theory

The surplus value theory of wages associated with Karl Marx. Marx was in many ways closer to Ricardo in his approach to the question of value for labour power. However, he did not subscribe to the Malthusian Theory of Population for the explanation of wages. Marx accepted Ricardo’s view that the market price of labour power could not for long depart from the value of the subsistence which is required for the maintenance of that labour power. He, however, viewed that it was not the tendency of the population, which brought wages to the subsistence level, but it was the tendency in the capitalist system to chronic unemployment and the existence of industrial reserve army,
which drove wages to the subsistence level. The supply of labour always tended to be kept in excess of the demand for it by a special feature of capitalist wage system. The capitalist was in a position to force the worker to spend more time of his job than what was necessary to earn his subsistence wage. According to Marx, the worker did not get full compensation for the time he spent on the job. The rate of surplus value, which is the ratio of surplus labour to necessary labour, is also called the 'rate of exploitation' under the capitalist form of production. Marx, however, held the view that the introduction of trade union bargaining and similar interferences could stop the tendency of wages falling to their minimum level and even reverse it.

2.2.3 The Wages Fund Theory

Adam Smith assumed that there existed a pre-determined fund for the payment of wages. It was the size of the fund, which determined the demand for labour and the wages paid to them. Later, John Stuart Mill tried to explain the movement of wages in a changing world. He observed that there was a changing 'natural rate' defined by the changing ratio of capital to population. Mill further added that population must here be taken to mean only of the labouring class or those who work for wages and capital to mean only that part of capital which is spent in the direct purchase of labour. Thus, according to Wages Fund Theory, wages are determined by:

- The wage fund or part of working capital which has been expended for obtaining the services of labour.
- The number of workers seeking employment. The wage fund is assumed to be fixed and it does not change.

Any change in wage rate, therefore, would be due to change in the number of workers seeking employment.

The wages fund theory did not consider a simple equilibrium level to which wages must inevitably return. It maintained that the wage rate might increase over time due to an increase in wage fund resulting from higher savings or a decrease in the size of workforce. The exponents of this theory believed in the Malthusian Law of Population. However, they were less dogmatic about its influence on wages.

Nevertheless, this theory was also rigid in its own way. It used to demonstrate that bargaining power or trade union action cannot raise the wage level and that efforts to discourage the accumulation of capital were bound to lower wages by reducing the wages fund. Action by trade union or State legislation to raise wages cannot be effective as increase in wages of some workers would leave less of wages fund available for other workers thereby causing lower wages for these others or to be unemployed.

It showed that the level of wages determined the productivity of labour. If a rise in wages could augment the efficiency of labour, it would presumably augment the employers’ demand for that labour as well, stimulating them to set out more funds in the purchase of labour. Hence, a rise in wage level not only influences the supply conditions of labour but also causes a shift in the demand for labour. This is quite opposite to the assumption made by the theory that the demand for labour is fixed.

2.2.4 The Marginal Productivity Theory

J. B. Clark first developed the Marginal Productivity Theory of Distribution. Later on, many others including Marshall refined this theory further. According to J B Clark, reward for a factor of production for its services was determined by the marginal revenue productivity of that factor. According to Marshall, both demand and supply together determine the factor price, which in a perfectly competitive market is equal to the marginal revenue productivity of the factor.

The marginal productivity theory assumed that there was a certain quantity of labour seeking employment and the wage rate at which this labour could secure employment in a competitive labour market was equal to the addition to total production that resulted from employing the marginal unit of that labour force. It was also assumed that production is carried out under the conditions of diminishing returns to labour. The principle of diminishing marginal productivity postulates that the contribution of each additional unit of labour would be less than that of the unit previously hired. Therefore, in spite of the fact that the productivity of the individual labourer may be higher than that of the marginal labourer, he will not be paid more than what the marginal labourer will get.
In the short run, wage rate can be both higher and lower than the marginal revenue productivity of labourers. But in the long run, it gets equalised with the marginal revenue productivity of labourers. If the prevailing wage rate is lower than marginal productivity, it will be profitable for the employers and the resulting competition among employers to employ more workers will tend to raise the wages. On the contrary, if the prevailing wage rate is higher than the marginal productivity, the employment of marginal workers will yield him losses and he would stop employing them. This will result in competition among workers for jobs, which would lower the wages. Thus in the long run, the equilibrium wage rate will become equal to the marginal revenue productivity of labour.

The marginal productivity theory is considered superior to the earlier theories on wages. Clark, one of the exponents of the theory, even declared it a natural law of wages. Yet, even Marshall himself recognised its inadequacy as a general theory.

2.2.5 The Bargaining Theory
John Davidson, the earliest exponent of The Bargaining Theory of Wages, argued that the wages and hours of work were ultimately determined by the relative bargaining strength of the employers and the workers.

According to this theory, there is an upper limit and a lower limit of wage rates and the actual rates between these limits are determined by the bargaining power of the employers and the workers. The upper limit could be the highest wages that the employers would be willing to pay beyond which they will incur losses resulting from high labour costs. The lower limit could be either the minimum wages prescribed under the statute or the strength of resistance of the workers at the subsistence wages below which they will not be available for work.

2.2.6 Purchasing Power Theory
The classical economists, especially Pigou argued that a cut in wages during unemployment and depression would help restoring full employment in the economy. Lord Keynes in his 'General Theory of Employment, Interest and Money' has criticised this classical viewpoint. In this, Keynes looked at the problem of wage rates from a macro viewpoint. According to him, wage is not only the cost of production to the employer but also an income for the wage earners who constitute a majority in the total working population. The same workers and their families consume a major part of the products of the industry. Hence, if the wage rates are high they will have more purchasing power, which would increase the aggregate demand for goods and also a high level of output. Conversely, if the wage rates were low, their purchasing power would be less, which would bring about a fall in the aggregate demand. This will have an adverse effect on the levels of employment and output. Therefore, a cut in wage rate, according to Keynes, instead of removing unemployment and depression (as envisaged by the neo-classical economists) will further add to the problem.

According to the Keynesian Theory, full employment is a function of national income. The higher the level of national income, the greater the volume of employment and both income and employment are determined by effective demand. Hence, if the national income falls, it would have an adverse effect on employment. In order to ensure incomes to wage earners and to restore full employment, Keynes recommended state intervention by adopting economic policies such as monetary and fiscal policies. The other mechanisms, according to Keynes, could be direct controls over prices, wages, investment and production.

2.2.7 Comparative Advantage Theory
Economists specialising in international trade argued about countries, industries and companies competing on the basis of comparative advantage of cheap labour. Employers are known to move to areas where labour is cheap, be it within a country or across countries. Subject to internal and external constraints, labour also tends to show a tendency to move to areas, which pay higher value for their skills and effort. Besides, land-labour nexus and other social, cultural, religious, linguistic, politico-legal barriers restrict labour mobility.

In recent years, however, there is pressure on countries and companies competing on the basis of cheap labour to ensure compliance with minimum core labour standards concerning minimum age, freedom of association, right to collective bargaining, forced labour and non-discrimination. Efforts to link international trade with international labour standards at the international level and consumer boycotts and social labelling at the micro-level through campaigns and other initiatives at the sectoral level make it increasingly difficult to compete on the basis of cheap labour if it violates core labour standards mentioned earlier.
Limitations of Economic Theories

- Economic theories either assume that wages and prices are either fully fixed (Keynesian paradigm) or fully flexible (neo-classical liberals). The reality lies somewhere in between.
- Most wage theories are based on the assumption of full employment. In most developing countries, this is not really the case.
- Labour is not as mobile as capital and products. Therefore, wage rates could be influenced by the changes in the demand for and supply of factors other than labour too.
- In several industries, labour costs are less critical than other costs. Also, fluctuations in interest rate and exchange rates as well as relative intensity of capital and technology influence the demand for, and may cause the substitution of, both input output of labour as well as the proportionate costs of labour in the total cost of production.
- Wages and benefits reflect industry characteristics and personal characteristics (including skill differentials) as well as societal preferences and prejudices.
- Interference by government and trade unions could minimise the influence of the market forces of demand and supply of labour.
- Technology and productivity are major determinants. Low wages may not mean low wage costs. Similarly, high wage rates may not mean high unit labour costs.
- With the growing pressure for linking labour standards with international trade, increasingly it will become difficult (for countries, industries and companies) to compete on the basis of comparative advantage of cheap labour.

2.3 Behavioural Theories and Relevant Issues

Every reward or element or compensation/remuneration has a behavioural objective and seek to fulfil a need (physiological or psychological) and achieve a goal. Luthans argues that 'motivation is a process that starts with a physiological or psychological deficiency or need that activates behaviour or a drive aimed at a goal'.

Reward systems are aimed at compensating people for their skill, effort, responsibility and working conditions and motivating them for higher performance. Behavioural science theories are classified into three categories, content, process, and contemporary theories. These are discussed here very briefly.

2.3.1 Content Theories

The content theories look at what motivates people at work. Maslow, Herzberg and Alderfer contributed significantly to content theories. These are very briefly outlined here:

**Hierarchy of needs**

Abraham Maslow proposed a hierarchy of five needs:
- Physiological (food, shelter, clothing which wages can buy)
- Safety (emotional and physical safety - health insurance, pension)
- Love (affection and affiliation - belongingness, social)
- Esteem (power, achievement, status, etc.)
- Self-actualisation (personal growth, realisation of potential)

Individuals may seek fulfilment of higher order needs before their lower order needs are fulfilled. Maslow suggests that a satisfied need is not a motivator. The exception, however, is the self-actualisation need whose gratification increases in growth-motivated individuals.

**Two factor theory of motivation**

Two-factor theory of motivation by Friedrich Hergberg classifies rewards into two categories, intrinsic and extrinsic. These are also called as motivators (satisfiers) and hygiene factors (dissatisfiers). Intrinsic rewards are motivators and satisfiers related to job content. They include achievement, recognition, work itself, responsibility, job enrichment and job enlargement. Extrinsic rewards are hygiene factors and job dissatisfiers. These include company policies and
administration, supervision, salary, interpersonal relations and working conditions. Hergberg’s theory oversimplifies the complexity of motivation. Pay can be dissatisfying if it is very low, but it can also be satisfying. A poster in an executive’s cabin reads thus, I like the pay, not the job!

**Erg Theory**
Clayton Alderfer formulated his theory based on three groups of needs: existence (survival or physical well-being), relatedness (inter-personal) and growth (personal development) (ERG) theory. These needs are a continuum, not necessarily in the same order, rather than hierarchical or compartmentalised categories. Based on a person’s background and cultural environment, one set of needs may precede over others.

The works of Maslow, Hergberg and Alderfer are referred to as content theories. They are useful, but have limited implications for policy and practice. Hergberg’s theory, however, provides insights for job design.

**2.3.2 Process Theories**
Process theories look at the cognitive antecedents that go into motivation or effort, particularly the way they relate to one another. We examine very briefly the work of Vroom (on valence and expectancy) and Porter and Lawer (performance-satisfaction linkage).

**Expectancy theory**
Victor Vroom proposed expectancy theory based on the concepts of valence, expectancy and instrumentality. Valence refers to an individual’s preference for a particular outcome. For instance, older workers might value retirement benefits against fewer, if any, younger workers in today’s knowledge industry. Younger, single (unmarried) workers with fewer family obligations have less or no need for benefits like children’s education, health benefits, leave travel concession, etc. than older, married people with one or more children. A related phenomenon is salience which refers to whether the outcome (in this case it could be reward or compensation) is considered significant or not. For instance, if management offers something as an incentive to its employees, it may not produce the desired behaviour or impact if the latter considers it as insignificant or devoid of worth, commensurate with the effort required. Instrumentality could mean that an individual would be motivated to give superior performance (first-level outcome) in anticipation (expectation) of promotion (second-level outcome).

Expectancies are mental and cognitive. Although the concept of expectancy seems to be the same as that of instrumentality, expectancy relates efforts to first-level outcomes while instrumentality relates first-level outcomes and second-level outcomes. In other words, expectancy is the degree of probability that a particular action or effort will lead to particular first-level outcomes. Instrumentality refers to the degree of probability that first-level outcomes will lead to a desired second-level outcome. Put simply, motivation is a function of valence and expectancy.

Vroom’s concept can be interpreted thus: Individual gives company what it values, superior performance and expects, in return, promotion. Promotion is the instrumentality that management uses to obtain superior performance. Vroom provides insights into the conceptual determinants of motivation. Though he does not offer specific suggestions on what motivates, and his theory as based on the assumption that people are rational and logically calculating, real life situations may not be so idealistic. But then, it could well be seen that in companies where promotions are not based on superior performance, promotion policy and its administration could well become the de-motivating factors.

**2.3.3 Equity and Attribution Theories**
Stacy Adams, who proposed equity theory, argues that a major input into job performance and satisfaction is the degree of equity (or inequity) that people perceive in their work situation. Inequity occurs when a person perceives that the ratio of his or her outcomes to inputs and the ratio of a relevant other’s outcomes to inputs are unequal.

People feel unhappy not only when they receive less than what they consider they deserve, but also when they receive more than what they consider they deserve. When an employee receives more than what he/she considers is fair, they begin to wonder whether others too are receiving more than what they deserve. If it is indeed the case, the next question that comes to their mind is, whether others are receiving much more than what they deserve compared to what they are getting.
Related issues
Equity can be internal or external. Internal equity refers to the pay differential between and among the various skills and levels of responsibility. For instance, a skilled worker could get more than the unskilled worker. Whether a blue collar worker should get less or more than the white collar depends not only on relative skill differentials and difficulties in working conditions, etc., but also on the demand and supply of those skills and the dominant occupational preferences of people in the society. When in one engineering fabrication industry, gas cutters (welders) were getting less than grass cutters (gardeners), it was perceived by the technical staff that it was a glaring instance of a lack of internal equity, because in that industry welding is considered to be a highly rated technical trade and should command higher wage rate. Internal equity is established through job evaluation. Pay satisfaction surveys also provide insights into it. Job evaluation can be done not only for manual jobs, but also for managerial jobs. Collective bargaining pressures have, however, substantially eroded pay differentials based on skill differentials. In many industries, dearness allowance and other employee benefits constitute bulk of the pay-packet and basic pay, which is supposed to be based on the job. Evaluation constitutes only a small portion of the total pay packet.

External equity refers to concerns how wage/pay levels for similar skill levels in one firm compare with those in other firms in similar or same industry and location/region. For instance, if welders in one firm get the same as welders in the other firms in the industry/region there is perceived external equity. External equity is assessed usually through pay surveys and pay satisfaction surveys. Companies, which pay significantly less than the market rates, would find it difficult to attract, retain and motive people to perform better. Therefore, it is possible that low wage rates may not always be associated with low wage costs.

Non-discrimination should be an important consideration in pay policies. International Labour Organisation (ILO) Convention No.100 concerns equal remuneration for work of equal value. For similar skill, effort, responsibility and working conditions, pay should be similar. It is difficult to translate this principle into action because in reality pay differentials are based not only on these four factors but also on the demand for and supply of labour with relevant skills, the relative power of trade unions in collective bargaining which varies widely across sectors/industries and regions, the capacity to pay of the firm/industry and the employer policies concerning pay on whether to lead or lag the average pay trends, in the industry/location.

Alfred Marshal’s iron laws of wages suggest that the relative power of unions independent on four factors:
- The substitutability of the input of labour
- The substitutability of the output of labour
- The proportionate cost of labour
- The cumulative impact of the preceding three factors

As a result, for instance, a textile worker’s power to obtain higher wages could be less than that of, an airline pilot. In India, the principle of equal remuneration is upheld, partly through Equal Remuneration Act, 1976. The legislation is aimed at ending discrimination in remuneration based on sex. It does not, however, speak about equal remuneration for work of equal work. The legislation affords protection against discrimination against women workers who are covered by the definition of workman under the Industrial Disputes Act, 1947. Numerous judgements by courts limited the application of the concept of non-discrimination only to men and women doing similar work with similar qualifications in the same organisation.

Attribution
Fritz Heider and Lewin and Festinger contributed significantly to the attribution theory. It assumes that people are rational and logical in their behaviour and that both internal and external forces combine additively to determine behaviour. People will behave differently, if they realise that their outcomes are controlled more internally than externally. This theory has great potential for understanding, organisational behaviour and provides deep insights on goal setting, leadership behaviour and diagnosing causal factors of employee performance.
Implications for company policy
It makes sense for companies to review not only how much they spend on their employees’ salaries and benefits but also how they spend on various items. If they ask their employees how they wish the amount to be distributed across various items and compare how the company is actually spending, variations, if any, between the actual spending by the company and employees’ preferences on how they wish the amount to be distributed will give insights on how companies could maximise pay satisfaction without increasing the expenditure or cost to the company on account of employees pay and benefits. This is one of the reasons why several private sector organisations have conceived and operationalised cafeteria type benefit programmes for their employees, particularly in executive cadres. A fixed ‘ethali’ type menu means employees have no option to choose and some may be forced to leave many items on offer because they could not avail them due to their personal and family circumstances and preferences. In contrast, ala Carte or cafeteria method enables employee to choose items of their choice within a certain range of amount to which they become eligible.
Summary

- Wages are determined by the supply and demand for that particular type of labour.
- The factors which influence wages are supply price, skill, experience, ability and reputation.
- Public policy, company policy, collective bargaining pressures, trends in cost of living, technology and productivity, unit labour costs, capacity to pay and other aspects also play a vital role in determining the wage rates and wage levels for different occupations in different industries/regions.
- The economic theories of wages fail to provide a complete explanation of the problem of wage determination.
- The subsistence wage theory is based on the assumption that labour, like any other commodity, is purchased and sold in the market.
- The wages fund theory did not consider a simple equilibrium level to which wages must inevitably return.
- The marginal productivity theory is considered superior to the earlier theories on wages.
- According to the bargaining theory of wages, there is an upper limit and a lower limit of wage rates and the actual rates between these limits are determined by the bargaining power of the employers and the workers.

References

- nptelhrd, 2010. Lec-17 Wage and Salary Administration. [Video online] Available at: <https://www.youtube.com/watch?v=EthJBz6NWE0> [Accessed 17 July 2013].

Recommended Reading

**Self Assessment**

1. Which of the following are determined by the supply and demand of that particular type of labour?
   a. Wages
   b. Production rate
   c. Quality of product
   d. Incentives

2. Which of the following theory is relied on the Malthusian Law of Population?
   a. Subsistence theory
   b. Surplus value theory
   c. Wages fund theory
   d. Marginal productivity theory

3. Which of the following theory is associated with Karl Marx?
   a. Subsistence theory
   b. Surplus value theory
   c. Wages fund theory
   d. Marginal productivity theory

4. The principle of ______________ postulates that the contribution of each additional unit of labour would be less than that of the unit previously hired.
   a. Malthusian Law of Population
   b. Karl Marx Philosophy
   c. Diminishing Marginal Productivity
   d. Wages Fund Theory

5. According to which theory, there is an upper limit and a lower limit of wage rates and the actual rates between these limits are determined by the bargaining power of the employers and the workers?
   a. Subsistence theory
   b. Surplus wage theory
   c. Wages fund theory
   d. Bargaining theory of wages

6. According to which theory full employment is a function of national income?
   a. Subsistence theory
   b. Surplus wage theory
   c. Keynesian theory
   d. Bargaining theory of wages

7. Who proposed the hierarchy of five needs?
   a. Karl Marx
   b. Abraham Maslow
   c. Friedrich Hergberg
   d. John Davidson
8. Interference by government and trade unions could minimise the influence of the market forces of demand and supply of _______.
   a. product
   b. capital
   c. labour
   d. consumers

9. The ____________ did not consider a simple equilibrium level to which wages must inevitably return.
   a. Wages fund theory
   b. Surplus wage theory
   c. Subsistence theory
   d. Bargaining theory of wages

10. Which of the following factors do not influence wages?
    a. Supply price
    b. Skills
    c. Experience
    d. Community
Chapter III
Framework of Compensation Policy

Aim
The aim of this chapter is to:
- explain macro policy framework
- explicate micro policy considerations
- determine divergent perspectives of management and labour

Objectives
The objectives of this chapter are to:
- explain the framework for compensation policy at micro levels
- elucidate labour costs and productivity
- explicate pay and performance

Learning outcome
At the end of this chapter, you will be able to:
- define internal consistency
- understand the framework for compensation policy at macro levels
- describe external consistency
3.1 Introduction

Most modern societies have become welfare states. Laissez-faire no longer prevails. The State actively intervenes, sets the tone, direction and conditions, among other things, the wage and salary administration policies. Constitution, employers and unions, legislatures and courts actively influence public policy. The tone and tenor of public policy on wages/salaries in post-independent India have been set out in the Industrial Truce Resolution (1947), Industrial Policy Resolution (1948), the Constitution, successive plan documents, ministerial speeches, etc.

Compensation policies at company level are subject to the overall legislative and other mandatory principles/framework established by the government. A variety of considerations, both objective and subjective, weigh the determination of compensation policies at the company level. There is a need for a fit between organisational design and company policies. Companies also need to consider the policies of other companies, the pressures of collective bargaining (for unionised staff) and the profile and expectations of the workforce. There is often divergence in the interests of workers and management which need to be reconciled.

In actual practice compensation policies and structures are determined:

- Unilaterally by the employer in situations where the employer could exploit the prevailing labour market situation
- Jointly by management and workers’ union(s) through collective bargaining
- Through consultations among the three partners it government, management and labour representatives ii under the minimum wages legislation
- By wage boards (we now have only one wage board for journalists against for about 20 industries in early 1970) and pay commissions
- By courts through adjudication

In companies which are managed professionally and in a democratic manner job evaluation, employee satisfaction surveys and compensation surveys across companies in the industry/region provide useful inputs in determining the policy framework. Companies which wish to establish with performance and profitability additionally need to have in place in performance management systems with democratic goal setting, pre-determined criteria and procedure for evaluation and a transparent mechanism for administering pay policies.

In this chapter, we examine the key considerations. In compensation policy at macro and micro levels, the divergence in the interests of workers and management and two case illustrations of the range of issues and dilemmas faced in developing framework for compensation policy/revision.

3.2 Macro Policy Framework: Key Considerations Public Policy at Macro Level

The key considerations in public policy concerning wages/salaries in India may be identified as following:

- End exploitation and provide remuneration to capital and labour such that “while in the interests of the consumers and the primary producers excessive profits should be prevented by suitable measures of taxation and otherwise, both will share the product of their common effort after making provisions for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking.” (Industrial Truce Resolution, 1947)
- A living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities” (Constitution of India, Article 43). The Fair Wages Committee observed that IA living wage should enable the male earner to provide for himself and his family not merely the bare essentials of food, clothing, and shelter but a measure of frugal comfort including education for the children, protection against ill-health, requirements of essential needs and a measure of insurance against the more important misfortunes including old age.
- Fix statutory minimum wages in sweated industries and promote fair wage agreements in the more organised industries (Industrial Policy Resolution, 1948).
- Ensure equal pay for equal work (Constitution of India).
• Provide for wage differentials.
• Regulate wages and salaries to eliminate/reduce undue disparities.
• Link remuneration to productivity.
• Compensate for rise in cost of living.
• Determine fair wages over and above minimum wages with due regard to the productivity of labour as follows:
  - the prevailing level of wages
  - the level of national income and distribution
  - the place of industry in the economy of the country
• According to the Fair Wages Committee, minimum wage must provide not merely for the bare substance of life but for the preservation of the efficiency of the worker. The minimum wage must also provide for some measure of education, medical requirements and amenities. Fair wage should be above minimum wage and below living wage. While the lower limit of the fair wage must obviously be the minimum wage, the upper limit is equally set by what may broadly be called the capacity of the industry to pay.
• The capacity to pay. However, Supreme Court ruled that 'an employer who cannot pay minimum wages has no right to exist.' The capacity to pay becomes a subject of consideration to determine fair wages over and above minimum wages
• Basic needs of labour. The 15th session of Indian Labour Conference held in 1957 suggested that the minimum wages be need-based. The Second Central Pay Commission observed that need-based wages should ensure the minimum human needs of the industrial worker irrespective of any other considerations. Dr. Akroyd, Consultant to the Second Central Pay Commission observed that need-based minimum wages should be determined having regard to the following:
  - In calculating the need-based minimum wage, the standard working class family should be taken to consist of 3 consumption units for one earner; the earnings of women, children and adolescents should be disregarded.
  - Minimum food requirements should be estimated at a per consumption of 18 yards per annum which would give for the average workers’ family of four, a total of 72 yards.
  - In respect of housing the norm should be the minimum rent charged by government in any area for houses provided under the subsidised industrial housing scheme for low income groups.
  - Fuel, lighting and other miscellaneous’ items of expenditure should constitute 20 per cent of the total minimum wages.
• Wages should be adequate, sufficient and non-derogatory.
• The effect of wages in one sector on the rest of the economy must be reckoned.

**Practical difficulties in implementation**
In actual practice, one finds the following practical difficulties in implementation:
• Many terms like minimum wage; living wage and fair wage are not amenable for translation into money terms easily. It is difficult to operationalise the concept of a living wage and decent standard of life. It is not unusual to find workers, who by the measure of gross pay packet may constitute the middle class and be reckoned as relatively affluent by local community standards, but continue to live in abject poverty leading a sub-standard life.
• Minimum wages do not really matter. In the organised sector (particularly large and medium firms) most workers get much more than the minimum wages. In the unorganised sector, usually workers get less than the minimum wages. Widespread unemployment and underemployment make it difficult for even trade unions and government authorities to ensure strict compliance.
• The wages are not exploitative in the organised sector, but they are, usually, in the unorganised sector. In the organised sector, several firms may be usually found wanting in terms of norms of fairness due to bargaining pressures, etc.
The concept of equal pay for equal work has a very limited and narrow application in Indian law and practice. The concept, as envisaged in the ILO Convention No. 100 focuses on equal pay for work of equal value. It is decided with reference to four attributes, i.e., skill, effort, responsibility and working conditions. In practice, however, collective bargaining, government interference and neutralisation for rise in cost of living undermine the link between pay and the four attributes mentioned above. Wage differentials within the enterprise and across the enterprises were significantly compressed over the years. Differences in dearness allowance payment systems created additional disparities.

So, far linking wages to productivity remained a far cry. In the absence of systematic attempts at defining and measuring factor productivity most of the existing collective arrangements were borne out of relative bargaining power of parties and other expediencies based on short-term considerations. The IV Central Pay Commission observed that there were many short-comings in the conceptualisation and implementation of the productivity linked bonus schemes. In several instances, bonuses were paid without productivity.

The question whether real wages are maintained or declining in the organised sector depends on whether the reference point is the basic wage or the total emoluments. The subject has become quite contentious on three grounds:

- Elements and computation of index
- Method and degree of neutralisation
- Elements of pay reckoned for neutralisation

It is difficult to determine whether wages are adequate, sufficient and non-derogatory. As Mahatma Gandhi observed, it is possible to pay for one’s needs, not his greed. Whether wages are non-derogatory, depends also on the occupational values in the society.

Wage relatives are worsening over the years. Workers in the organised sector not just the public sector seem to get more and more for working less and less and the reverse seems to be generally the case in the unorganised sector. The degree of worsening of the real wage rates in the unorganised sector of our economy seems to be inversely related to the growth of trade union power and official intervention in the labour markets in the organised sector in general and in the public sector in particular.

3.3 Macro Policy Considerations: Company Compensation Policy

Compensation policies need to be established in every enterprise taking the following aspects into consideration, besides due regards to the provisions of public policy, job-evaluation and collective bargaining.

3.3.1 Attraction and Retention

Usually, an enterprise endeavours to recruit and, retain the best people available. One of the ways of attracting and retaining the best and the brightest is to pay more than what they would get anywhere else for similar skills and levels. Some firms endeavour to be wage leaders. This deliberate corporate strategy may create a situation of ‘wage islands’ which pose problems from societal point of view.

Unlimited wage disparities cause distortions in the economy. Still, enterprises with prime concern for micro consideration may adopt this strategy subject to governmental restraints on account of national wage/income policies. Multinationals that operate in developing countries usually pay much higher than the indigenous firms in both private and public sectors.

3.3.2 Internal Consistency

Compensation policies should take into account the differentials in skills, and levels in respect of both responsibility and authority. A sense of proportion needs to be maintained to achieve internal consistency, so that wage/salary levels conform to the differences in hierarchy and skills. Conceived differentials may lead to conflict among work groups. In a fabrication unit, after wage revision the welders were getting less than gardeners. The technical staff in the organisation resented this by sloganeering and protests: Should, grass-cutters (gardeners) get more than gas-cutters (welders)? At the macro-level similar questions (e.g., should a peon in a rural bank get more than a school teacher in the same village?) Arise due to occupational values in the society and skill endowment at a given stage of economic development. But at the micro-level, internally within the firm, such questions need careful examination each time decisions are taken to review salary scales.
3.3.3 External Consistency
The simplest and most widely used criteria are to consider what is generally known as the going rate in the labour market for comparable jobs in the industry/region. While deciding wage rates in public sector, comparison may be made of wage rates in private sector for comparable jobs. It is possible that public sector units may fix relatively lower wage rates than private sector units because the former affords a greater sense of job security. But, if the differentials are significant enough, public sector may find it difficult to attract the right talent. For key jobs, if the rates are not uniform, inter and intra-sectorally and among industry groups, there may be imbalances in the distribution of skills and talents.

3.3.4 Ability to Pay
As already mentioned, wherever minimum wage legislation is applicable, enterprise should pay minimum wages irrespective of their capacity to pay. Over and above the minimum wages, enterprises pay more depending upon their ability to pay. Also, enterprises vulnerable to union pressures may end up paying more than this due to the coercive bargaining power of the unions. It is not uncommon to see enterprises paying much less than what they can pay just because the employees are not organised.

3.3.5 Pay and Performance
Linking pay to performance is sound and makes good sense. However, in the organised sector in India, the compensation policies have, unfortunately, a remote relationship, if ever, between pay and performance. Analysis of the components of total wage/salary reveals that over the years a substantial part of the rise in the pay is intended to meet the rise in the cost of living. While basic wage/salary and even bonus is not usually related to performance, many enterprises have a wide range of production incentive systems.

It is important for any organisation which wishes to establish any linkage between pay and performance to design the organisation, jobs and work flow in such a manner where employees covered by the performance linked pay system are able to make a difference to the outcomes of their work. This means democratisation of workplace with locus control in the hands of those who perform work. Another key problem with linking pay with performance concerns the absence criteria and tools to measure performance objectively and the inability to evolve mutually satisfactory norms of sharing the fruits of performance between labour and capital.

3.3.6 Labour Costs and Productivity
Wages and salaries can be linked to the productivity and profitability of an enterprise. Growing and profit-earning enterprises find it easier to pay more than stagnant and loss-incurring enterprises though it is the latter category which would be most hard pressed to attract and retain skills. Again wage costs as a percentage to total costs would be higher in labour intensive firms than capital intensive firms and in assembly-type units than in process units. For instance, in India, the labour cost as a percentage of total cost could be around 60 in coal mining against barely 2 or 3 percent in petro-chemicals or fertilizers. In most manufacturing firms, it does not exceed 15 to 16 per cent. Capital intensive process units can thus afford to pay substantially more than labour intensive units because the impact of higher wages and salaries on output costs is not as acute as in labour intensive units. Also in recent years, productivity bargaining is gaining ground in India too.

For example, the ITC increased the pay scales of unionised employees substantially through wage agreement whereby the union agreed to cooperate with the management in maintaining the share of labour cost in the ex-factory cost per cigarette at the same level over a five-year period. Many firms have entered into wage agreements which entailed a trade off between more jobs versus more wages. For example, Premier Automobiles Ltd. could accomplish a major productivity bargaining agreement. Several other chemical and engineering firms had in recent years entered into similar agreements. However, such agreements raise questions about their effects on level of employment in the economy, particularly in the context of widespread unemployment and on the firm in the event of a recession. The counter argument is, “What is the point in keeping wages low, if you cannot keep the labour costs too low?” Quite often firms in India find labour is cheap, but not the cost of labour.
### 3.3.7 Cost of Living

Dearness Allowance (DA) and City Compensatory Allowance (CCA) now form integral part of most wage structures. The general principle underlying these allowances is to neutralise at least a portion of the increase in the cost of living. Where these allowances do not form part of the wage structure, ad hoc and lump sum, increases in pay are unilaterally announced by managements to partially provide for such neutralisation. It may be observed in certain private sector organisations which follow both the systems, the ad hoc pay increases are (usually for staff and managerial employees) at least equal to the increase in DA sanctioned to those governed by the DA scheme (usually workmen) since the time ad hoc pay increase was sanctioned last till the current ad hoc pay increase.

Wage and salary increase related to increase in cost of living usually poses additional burden on the employer without corresponding to improvement in productivity. The additional financial burden is met by adjusting the prices, if the market can bear it and public policy allows. Otherwise, the pressure is on firms to cut costs elsewhere or seek productivity improvements to absorb the increase in wage costs.

### 3.3.8 Merit and Seniority Progression

Merit progression refers to the practice of rewarding a person according to one’s contribution. Merit progression is usually based on annual performance appraisal. When the person’s performance is outstanding or distinctively above average, the organisation may like to reward him with extra (over and above the normal) increment(s). There are, of course, other less used ways of rewarding merit/superior performance. These include production incentive and profit-sharing schemes, bonus, promotions, job enlargement and job enrichment.

Usually most pay-scales provide for step increases over a time scale. Annual increments in basic pay accrue to the employee as he accumulates experience till he reaches the end of the pay scale. Some organisations provide for time bound promotions and stagnation allowances too. Time-bound promotions refer to the practice of promotion to the next grade after the person completes service in the present grade for a specified number of years. Stagnation allowance refers to the practice of sanctioning extra increments or lump sum amount after the person reaches the end of the pay-scale.

As a result of the above practices, the senior employees get more pay (higher basic and consequential increases in other benefits like DA, Provident Fund, etc., which are usually expressed as a fraction or percentage of basic pay) than their juniors even though both would be doing same or similar work. The logic for seniority progression is that as a person accumulates experience, his skills get sharpened and productive efficiency goes up. This may, in jobs requiring manual skill and dexterity continue to happen only up to a point and thereafter, because of age, and other considerations, the productive efficiency may decline. In jobs requiring mental skills (teaching, for instance), there may not be any similarly evident saturation or declining point unless the person becomes senile.

### 3.3.9 Motivation

“Money may not be everything but everything else may be way behind!” Company compensation policy can be an effective tool to motivate people for superior performance. There is a lot of debate on whether after a point money ceases to be a motivating factor, due to several reasons such as individual preferences, consequential trade offs (in terms of family and social obligations, etc), taxation policies, etc. A wide variety of non-monetary incentives have therefore been devised to compensate, reward, sustain and improve superior performance.

### 3.4 Divergent Perspectives of Management and Labour

The perspectives of management and labour vary on matters concerning pay and benefits as shown in Table 3.1.

As balance sheets are sometimes pieces of even in public sector, it is difficult to assess the real capacity to pay of the employer. It is useful to watch what the senior management tells the media and the shareholders, and what they tell the trade unions and the workers. Also, typically employers focus on the product markets, and trade union leader’s focus on the labour markets. When one looks at product markets one is reminded of the rapid changes, shorter product life-cycles, higher competition, and eroding margins. Therefore, employers would argue that they have less capacity.
Labour would argue that since labour costs are usually less than 20 per cent of the total costs, instead of focusing on reducing labour costs, managements should seek the cooperation of labour in reducing other costs and share the gains with the labour and other stakeholders.

Therefore, at the micro level, the policy framework on compensation varies depending on the viewpoint: management or labour. In some industrialised countries with cooperative relations particularly Japan, Germany and Scandinavian countries, labour and management cooperate at the workplace level for expanding the pie and resolve the conflict at the bargaining table over how much more each of them should get. Since, the pie has already been expanded both can get more without shrinking the share of the other. Thus, even if, to begin with interests are divergent, it is possible to find commonality of purpose work for mutual gains.

<table>
<thead>
<tr>
<th>Management</th>
<th>Labour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to pay (balance sheets)</td>
<td>Ability to live and work (family budget surveys, Need-based minimum wages)</td>
</tr>
<tr>
<td>Cost effect</td>
<td>Price effect</td>
</tr>
<tr>
<td>Wage costs, not wage levels</td>
<td>Wage levels, not wage costs</td>
</tr>
<tr>
<td>Unit labour costs</td>
<td>How long to sweat it out for a loaf of bread</td>
</tr>
<tr>
<td>Source of competitiveness- therefore reduce or cut costs</td>
<td>Source of livelihood- therefore maximise wages/ earnings and benefits</td>
</tr>
</tbody>
</table>

**Table 3.1 Divergent perspective of management and labour on wages/salaries**
Summary

- Compensation policies at company level are subject to the overall legislative and other mandatory principles/framework established by the government.
- The wages are not exploitative in the organised sector, but they are, usually, in the unorganised sector.
- Compensation policies need to be established in every enterprise taking the following aspects into consideration, besides due regards to the provisions of public policy, job-evaluation and collective bargaining.
- Compensation policies should take into account the differentials in skills, and levels in respect of both responsibility and authority.
- While deciding wage rates in public sector, comparison may be made of wage rates in private sector for comparable jobs.
- Wages and salaries can be linked to the productivity and profitability of an enterprise.
- Growing and profit-earning enterprises find it easier to pay more than stagnant and loss-incurring enterprises though it is the latter category which would be most hard pressed to attract and retain skills.
- Dearness Allowance (DA) and City Compensatory Allowance (CCA) now form integral part of most wage structures.

References


Recommended Reading

Self Assessment

1. __________ at company level are subject to the overall legislative and other mandatory principles/framework established by the government.
   a. Company policy
   b. Compensation policy
   c. Business policy
   d. Political policy

2. The ________ are not exploitative in the organised sector, but they are, usually, in the unorganised sector.
   a. incentives
   b. bonus
   c. wages
   d. capital

3. ______ and ________ can be linked to the productivity and profitability of an enterprise.
   a. Wages, salaries
   b. Bonus, incentives
   c. Wages, bonus
   d. Salaries, bonus

4. Which of the following policies should take into account the differentials in skills, and levels in respect of both responsibility and authority?
   a. Economic
   b. Capital
   c. Compensation
   d. Political

5. Merit progression is usually based on ________ performance appraisal.
   a. quarterly
   b. annual
   c. monthly
   d. half yearly

6. __________ refers to the practice of rewarding a person according to one’s contribution.
   a. Merit progression
   b. Seniority progression
   c. Demerit progression
   d. Juniority progression

7. __________ and __________ now form integral part of most wage structures.
   a. Dearness allowance and food allowance
   b. Dearness allowance and home allowance
   c. Dearness allowance and city compensatory allowance
   d. Food allowance and travelling allowance
8. _________ allowance refers to the practice of sanctioning extra increments or lump sum amount after the person reaches the end of the pay-scale.
   a. Dearness
   b. Travelling
   c. Food
   d. Stagnation

9. Which of the following statements is false?
   a. Merit progression refers to the practice of rewarding a person according to one’s contribution.
   b. Merit progression is usually based on monthly performance appraisal.
   c. A sense of proportion needs to be maintained to achieve internal consistency, so that wage/salary levels conform to the differences in hierarchy and skills.
   d. The concept of equal pay for equal work has a very limited and narrow application in Indian law and practice.

10. In the _________ sector, usually workers get less than the minimum wages.
    a. organised
    b. private
    c. unorganised
    d. public
Chapter IV
Wage Concepts and Definition of Wages under Various Labour Legislations

Aim
The aim of this chapter is to:

- explain wage concepts
- define wages under various labour legislation
- explain the concept of statutory minimum wage

Objectives
The objectives of this chapter are to:

- explain bare subsistence or minimum wage
- elucidate living wage
- explicate fair wage

Learning outcome
At the end of this chapter, you will be able to:

- define need-based minimum wage
- understand the Payment of Wages Act 1936
- describe the Minimum Wages Act, 1948
4.1 Wage Concepts

Broadly speaking, wages have been classified into six broad categories:

- Statutory minimum wage
- Bare subsistence or minimum wage
- Living wage
- Fair wage
- Minimum wage
- Need-based minimum wage.

The statutory minimum wage is determined according to the provisions of the Minimum Wages Act, 1948. Category (ii) is the innovation of the Indian judiciary. Category (iii), (iv) and (v) have been introduced in the Report of the Committee on Fair Wages. Category (vi), i.e., need-based minimum wage, has emerged from the Resolution of the 15th Session of the Indian Labour Conference but has been modified by the courts.

Let us now discuss each of these in some detail:

4.1.1 The Statutory Minimum Wage

The statutory minimum wage, which is prescribed under the Minimum Wages Act, 1948 is higher than the bare subsistence or minimum wage, providing for some measure of education, medical requirements and amenities.

4.1.2 The Bare Subsistence or Minimum Wage and Salary Administration

The Bare minimum wage is a “wage would be sufficient to cover the bare physical needs of the worker and his family, i.e., a rate which has got to be paid to the worker irrespective of the capacity of the industry to pay”.

4.1.3 The Concept of the Living Wage

Justice Higgins of the Australian Commonwealth Court of the Conciliation in the Harvester Case defined living wage as one appropriate for “the normal needs of the average employee, regarded as a human being living in a civilized community.” According to him, the living wage must provide not merely for absolute essentials such as food and clothing but for “a condition of frugal comfort estimated by current human standards”. He explained it further by saying that it was “sufficient to insure the workmen, food, shelter, clothing, frugal comfort, provision for evil days, etc., as well as, regards for the special skills of an artisan, if he is one.”

Article 43 of the Indian Constitution has also adopted the following as one of the Directive Principles of State Policy: The State shall endeavour to secure, by suitable legislation or economic organisation or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities. This is the ideal to which the workers are hopefully looking forward to achieve. The promises are piling-up but the day of fulfilment is nowhere in sight.

In All India Bank Employee’s Association vs. Reserve Bank of India, (1965) 2 L.L.J. 175 (SC) Hidayatullah, J. observed: Our political aim is living wage though in actual practice, living wage has been an ideal which has included our efforts like an ever receding horizon and will so remain for some time to come. Our general wage structure has at best reached the lower levels of fair wage though some employers are paying much higher wages than the general average.

Subba Rao, C.J. in Hindustan Antibiotics Ltd. vs. Their Workmen, (1967) 1 L.L.J. 114(SC) has, however, struck an optimistic note that prosperity in the country would help to improve the conditions of labour, and standard of life of the labour can be progressively raised from the stage of minimum wage, passing through need-based wage, fair wage, to living wage.
In Management Ore (India) Ltd., vs. Chandi Lal Saha, (1991) 1 L.L.J. 114 (SC), the Supreme Court held that the management specially of public undertakings, are bound by the Directive Principles of State Policy enshrined under Part IV of the Constitution. The workers must, therefore, be ensured a living wage, just and human conditions of work and a decent standard of life. The management accordingly must endeavour to secure for the workmen apart from wages other amenities like supply of essential commodities at concessional rates, medical aid, and housing facility, education for children, old age benefits and opportunities for social, cultural and sport activities.

4.1.4 The Concept of Fair Wage

The committee of fair wages said that the fair wages lies between a minimum wage and a living wage. The committee foresee that while the lower limit of the fair was must obviously be the minimum wage, the upper limit is equally set by what may broadly be called the capacity of the industry to pay. This will depend not only on the present economic position of the industry but on its future prospects. Between these two limits the actual wages will depend on:

- The productivity of labour
- The prevailing rates of wages in the same or similar occupations in the same or neighbouring localities
- The level of the national income and its distribution
- The place of the industry in the economy of the

In Hindustan Times Ltd., vs. Their Workmen, (1963) 1 L.L.J. 108, the Supreme Court defined fair wage as something above the minimum wage, “which may roughly be said to approximate to the need based minimum wage, in the sense of a wage which is adequate to cover the normal needs of the average employee, regarded as a human being in a civilised society”.

In Kamani Metals and Alloys Ltd., vs. Their Workmen, (1967) 2 L.L.J. 55, Hidayatullah, J. observed: Fair wage lies between the minimum wage which must be paid in any event, and the living wage which is the goal. In Sangam Press vs. Workmen, (1975) Lab. I.C. 149 (SC), the Supreme Court noted that in case of fair wage, besides the principle of industry-cum-region, the company’s capacity to bear the financial burden, past performance of the company, and future prospects must receive due consideration.

Again, in Shiv Raj Fine Arts Litho Work vs. State Industrial Court, Nagpur, (1978) Lab. I.C. 828 (SC), the Supreme Court observed that the fair wage will grow with the growth and development of the national economy and the progress made by the industry must approximate to the capacity of the industry to pay.

Thus, the concept of fair wage implies a wage sufficiently high to enable a worker a standard family to provide with for food, shelter, clothing, medical care and education of children appropriate to his status in life.

4.1.5 Minimum Wage

The committee on fair wages stated that the minimum wage must provide not merely for the subsistence of life, but for the preservation of the worker. The Committee also stated, that an industry which was incapable of paying this minimum wage had no right to exist, and for fixing the minimum wage, no regard should be paid to the capacity of the industry to pay and it should be based on the requirements of the worker and his family, (Government of India, Report of the Committee on Fair Wages, p. 15 cited in the Report of the National Commission on Labour). The above observations about minimum wage have been corroborated by industrial adjudications, particularly by the Supreme Court.

In Workmen of Orient Paper Mills Ltd., vs. Orient Paper Mills, (1969) 2 L.L.J. 398 (SC), the Supreme Court observed that thought in fixing non-statutory minimum wage the capacity of the industry to pay is irrelevant, the industrial adjudication has to bear in mind the minimum wage paid by the similarly situated industries in the region.
In Hindustan Times Ltd., vs. Their Workmen, (1963) 1 L.L.J. 108, the Supreme Court explained the concept of minimum wage and observed: At the bottom of the ladder, there is the minimum basic wage which the employer of any industrial labour must pay in order to be allowed to continue an industry. Above this is the fair wage, which may roughly be approximate to the need-based minimum in the sense of a wage which is adequate to cover the normal needs of the average employee regarded as a human being in a civilized society. Above the fair wage is the living-wage which will maintain the workmen in the highest state of industrial efficiency, which will enable him to provide his family with all the material things which are needed for their health and physical well being, enough to enable him to qualify to discharge his duties as a citizen.

4.1.6 Need-based Minimum Wage

The fifteenth Indian Labour Conference held in 1957 at National for the first time, delineated the concept of minimum wage for all workers industry reproduced below which is with regard to the minimum wage was ‘need-based’ and should ensure the minimum human needs of the industrial worker, irrespective of any other considerations. To calculate the minimum wage, the committee accepted the following five norms and recommended that they should guide all wage-fixing authorities, including minimum wage committees, wage boards, adjudicators, etc.

- In calculating the minimum wage, the standard working-class family should be taken to consist of three consumption units for one earner, the earnings of women, children, and adolescents should be disregarded.
- Minimum food requirements should be calculated on the basis of a net intake of 2,700 calories, as recommended by Dr. Aykroyd for an average Indian adult of moderate activity.
- Clothing requirements should be the minimum rent charged by government in any area for houses provided under the subsidised industrial housing scheme for low-income groups.
- Fuel, lighting and other miscellaneous items of expenditure should constitute 20 per cent of the total minimum wage.

However, the committee recognised the existence of instances where difficulties might be experienced in implementing these recommendations. Wherever the minimum wage fixed went below the recommendations, it would be incumbent on the authorities concerned to justify the circumstances which prevented them from adherence to the norms laid down.

The second pay commission examined the norms set by the 15th Session of the I.L.C. The National Commission on Labour which examined this aspect came to the observed that most of the wage boards have taken into consideration the capacity to pay in fixing the minimum for the respective industries and the wages fixed by them fall in the realm of fair wages, though at its lower level. The need-based minimum wage is also a level of fair wage and represents a wage higher than the minimum obtaining at present in many industries, though it is only in the lower reaches of the fair wage. It, therefore, holds that in fixing the need-based minimum, the capacity to pay will have to be taken into account.


The concept of “minimum wage” is no longer the same as it was in 1936. Even 1957 is way behind. A worker’s wage is no longer a contract between an employer and an employee. It has the force of collective bargaining under the labour laws. Each category of the wage structure has to be tested at the anvil of social justice which is the live fibre of our society today. Keeping in view the socio-economic aspect of the wage structure, we are of the view that it is necessary to add the following additional component as a guide for fixing the minimum wage in the industry.

Children education, medical requirement, minimum recreation including festivals/ ceremonies and provision for old age, marriages, etc. should further constitute 25% of the total minimum wage. The wage structure which approximately answers the above six components is nothing more than a minimum wage at subsistence level. The employees are entitled to the minimum wage at all time and under all circumstances. An employer who cannot pay the minimum wage has no right to engage labour and no justification to run the industry.
4.2 Definition of Wages under Various Labour Legislation

The term “wages” have been defined differently under various labour enactments. Some Acts instead of defining the term “wages” defined the term “basic wages” or “remuneration”.

4.2.1 The Payment of Wages Act 1936

Section 2(vi) of The Payment of Wages Act defined “wages” to mean: All remuneration (whether by way salary, allowances or otherwise) expressed in terms of money or capable of being so expressed which would, if the terms of the employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment, and includes:

- any remuneration payable under any award or settlement between the parties or order of a court
- any remuneration to which the person employed is entitled in respect of overtime work or holidays or any leave period
- any additional remuneration payable under the terms of employment (whether called a bonus or by any other name)
- any sums which by reason of termination of employment of the person employed of such sum, whether with or without deductions but does not provide for the time within which the payment is to be made
- any sum to which the person employed is entitled under any scheme framed under
- any law for the time being in force

It, however, does not include:

- any bonus (whether under a scheme of profit-sharing or otherwise) which does not form part of the remuneration payable under the terms of employment or which is not payable under any award or settlement between the parties or order of a Court
- the value of any house-accommodation, or the supply of light, water, medical attendance or other amenity or of any service excluded from the computation of wages by a general or special order of the State Government
- any contribution paid by the employer to any pension or provident fund, and the interest which may have accrued thereon
- any travelling allowance or the value of any travelling concessions
- any sum paid to the employed person to defray special expenses entailed on him by the nature of his employment; or
- any gratuity payable on discharge

4.2.2 The Minimum Wages Act, 1948

Section 2(h) of the Minimum Wages Act, 1948 defines “wages” to mean: all remuneration capable of being expressed in terms of money, which would, if the terms of the contract of employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment, and includes house rent allowance, but does not include:

- the value of (a) any house accommodation, supply of light, water, medical attendance; or (b) any other amenity or any service excluded by general or special order of the appropriate Government;
- any contribution paid by the employer to any Pension Fund or Provident Fund or under any scheme of social insurance;
- any travelling allowance or the value of any travelling concession;
- any sum paid to the person employed to defray special expenses entailed on him by the nature of his employment; or
- any gratuity payable on discharge

Compensation for Teams. American Management Association. New York:1995 three conditions must be satisfied:

- It must be remuneration
- It must be payable if the terms of employment (express or implied) were fulfilled
- It must be payable in respect of employment or work done in such employment
A perusal of the aforesaid definition reveals that three conditions must be satisfied before the payment can be said to be included therein: (i) it must be remuneration, (ii) such remuneration must be capable of being defined in terms of money, (iii) it should be payable after fulfilling the terms of contract of employment.

4.2.3 Payment of Bonus Act, 1965
Section 2(21) defines “Salary or Wage” to mean: all remuneration (other than remuneration in respect of overtime work) capable of being expressed in terms of money, which would, if the terms of employment, express or implied, were fulfilled, be payable to an employee in respect of his employment or of work done in such employment and includes dearness allowance (that is to say, all cash payments, by whatever name called, paid to an employee on account of rise in the cost of living), but does not include:

- any other allowance which the employee is for the time being entitled to;
- the value of any house accommodation or of supply of light, water, medical attendance or other amenity or of any service or of any concessional supply of food grains or other articles;
- any travelling concession;
- any bonus (including incentive, production and attendance bonus);
- any contribution paid or payable by the employer to any pension fund or provident fund or for the benefit of the employee under any law for the time being in force;
- any retrenchment compensation or any gratuity or other retirement benefit payable to the employee or any ex-gratia payment made to him;
- any commission payable to the employee

Explanation
Where an employee is given to lieu of the whole or part of the salary or wage to him, free food allowance or free food by his employer, such food allowance or the value of such food shall, for the purpose of this clause, be deemed to form part of the salary or wage of such employee.

4.2.4 Payment of Gratuity Act, 1972
Section 2(s) defines “Wages” mean: “all emoluments which are earned by an employee while on duty or on leave in accordance with the terms and conditions of his employment and which are paid or are payable to him in cash and includes dearness allowance but does not include any bonus, commission, house rent allowance, overtime wages and any other allowance”.

4.2.5 Employees’ State Insurance Act, 1948
Section 2(22) defines “Wages” to mean all remuneration paid or payable in cash to a woman, if the terms of the contract of employment, express or implied, were fulfilled and includes:

- such cash allowances (including dearness allowance and house rent allowance) as a woman is for the time being entitled to;
- incentive bonus; and
- the money value of the concessional supply of food grains and other articles; but does not include:
  - any bonus other than incentive bonus;
  - overtime earnings and any deduction or payment made on account of fines;
  - any contribution paid or payable by the employer to any pension fund or provident fund or for the benefit of the woman under any law for the time being in force; and any gratuity payable on the termination of service.
4.2.6 The Employees’ Provident Fund and Miscellaneous Provisions Act, 1952

- Section 2(b) defines “Basic Wages” to mean: all emoluments which are earned by an employee while on duty or on leave with wages in accordance with the terms of the contract of employment and which are paid or payable in cash to him. It, however, does not include:
  - the cash value of any food concession
  - any dearness allowance (that is to say, all cash payment by whatever name called paid to an employee on account of a rise in the cost of living), house rent allowance, overtime allowance, bonus, commission or any other similar allowance payable to the employee in respect of his employment or of work done in such employment, and
  - any presents made by the employer

4.2.7 Equal Remuneration Act, 1976

Section 2(g) defines “Remuneration” to mean: the basic wage or salary and any additional emoluments whatsoever payable, either in cash or in kind, to a person employed in respect of employment or work done in such employment, if the terms of the contract of employment, express or implied, were fulfilled.

4.2.8 Workmen’s Compensation Act, 1923

Section 2(m): defines “Wages” to include any privilege or benefit which is capable of being estimated in money, other than a travelling allowance or the value of any travelling concession or a contribution paid by the employer of a workman towards any pension or provident fund or a sum paid to a workman to cover any special expenses entailed on him by the nature of his employment.

4.2.9 Industrial Disputes Act, 1947

Section 2(rr) defines “wages” to mean: all remuneration capable of being expressed in terms of money, which would, if the terms of employment, express or implied, were fulfilled, be payable to a workman in respect of his employment, or of work done in such employment, and includes:

- such allowance (including dearness allowance) as the workman is for the time being entitled to
- the value of any house accommodation, or of supply of light, water, medical attendance or other amenity or of any service or of any concessional supply of food grains or other articles
- any travelling concession

It, however, does not include:

- any bonus;
- any contribution paid or payable by the employer to any pension fund or provident fund or for the benefit of the workman under any law for the
- time being in force;
- any gratuity payable on the termination of his service
Summary

- The statutory minimum wage is determined according to the provisions of the Minimum Wages Act, 1948.
- The statutory minimum wage, which is prescribed under the Minimum Wages Act, 1948 is higher than the bare subsistence or minimum wage, providing for some measure of education, medical requirements and amenities.
- The Bare minimum wage is a “wage would be sufficient to cover the bare physical needs of the worker and his family, i.e., a rate which has got to be paid to the worker irrespective of the capacity of the industry to pay.
- The committee of fair wages said that the fair wages lies between a minimum wage and a living wage.
- The committee on fair wages stated that the minimum wage must provide not merely for the subsistence of life, but for the preservation of the worker.

References


Recommended Reading

1. The statutory minimum wage is determined according to the provisions of the ____________.
   a. Minimum Wages Act, 1948
   b. Minimum Wages Act, 1938
   c. Minimum Wages Act, 1928
   d. Minimum Wages Act, 1958

2. Wages have been classified into _____ categories.
   a. Three
   b. Four
   c. Five
   d. Six

3. What does ILC stands for?
   a. Indian Labour Court
   b. International Labour Court
   c. Indian Law Council
   d. Indian Labour Conference

4. The committee on fair wages stated that the minimum wage must provide not merely for the subsistence of life, but for the ____________ of the worker.
   a. Preservation
   b. Greed
   c. Family
   d. Prevention

5. The committee of fair wages said that the ______________ lies between a minimum wage and a living wage.
   a. fair wages
   b. living wages
   c. statutory minimum wage
   d. minimum wage

6. Match the following
   1. Equal Remuneration Act A. 1923
   2. Workmen’s Compensation Act B. 1947
   3. Industrial Disputes Act C. 1948
   4. Employees’ State Insurance Act D. 1976
   a. 1-A, 2-B, 3-C, 4-D
   b. 1-D, 2-A, 3-B, 4-C
   c. 1-C, 2-A, 3-D, 4-B
   d. 1-D, 2-C, 3-B, 4-A
7. The employees are entitled to the _______________ at all time and under all circumstances.
   a. living wage
   b. fair wage
   c. minimum wage
   d. statutory minimum wage

8. An employer who cannot pay the ____________ has no right to engage labour and no justification to run the industry.
   a. statutory minimum wage
   b. minimum wage
   c. living wage
   d. fair wage

9. The concept of “minimum wage” is no longer the same as it was in __________.
   a. 1950
   b. 1944
   c. 1964
   d. 1936

10. Fuel, lighting and other miscellaneous items of expenditure should constitute ___________ percent of the total minimum wage.
    a. 10
    b. 20
    c. 15
    d. 25
Chapter V
Law Relating to Payment of Wages and Bonus

Aim
The aim of this chapter is to:

• introduce the Payment of Wages Act, 1936
• explicate the purpose of the Payment of Wages Act, 1936
• explain important provisions of the Payment of Wages Act, 1936

Objectives
The objectives of this chapter are to:

• explain the Payment of Wages Act, 1936
• elucidate the Payment of Bonus Act, 1965
• explicate the concept of bonus

Learning outcome
At the end of this chapter, you will be able to:

• identify the scope of Payment of Bonus Act, 1965
• understand the Payment of Bonus Act 1936
• describe the Payment of Wages Act, 1936
5.1 Introduction

In 1926 Government of India wrote to Local Governments to ascertain the position with regard to the delays which occurred in the payment of wages to the person employed in Industry. Material so collected was placed before the Royal Commission on Labour which was appointed in 1929. On the report of the Commission Government of India re-examined the subject and in February, 1933 the Payment of Wages Bill, 1933, was introduced in the Legislative Assembly and circulated for the purpose of eliciting opinions.

A motion for the reference of the Bill to a Select Committee was tabled but the motion could not be passed and the Bill lapsed. In 1935 the Payment of Wages Bill, based upon the same principles as the earlier Bill of 1933 but thoroughly revised was introduced in the Legislative Assembly on 15th February, 1935. The Bill was referred to the Select Committee. The Select Committee presented its report on 2nd September, 1935. Incorporating the recommendations of the Select Committee the Payment of Wages Bill, 1935 was again introduced in the Legislative Assembly.

5.2 Payment of Wages Act, 1936

The Payment of Wages Act, 1936 was enacted with a view to regulate the payment of wages to certain classes of persons employed in industry. The regulation contemplated by the Act is two-fold:

(i) to ensure regular and prompt payment of wages, and
(ii) to prevent exploitation of wage-earners by prohibiting arbitrary fines and deductions from wages

Application of the Act

The Payment of Wages Act, 1936 extends to the whole of India. It came into operation on 28th March, 1937. It applies in the first instance to the payment of wages to:

(i) Persons employed in any factory:
(ii) Persons employed (otherwise than in factory) upon any railway by a railway administration, either directly or, through a subcontractor, by a person fulfilling a contract with a railway administration and
(iii) Persons employed in an industrial or other establishment specified in sub clauses (a) to (g) of clause (ii) of section.

The Act empowers the State Government to extend the application of the whole or part of the Act to any class of persons employed in the establishment or class of establishments specified by the Central/ State Government under Section 2(h)(ii). However, before doing so the State Government is required to (i) issue three months’ notice of its intention to do so; and (ii) issue a notification of the extension in the official Gazette. But in relation to establishment owned by the Central Government, no such notification shall be issued except with the concurrence of that Government.

Important Provisions of Act

Section 3: Responsibility for payment of wages

Section 3 makes every employer responsible for the payment to persons employed by him of all wages required to be paid under the Act. Quite apart from this, the following persons shall also be responsible for the payment of wages for persons employed otherwise by a contractor:

(i) in a factory, a person named as manager of a factory under the Factories Act, 1948,
(ii) in industrial or other establishment a person responsible to the employer for the supervision and control of the industrial or other establishment and
(iii) upon railways (otherwise than in factories), if the employer is the railway administration and the person nominated in this behalf.

Section 4: Fixation of wage-periods

Section 4 imposes an obligation on every person responsible for the payment of wages under section 3, to fix periods in respect of which such wages shall be payable. Such wage-period shall not exceed one month.
Section 5: Time of payment of wages
Section 5 of the Act lays down that the wages of every person employed upon or in:

(i) any railway, factory or other establishment upon or in which less than one thousand persons are employed, shall be paid before the expiry of the seventh day.

(ii) any other railway, factory or industrial or other establishment, shall be paid before the expiry of the tenth day after the last day, of the wage-period in respect of which the wages are payable.

(iii) in the case of persons employed on a dock, wharf or jetty or in a mine, the balance of wages found due on completion of a final tonnage account of the ship or wagons loaded or unloaded, as the case may be, shall be paid before the expiry of the seventh day from the day of such completion.

(iv) where the employment of any person is terminated by or on behalf of the employer the wages earned by him shall be paid before expiry of the second working day from the date on which his employment is terminated.

Section 6: Wages to be paid in Current Coin or Currency Notes
All wages shall be paid in current coin or currency notes or in both.

An employer, may, after obtaining the written authorisation of the employed person, pay him the wages either by cheque or by crediting the wages in his bank account.

Section 7: Deduction from Wages

a. Concept of deduction
The following shall be deemed to be deduction from wages:

(i) every payment made by the employed person to the employer or his agent.

(ii) any loss of wages resulting from the imposition, for good and sufficient cause, upon a person employed, of any of the following penalties:
   - the withholding of increment or promotion (including the stoppage of increment at an efficiency bar);
   - the reduction to a lower post or time scale or to a lower stage in a time scale; or
   - suspension;

b. Deductions which may be made from wages
Deductions authorised under the Act are enumerated in section 7(2). Any other deduction is unauthorised. Further, the authorised deductions can be made only in accordance with the provisions of the Act.

(a) fines;

(b) deduction for absence from duty;

(c) deductions for damage to or less of goods expressly entrusted to the employed person for custody, or for loss of money for which he is required to account, where such damage or loss is directly attributable to his neglect or default;

(d) deduction for house-accommodation supplied by the employer or by Government of any housing board set up under any law for the time being in force (whether the Government or the board is the employer or not) or any other authority engaged in the business of subsidising house-accommodation which may be specified in this behalf by the State Government by notification in the Official Gazette;

(e) deductions for such amenities and services supplied by the employer as the State Government or any officer specified by it in this behalf may, by general or special order, authorise;

Explanation
The word “services” in this clause does not include the supply of tools and raw materials required for the purpose of employment.

(f) deductions for recovery of advances of whatever nature (including advances for travelling allowance or conveyance allowance), and the interest due in respect thereof, or for adjustment of over-payments of wages;

(ff) deductions for recovery of loans made from any fund constituted for the welfare of labour in accordance with the rules approved by the State Government, and the interest due in respect thereof;
(fff) deductions for recovery of loans granted for house-building or other purposes approved by the State Government, and the interest due in respect thereof,

(g) deductions of income-tax payable by the employed person;

(h) deductions required to be made by order of a Court or other authority competent to make such order;

(i) deductions for subscriptions to, and for repayment of advances from any provident fund to which the Provident Funds Act, 1925, applies or any recognised provident fund as defined in Section 58a of the Indian Income-tax Act, or any provident fund approved in this behalf by the State Government, during the continuance of such approval;

(j) deductions for payment to co-operative societies approved by the State Government or any officer specified by it in this behalf or to a scheme of insurance maintained by the Indian Post Office;

(k) deductions made with the written authorisation of the person employed for payment of any premium on his life insurance policy to the Life Insurance Corporation Act, 1956, or for the purchase of securities of the Government of India or of any State, Government or for being deposited in any Post Office Savings Banks in furtherance of any savings scheme of any such Government;

(kk) deductions made with the written authorisation of employed person for the payment of his contribution to any fund constituted by the employer or a trade union registered under the Trade Unions Act, 1926, for the welfare of the employed persons or the members of their families, or both, and approved by the State Government or any officer specified by it in this behalf, during the continuance of such approval;

(kkk) deductions made with the written authorisation of the employed person for payment of the fees payable by him for the membership of any trade union registered under the Trade Unions Act, 1926.

(l) deductions for payment of insurance premium on Fidelity Guarantee Bonds;

(m) deductions for recovery of losses sustained by a railway administration on account of acceptance by the employed person of counterfeit or base coins or mutilated or forged currency notes;

(n) deductions for recovery of losses sustained by a railway administration on account of the failure of the employed person to invoice, to bill, to collect or to an account for the appropriate charges due to that administration, whether in respect of fares, freight, demurrage, wharfage and charge or in respect of sale of food in catering establishments or in respect of sale of commodities in grain shops or otherwise;

(o) deductions for recovery of losses sustained by a railway administration on account of any rebates or refunds incorrectly granted by the employed person, where such loss is directly attributable to his neglect or default;

(p) deductions made with the written authorisation of the employed person, for contribution to the Prime Minister’s National Relief Fund or to such other Fund as the Central Government may, by notification in the Official Gazette, specify;

(q) deductions for contributions to any insurance scheme framed by the Central Government for the benefit of its employees.

Limits on the Total Amount of Deductions
Section 7(3) lays down that the total amount of deductions which may be made under Section 7(2) in any wage-period from the wages of any employed person shall not exceed:

(i) in cases where such deductions are wholly or partly made for payments to Cooperative Societies under clause (j) of Sub-Section, (2), seventy-five per cent of such wages, and

(ii) in any other case, fifty per cent of such wages.

It the total deductions authorised under Sub-Section (2) exceed seventy-five per cent or, as the case may be, fifty per cent of the wages, the excess may be recovered in prescribed manner.

Fines [Section 7(2)(a) and 8]
(1). The fine shall be imposed on any employed person only for acts and omissions which has received approval of the State Government or of the prescribed authority, and has been specified by notice under Sub-Section (2).

(2). A notice specifying such acts and omissions shall be exhibited in the prescribed manner on the premises which the employment is carried on or in the case of persons employed upon a railway (otherwise than in a factory), at the prescribed place or places.
(3). The fine shall not be imposed on any employed person, unless he has been given an opportunity of showing cause against the fine.

(4). The total amount of fine which may be imposed in any one wage-period on any employed person shall not exceed an amount equal to three per cent of the wages payable to him in respect of that wage-period.

(5). No fine shall be imposed on any employed person who is under the age of fifteen years.

(6). No fine imposed on any employed person shall be recovered from him by installments or after the expiry of sixty days from the day on which it was imposed.

(7). Every fine shall be deemed to have been imposed on the day of the Act or omission in respect of which it was imposed.

(8). All fines and all realisation thereof shall be recorded in a register to be kept by the person responsible for the payment of wages under Section 3 in such from as may be prescribed; and all such realisations shall be applied only to such purposes beneficial the persons employed in the factory or establishment as are approved by the prescribed authority.

Explanation
All the amounts realised have to be credited to a common fund maintained for the staff as a whole and shall be applied to such purposes as are approved by the prescribed authority.

Deductions for Absence from Duty [Sections 7(2)(b) and 9]
The Act authorises the employer to make deductions from wages of employed person when he remains absent from any place or places of duty where he is required to work. This absence may be for the whole day or any part of the period during which he is required to work;

Amount of Deductions
The amount of deductions for absence from duty shall not exceed a sum which bears the same relationship to the wages-payable in respect of the wage-period as the period of absence does to such wage-period [Section 9(2)].

However, if 10 or more employed persons, acting in concert, absent themselves without due notice which is required under the terms of their contracts of employment, and without reasonable cause, such deduction, from such persons, may include such amount, not exceeding his wages for 8 days, as may by any such term be due to the employer in lieu of due notice.

Deductions for Damage to or Loss of Goods or for Loss of Money [Section 7(2)(c) and 10]
Section 7(2)(c) authorises that deductions from the wages can be made (i) for damage to or loss of goods expressly entrusted the employed person for custody, or (ii) for loss of money for which an employed person is required to account, where such damage or losses directly attributable to his neglect or default. However, before making any such deduction, employed person shall be given an opportunity to show cause against the deductions or if any other prescribed procedure has been laid down in this respect the same must be followed. The deductions are subject to the provisions laid down in Section 10, namely:

1. The total amount of deductions under this head should not exceed the actual amount of damage or loss caused to the employer due to the negligence or default of the employed person [Section 10(10)].

2. The person responsible for payment of wages under Section 3 should record all such deductions and realisation thereof, in a register, in such form and containing such particulars as may be prescribed [Section 10(2)].

Deductions for House-Accommodation [Section 7(2)(d) and 11]
Section 7(2)(d) authorises the employer to deduct from the wages accommodation provided by an amount for house. The employer, Government, Housing Board set up under any law for the time being in force. Any other authority engaged in the business of subsidising house-accommodation which may be specified by the State Government by a notification in the Official Gazette.
Conditions of Deduction
The deductions in respect of house-accommodation are subject to following conditions prescribed under Section 11:

1. The house-accommodation amenity has been accepted by the employed person as a term of his employment or otherwise. However, no deduction can be allowed if it is the duty of the employer to supply the same.
2. The amount of deduction in respect of such accommodation should not exceed the value of such facility.

Deductions for Other Amenities and Services [Sections 7(2)(e), and 121]
A deduction may be made from the wages of an employed person various amenities and services like transport, supply of electricity, water etc. for provided to him. Such deduction can be made if:

1. The amenity or service has been accepted by the employed person as a term of his employment.
2. The State Government or any officer specified by it in this behalf has authorised the supply of such facilities.
3. The above deductions are subject to such conditions as the State Government may impose.
4. The amount of deduction shall not exceed an amount equivalent to the value of such amenities or services supplied.

The word “services” for the above, purpose does not include the supply of tools and raw materials required for the purpose of employment.

Deductions for Recovery of Advances [Sections 7(2)(i) and (12)]
Section 7(2)(b) authorises the deductions for:

1. The recovery of advance of whatever nature,
2. The interest due on such advance, or
3. For adjustment of over-payment of wages.

Conditions
The deductions under Section 7(2) (f) are subject to the following conditions:

1. The recovery of the advance of money given before the employment began should be made from the first payment of wages is respect of a complete wage period.
2. Where the money was advanced after the employment began, the deduction to recover such advances should be subject to such conditions as the State Government may impose.
3. Deductions for the recovery of such advances not already earned should be subject to the rules made by the State Government in this respect. Such rules may provide (i) the extent to which such advances may be given, and (ii) the installments by which they may be recovered [Section 12(b)].

Deductions for the Recovery of Loans for House Building, etc.
(a) Loans Granted from Welfare Fund [Section 7(2) (ff)]
Section 7(2) provides that deduction may be made from wages for the recovery of such loan from any fund constituted for the welfare of the labour together with the interest due in respect thereof in accordance with the rules approved by the State Government, and the interest due in respect thereon.

(b) Loans for House/Building or, Other Purposes [Sections 7(2) (fff) and 12 A]
Section 7(2) provides that the recovery of loan granted (i) for house/building or (ii) other purposes approved by the State Government, deductions can be made with interest due thereon. This would be subject to rules by the State Government with regard to (i) the extent to which such loan may be granted, and (ii) the rate of interest payable thereon.

Deductions in respect of Provident Fund [Section 7(2) (g)]
Section 7(2) authorises the employer to deduct income tax from the employed person.

Deduction under the Order of Court of Authority [Section 7(2) (h)]
Section 7(2) (h) authorises deduction required to be made under the order of a Court or other Authority competent to make such order.
Deduction in Respect of Provident Fund [Section 7(2) (i)]
The Act authorises the employer to deduct from the wafer or an employed person for subscription is and for re-payment of advance. But all such deductions may be making for the following:

(1). Schemes under the Provident Fund Act, 1925.
(3). Any Scheme approved by the State Government.

Deductions for Payment of Co-operative Societies [Section 7(2)(i) and 13]
Section 7(2) (g) authorises deductions for any payment to Co-operative Societies under following conditions:

1. The Co-operative Society is approved by the State Government or any Official specified by it in this behalf.
2. The deductions are in conformity with rules more for this purpose by the State Government (Section 13).

Deductions for Payment to a Scheme of Insurance of a Post Office [Section 7(2)(i)]
Deductions for payments to a scheme of insurance maintained by the Indian Post Office are allowed provided such deductions are made subject to such conditions as the State Government may impose under Section 13.

Deductions for Payment of Life Insurance Premium [Section 7(2)(k)]
Deductions can be made for payment of any premium to the Life Insurance Corporation of India, on the life insurance policy of the employed person subject to following conditions:

(i) With written authorisation of the employed person.
(ii) Such conditions as may be specified by the State Government.

Deductions for the Purchase of Government Securities [Section 7(2) (k)]
Deduction can be made for the purchase of securities of:

(i) The Government of India, or
(ii) Any State Government.

Deductions for Payment to Post Office Saving Bank
Section 7(2)(k) permits deduction for being deposited in any Post Office Saving Bank in furtherance of any savings scheme of Central or any State government. But these deductions are subject to:

(i) The written authorisation of the employed person, and
(ii) Such conditions as may be imposed by the State Government.

Deductions for Payment of Contribution to Certain Funds [Section 7(2)(kk)]
Deductions can be made with the written authorisation of the employed person, for the payment of his contribution to any fund constituted by the employer or a trade union registered under the Trade Unions Act, 1926 for the welfare of the employed persons or the members of their families or both and approved by the State Government or any officer specified by it in this behalf, during the, continuance of such approval.

Deductions for Payment of Certain Fees [Section 7(2)(kkk)]
Deductions can be made, with the written authorisation of the employed person, for payment of the fees payable by him, for membership of any trade union registered under the Trade Unions Act 1926.

Deductions in Respect of Fidelity Guarantee Bond
Deductions on this account can be made from the wages of an employed person. With written authorisation of the employed person concerned and subject such condition, which the Government may impose.

Deductions for Certain Losses in case of Railway Administration
The Act authorises deductions to be made from the wages of an employed person in a railway administration for the recovery of losses sustained by a railway administration, due to following persons:

(i) Acceptance by the employed person of counterfeit or base coins or mutilated or forged currency notes [Section 7(2) (m)];
(ii) Failure of the employed person to invoice, to bill, to collect, to account for the appropriate charges due in respect of, (a) fares, freight, demurrage, wharfage and carnage, or (b) sale of food in catering establishments, or (c) sale of commodities in grain shops or otherwise [Section 7(2)(n)];

(iii) Any rebates or refund incorrectly granted by the employed person in this respect shall not exceed the amount of the damage or loss caused to the employer by the neglect or default of the employed person [Section 19(1)].

But before making any deduction in respect of aforesaid losses, an opportunity should be given to such employed person to show cause against the deduction. If any other procedure has been prescribed in this respect, the same should be strictly observed before any such deduction [Section 10 (1-A)].

**Deductions for Payment to Prime Minister’s National Relief Fund or Any Other Fund**

The Act authorises deductions to be made with the written authorisation of the employed person, for contribution to the Prime Minister’s National Relief fund or to such other fund as the Central Government may, by notification in the Official Gazette, specify.

**Deductions for Contribution Insurance Scheme**

Deductions to be made for contributions to any insurance scheme framed by the Central Government for the benefit of its employees.

**Contracting out**

Under Section 23 any contract or agreement, whether made before or after the commencement of this Act, whereby an employed person relinquishes any right conferred by this Act, shall be null and void in so far as it purports to deprive him of such rights.

**Authorities under the Payment of Wages Act**

Section 15 empowers the State Government to appoint an authority by the issue of notification for a specified area to hear and decide and dispose all claims arising out of deduction from wages, or delay in payment of wages of persons employed or paid in the area including all matters incidental to such claims.

(i) Who may be appointed?

The following persons may be appointed as an authority for the above purposes namely:

- presiding officers of a Labour Court or Industrial Tribunal constituted under the Industrial Disputes Act, 1947 or under any corresponding law relating to the investigation and settlement of industrial disputes in force in the State; or
- Any Commissioner for Workmen’s compensation; or
- Other officer with experience as judge of a civil court or as a Stipendiary Magistrate.

(ii) Who may file the Application?

If the payment of wages is delayed beyond the due date or deductions are made from wages contrary to the provisions of the Act, an application for recovering the same can be filed either by an employee himself or legal practitioner or official of a registered Trade Union duly authorised in writing by the employee or by inspector or by any other person with the permission of the Authority hearing the claim. If there are several employees borne on the same establishment and if their wages for the same period have remained unpaid after the due date, a single claims application can be filed on behalf of all such employees. Similarly if several applications are filed by employees belonging to the same unpaid group, the Authority can deal with them as if it was a single application by an unpaid group.

**Limitation**

Every such application has to be presented within one year from the date on which the payment of wages was due or from the date on which deductions from wages were made. The Authority has, however, been given the powers to condone the delay in filing such application on its being satisfied that there was a sufficient cause for not filing the application within the time prescribed.
5.3 Bonus

Bonus is one of the ways of sharing the profits of establishments. It is an incentive to increase production. It is neither, an ex-gratia payment nor is it a matter of deferred wages. It generally represents the cash incentive given on some conditions, e.g., attainment of certain standards of attendance and efficiency. It contributes to the earning of the industrial concern and so labour should derive some benefit. However, under the Payment of Bonus Act, 1965, it has now assumed a character of “deferred” wage. Be that as it may prior to 1965 the Full Bench of the Labour Appellate in Mill Owners’ Associations, Bombay v. Rashtriya Mill-Mazdur Sangh, Bombay, (1950) 11 L.L.J. 1247 evolved the formula for determination of bonus. According to that, the following prior charges were to be deducted from gross profits:

(i) Provisions for depreciation
(ii) Reserve for rehabilitation
(iii) Return of 6 per cent on the paid-up capital
(iv) Return on the working capital at a lower rate than the return on paid-up capital
(v) Income Tax

The balance if any was called “available surplus” and the workmen were to be awarded a reasonable share out of it by way of bonus for the year.

5.4 The Payment of Bonus Act, 1965

a. The Scheme of the Act

The scheme of the Payment of Bonus Act, 1965, broadly stated, has four objectives:

(i) to impose statutory obligation upon the employer of every establishment covered by the Act to pay bonus to employees in the establishment
(ii) to define principle of payment of bonus according to the prescribed formula
(iii) to provide for payment of minimum and maximum bonus and link the payment of bonus with the scheme of “set-off” and “set-on”
(iv) to provide for enforcement of the liability for payment of bonus

b. The Scope of the Act

The Act covers all persons who are employed or hire or rewarded to do any work, skilled, manual, supervisory, managerial, administrative, technical or clerical work drawing a salary or wage not exceeding ₹ 3500 per month, in any factory or establishment employing more than 20 or more persons [Section 2(13)]. The Act covers the probationer, but does not cover apprentice as he is not included within the term “employee” under Section 2(13).

c. Applicability of the Act

The Act applies to every factory and every other establishment in which 20 or more persons are employed or any day during an accounting year. However, the appropriate Government may extend the application of these provisions to any factory/establishment employing less than 20 but not less than 10 persons during the accounting year, after giving two months notice in the Official Gazette.

d. Act not to apply to Certain Classes of Employees

Section 32 excludes the application of the Payment of Bonus Act to

(i) employees employed by the Life Insurance Corporation of India;
(ii) seamen as defined in clause (42) of Section (3) of the Merchant Shipping Act, 1958;
(iii) employees registered or listed under any scheme made under the Dock Workers (Regulation of Employment) Act, 1948; and employed by registered or listed employers;
(iv) employees employed by an establishment engaged in any industry carried on by or under the authority of any department of Central Government or a State Government or a Local Authority;
(v) employees employed by -
   (a) the Indian Red Cross Society or any other institution of a like nature;
   (b) universities and other educational institutions;
   (c) institutions established not for purposes of profit;
employers employed through contractors on building operations;
employees employed by the Reserve Bank of India;
employees employed by -
  (a) the Industrial Finance Corporation of India;
  (b) any Financial Corporation established under Section 3;
  (c) the Deposit Insurance Corporation;
  (d) the National Bank for Agriculture for Rural Development;
  (e) the Unit Trust of India;
  (f) the Industrial Development Bank of India;
    (af) the National Housing Bank;
  (g) any other notified financial institution;
employees employed by inland water transport establishments operating on routes passing through other country

**e. Establishment to Include Departments, Undertakings and Branches**

Section 3 is the key to the Act. It provides that where an establishment consists of different departments or undertakings or branches, whether situated in the same place or in different places, all such departments, undertakings or branches shall be treated as parts of the same establishment for the purposes of computing bonus. However, where for any accounting year, a separate balance-sheet and profit and loss account are prepared and maintained in respect of any such department, undertaking or branch, each of this department; undertaking or branch shall be treated as a separate establishment for computation of bonus for that year.

But this proviso will not be applicable if the department or undertaking or branch was, immediately before the commencement of that accounting year, treated as part of the establishment for the purpose of computation of bonus. Thus, once it is ascertained that a branch, department or a factory is an establishment under the Act, Sections 4 to 7 will have the effect in respect of that establishment by themselves without the impact or connection with other branches, departments or factories even if they sub serves a common cause.

**f. Calculation of Amount Payable as Bonus**

The Act prescribes the procedure for calculating the amount payable to the employees. For this purpose, first to the entire available surplus in an accounting year is computed under Section 5. Of this surplus, 67 per cent in case of company (other than a banking company) and 60 per cent in other cases shall be the “allocable surplus” which would be available for payment of bonus to employees subject to maximum bonus permissible under the Act.

### Computation of Available Surplus

Section 5 provides that the available surplus in respect of any accounting year shall be the gross profits in the year, calculated in terms of Section 4, after deducting there from the sums referred to in Section 6, and an amount equal to the difference between:

1. the direct tax, calculated in accordance with the provisions of Section 7, in respect of an amount equal to the gross profits of the employer for immediately preceding accounting year; and
2. the direct tax, calculated in accordance with the provisions of Section 7, in respect of an amount equal to the gross profits of the employer for such preceding accounting year after deducting there from the amount of bonus which the employer has paid or is liable to pay to his employees in accordance with the provisions of this Act for this year.

Section 4 provides that the gross profits derived by an employer in respect of any accounting year shall be computed in (i) a banking company in the manner prescribed in the First Schedule, and (ii) in any other case, in the manner specified in the Second Schedule.

### Depreciation: The First Prior Charge

Section 6(a) allows deduction of depreciation as one of the prior charges from gross profit admissible under Section 32(1) of the Income-Tax Act or under the Agriculture Income-Tax Law. The depreciation, however, has to be added back under item 2(b) of Schedule II while computing the gross profits.
Development Rebate
The second prior charge is development rebate. In Section 6(b), while enumerating the sums deductible from the gross profits as prior charges it is provided as follows any amount by way of development rebate or investment allowance or development allowance which the employer is entitled to deduct from his income under the Income Tax Act.

Direct Taxes
Section 6(c) lays down that the provisions must also be made for the payment of “direct tax which the employer is liable to pay for the accounting year in respect of his income, profits and gains during the year”, before available surplus for distribution bonus is ascertained. And Section 2(12) defines “direct tax” to mean (i) any tax chargeable under the Income-Tax Act; the Super Profits Tax Act, 1963; the Companies (Profits) Surtax Act, 1964; the Agricultural Income-Tax Act, and (ii) any other tax which, due to its nature of incidence, may be declared by the Central Government, by notification in the Official Gazette, to be a direct tax for the purpose of this Act.

g. Computation of Available Surplus
Section 5 lays down the method of computation of available surplus after ascertaining gross profits. The available surplus in respect of the accounting year shall be the gross profits for that year after deducting them from the sums referred to in Section 6.

h. Eligibility for Bonus
Section 8 deals with the qualifying period of service of eligibility for bonus. It provides that an employee shall be entitled to be paid bonus by his employer in any accounting year in accordance with the provisions of this Act, provided he has worked in the establishment for not less than 30 days in that year.

i. Disqualification for Bonus
A employee shall be disqualified from receiving bonus under this Act, if he is dismissed from service for fraud; or riotous or violent behaviour while in the premises of the establishment; or theft, misappropriation or sabotage of any property of the establishment.

j. Payment of Minimum Bonus
Section 10 of the Payment of Bonus Act provides: Every employer is bound to pay to every employee in respect of the accounting year commencing or any day in the year 1979 and in respect of every subsequent accounting year, a minimum bonus which shall be 8.33 per cent of salary of wage earned by the employee during the accounting year or one hundred rupees, whichever is higher, whether or not the employer has any allocable surplus in the accounting year. However, where an employee has not completed fifteen years of age at the beginning of the accounting year, the provisions of his section shall have effect in relation to such employee as if for the words “one hundred rupees”, the words “sixty rupees” were substituted.

k. Payment of Maximum Bonus
Section 11 which regulates the payment of maximum bonus provides: Where in respect of any accounting year referred to in section 10, the allocable surplus exceeds the amount of minimum bonus payable to the employees under that section, the employer shall, in lieu of such minimum bonus, be bound to pay to every employee in respect of that accounting year bonus which shall be an amount a proportion to the salary or wage earned by the employee during the accounting year subject to a maximum of twenty per cent of such salary or wage.

(ii) In computing the allocable surplus under this section, the amount set on or the amount set off under the provisions of Section 15 shall be taken into account in accordance with the provisions of that section.

l. Calculation of Bonus with Respect to Certain Employees
Section 12, which places a limitation on the payment of bonus, provides that where the salary or wage of an employee exceeds ₹. 2500 per mensem, the bonus payable to such an employee under Section 10 or 11 shall be calculated as if his salary or wages were ₹. 2500 per mensem.
m. Proportionate Reduction in Bonus in Certain Cases
Section 13 provides proportionate reduction in bonus. Thus, where an employee has not worked for all the working days in any accounting year, the minimum bonus of ₹ 100, or as the case may be, of ₹ 60 shall be proportionately reduced if such bonus is higher than 8.33 per cent of his salary or wage for the ‘days he has worked in the accounting year. However, in seasonal factories “working day in any accounting year” means those days of the year during which the employees concerned are actually allowed to work.

n. Computation of Number of Working Days
For the purposes of Section 13, an employee shall be deemed to have worked in an establishment in any accounting year and also on the days on which:

(a) he has been laid off under an agreement or as permitted by standing orders under the Industrial Employment (Standing Orders) Act, 1946, or under the Industrial Disputes Act, 1947, or under any other law applicable to the establishment;

(b) he has been on leave with salary or wage;

(c) he has been absent due to temporary disablement caused by accident arising out of and in the course of this employment; and

(d) the employee has been on maternity leave with salary or wage, during the accounting year (Section 14).

o. Set-On and Set-off of Allocable Surplus
Section 15 which provides for “set-on” and “set-off” reads:

(1) Where for any accounting year, the allocable surplus exceeds the amount of maximum bonus payable to the employees in the establishment under Section 11, then, the excess shall, subject to a limit of twenty per cent of the total salary or wage of the employees employed in the establishment in that accounting year, be carried forward for being set on in the succeeding accounting year and so on up to and inclusive of the fourth accounting year to be utilised for the purpose of payment of bonus in the manner illustrated in the Fourth Schedule.

(2) Where for any accounting year, there is no available surplus or the allocable surplus in respect of that year falls short of the amount of minimum bonus payable to the employees in the establishment under Section 10, and there is no amount or sufficient amount carried forward and set on under sub-section (1) which could be utilised for the purpose of payment of the minimum bonus, then, such minimum amount or the deficiency, as the case may be, shall be carried forward for being set off in the succeeding accounting year and so on up to and inclusive of the fourth accounting year.

(3) The principle of set-on and set-off as illustrated in the Fourth Schedule shall apply to all other cases not covered by sub-section (1) or sub-section (2) for the purpose of payment of bonus.

(4) Where in any accounting year, any amount has been carried forward and set-on or set-off under the section, then, in calculating bonus for the succeeding accounting year, the amount of set-on or set-off carried forward from the earliest accounting year shall first be taken into account.

p. Time Limit for Payment of Bonus
Section 19 fixes the time limit for payment of bonus. All amounts payable to an employee by way of bonus under the Act shall be paid in cash by his employer. However, if there is a dispute regarding payment of bonus pending before any authority under Section 22, the bonus will have to be paid within a month from the date on which the award becomes enforceable or the settlement comes into operation. In any other case, the bonus will have to be paid within a period of eight months from the close of the accounting year. Under the proviso to Section 19, power is given to the appropriate Government to extend the period of eight months subject to the maximum of two years.

q. Recovery of Bonus due from an Employer
Section 21 of the Payment of Bonus Act provides that: where any money is due to an employee by way of bonus from his employer under a settlement or an award or agreement, the employee himself or any other person authorised by him in writing in this behalf, or in the case of the death of the employee, his assignee or heirs may, without prejudice to any other mode of recovery made an application to the appropriate Government for the recovery of the money due to him, and if the appropriate Government or such authority as the appropriate Government may specify in this behalf is satisfied that any money is so due, it shall issue a certificate for that amount to the Collector who shall proceed to recover the same in the same manner as an arrear of land revenue.
Time limit for Filing an Application
Every such application shall be made within one year from the date on which the money became due to the employee from the employer. However, any such application may be entertained after the expiry of the said period of one year; if the appropriate Government satisfied that the applicant had sufficient cause for not making the application within the said period.
Summary

- In 1926 Government of India wrote to Local Governments to ascertain the position with regard to the delays which occurred in the payment of wages to the person employed in Industry.
- The Payment of Wages Act, 1936 was enacted with a view to regulate the payment of wages to certain classes of persons employed in industry.
- The Payment of Wages Act, 1936 extends to the whole of India. It came into operation on 28th March, 1937.
- Bonus is one of the ways of sharing the profits of establishments. It is an incentive to increase production.
- Bonus generally represents the cash incentive given on some conditions, e.g., attainment of certain standards of attendance and efficiency.
- Bonus is neither, an ex-gratia payment nor is it a matter of deferred wages.

References


Recommended Reading

## Self Assessment

1. Match the following

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Section 3</td>
<td>A. Wages to be paid in Current Coin or Currency Notes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Section 4</td>
<td>B. Time of payment of wages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Section 5</td>
<td>C. Fixation of wage-periods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Section 6</td>
<td>D. Responsibility for payment of wages</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 1-D, 2-C, 3-B, 4-A  
b. 1-A, 2-B, 3-C, 4-D  
c. 1-B, 2-A, 3-D, 4-C  
d. 1-C, 2-B, 3-A, 4-D

2. ____________ is one of the ways of sharing the profits of establishments.
   a. Incentive  
   b. Salary  
   c. Bonus  
   d. Wages

3. Which of the following statements is true?
   a. Bonus is neither, an ex-gratia payment nor is it a matter of deferred wages.  
   b. Incentives are neither, an ex-gratia payment nor are it a matter of deferred wages.  
   c. Bonus is an ex-gratia payment.  
   d. Salary is neither, an ex-gratia payment nor is it a matter of deferred wages.

4. ____________ was enacted with a view to regulate the payment of wages to certain classes of persons employed in industry.
   a. The Payment of Wages Act, 1936  
   b. The Payment of Bonus Act, 1965  
   c. The Minimum Wages Act, 1948  
   d. The Living Wage Act, 1940

5. The Payment of Wages Act, 1936 extends to the whole of India; it came into operation on ____________.
   a. 28th March, 1937  
   b. 13th March, 1947  
   c. 12th June, 1937  
   d. 24th June, 1937

6. Which of the following act applies to every factory and every other establishment in which 20 or more persons are employed or any day during an accounting year?
   a. The Payment of Wages Act, 1965  
   b. The Minimum Wages Act, 1948  
   c. The Payment of Bonus Act, 1965  
   d. The Living Wage Act, 1940
7. Section 13 of which act provides proportionate reduction in bonus?
   a. The Payment of Bonus Act, 1965
   b. The Living Wage Act, 1940
   c. The Payment of Wages Act, 1965
   d. The Fair Wage Act, 1955

8. Which section of the Payment of Bonus Act, 1965 places a limitation on the payment of bonus, provides that where the salary or wage of an employee exceeds ₹ 2500 per mensem?
   a. Section 12
   b. Section 3
   c. Section 15
   d. Section 11

9. Bonus generally represents the ____________ given on some conditions.
   a. cash incentive
   b. inducement
   c. salary
   d. gross salary

10. Which of the section of the Payment of Bonus Act, 1965 fixes the time limit for payment of bonus?
    a. Section 3
    b. Section 15
    c. Section 9
    d. Section 19
Chapter VI
Regulation of Minimum Wages and Equal Remuneration

Aim
The aim of this chapter is to:

• introduce Minimum Wages Act, 1948
• explain the procedure for fixation of minimum wages
• explicate the method and procedure for making claims for minimum rate of wages

Objectives
The objectives of this chapter are to:

• explain Minimum Wages Act, 1948
• elucidate the concept of equal pay for equal work
• explain manner of fixation/revision of minimum wages

Learning outcome
At the end of this chapter, you will be able to:

• understand Minimum Wages Act, 1948
• understand the concept of equal pay for equal work
• describe the procedure for fixation of minimum wages
6.1 Introduction

The concept of minimum wages first evolved with reference to remuneration of workers in those industries where the level of wages was substantially low as compared to the wages for similar types of labour in other industries. As far back as 1928, the International Labour Conference of International Labour Organisation, at Geneva, adopted a draft convention on minimum wages requiring the member countries to create and maintain machinery whereby minimum rates of wages can be fixed for workers employed in industries in which no arrangements exist for the effective regulation of wages and where wages are exceptionally low. Also, at the Preparatory Asian Regional Labour Conference of International Labour Organisation held at New Delhi in 1947 and then at the 3rd session of the Asian Regional Labour Conference, it was approved that every effort should be made to improve wage standards in industries and occupations in Asian Countries, where they are still low.

Thus, the need of legislation for fixation of minimum wages in India received an impetus after World War II, on account of the necessity of protecting the interest of demobilised personnel seeking employment in industries. A bill to provide for machinery for fixing and revision of minimum ages was prepared and discussed at the 7th session of the Indian Labour Conference in November, 1945. It was introduced in the Central Legislative Assembly on 11th April, 1946.

6.2 Minimum Wages Act, 1948

The Need
Till 1948, there was no machinery to regulate minimum wages and hence the workers of the industries where sweated labour was prevalent were the most exploited. The workers in these industries were paid extremely low wages. Further, there was a disparity in the rates of wages of similar kinds of work in unorganised industries. It is clear then that, the State, with ever increasing emphasis on the welfare aspect, could not remain a silent and helpless spectator in such a state of affairs. From this arose the need for regulating minimum wage through government or quasi-government machinery. Accordingly, the Minimum Wages Act was passed in 1948, providing for the fixation/revision of minimum rates of wages in respect of scheduled employment by the appropriate Government.

Object of the Act
The Minimum Wages Act was enacted in the year 1948 to give effect to the recommendations adopted by the International Labour Conference in the year 1928. The object of the Act is to prevent exploitation of the ignorant, less organised and less privileged members of the society by the capitalist class.

Scope and Coverage
The Minimum Wages Act, 1948 extends to whole of India. It applies to employments which are enumerated in the schedule of the Act and in certain cases may extend to other employment added by the appropriate Government.

Scheduled Employment [Section 2(g)]
“Scheduled Employment” means an employment specified in the Schedule or any process or branch of work forming part of such employment.

The Schedule is divided into two parts namely, Part I and II. When originally enacted, Part I of the Schedule had 12 entries. Part II related to employment in agriculture. It was realised that it would be necessary to fix minimum wages in many more employments to be identified in course of time. Accordingly, powers were given to the appropriate Government to add employments to the Schedule by following the procedure laid down in Section 27 of the Act. As a result, the State Governments and Central Government have made several additions to the schedule and it differs from State to State.

6.3 Important Provisions of Act

Section 3: Fixation of Minimum Rates of Wages
Section 3(1)(a) imposes an obligation upon the “appropriate Government” to fix the minimum rates of wages, payable to employees in an employment specified in Part I and Part II of the Schedule. The appropriate government may also add any employment to either part in respect of which minimum wages are to be fixed by notification.
under Section 27. In case of the employments specified in Part II of the Schedule, the minimum rates of wages may be fixed for parts of the State or for any specified class or classes of such employments in the whole State or part thereof. But in the case of an employment specified in Part I, the minimum rates of wages must be fixed for the entire State, no part of the State being omitted.

However, the “appropriate Government” may not fix minimum rates of wages in respect of any scheduled employment in which less than 1,000 employees in the whole State are engaged. But when it comes to its knowledge after a finding that this number has increased to 1,000 or more in such employment, it shall fix a minimum wage rate. But the Supreme Court in Ram Kumar Mishra v. State of Bihar, (1984) 2 SCC 451, held that even if the number of employees in an industry in the whole of State is less than 1000, Section 3(IA) does not prevent the State Government from fixing minimum rate of wages for any scheduled employment.

**Review and Revision of Minimum Wages**

Under Section 3(1) (b), the ‘appropriate Government’ may review at such intervals as it may think fit such intervals not exceeding five years, and revise the minimum rate of wages, if necessary. But when for sufficient reasons, the appropriate Government is unable to review; it may review it even after 5 years.

**Manner of Fixation/Revision of Minimum Wages**

Section 3 (2) empowers the appropriate Government to fix minimum rate of wages for:

a. time work, known as Minimum Time Rate;

b. piece work, known as a Minimum Piece Rate;

c. a “Guaranteed Time Rate” for those employed in piece work for the purpose of securing to such employees a minimum rate of wages on a time work basis;

d. an “Over Time Rate” i.e. minimum rate (whether a time rate or a piece rate) to apply in substitution for the minimum rate which would otherwise be applicable in respect of overtime work done by an employee.

Under Section 3(3) different minimum rates of wages may be fixed for:

i. different scheduled employments;

ii. different classes of work in the same scheduled employments;

iii. adults, adolescents, children and apprentices; and

iv. different localities

The minimum rates of wages may be fixed by any one or more of the following wage periods, namely:

i. by the hour,

ii. by the day,

iii. by the month, or

iv. by such other large wage periods as may be prescribed

Where such rates are fixed by the day or by the month, the manner of calculating wages for the month or for a day as the case may be, may be indicated.

**Section 4: Minimum Rate of Wages**

Section 4(1) provides that any minimum rate of wages fixed or revised by the appropriate Government under Section 3 may consist of:

i. a basic rate of wages and a special allowance at a rate to be adjusted, at such intervals and in such manner as the appropriate Government may direct to accord as nearly as practicable with the variation in the cost of living index number applicable to such worker (hereinafter referred to as the cost of living allowance); or

ii. a basic rate of wages or without the cost of living allowance and the cash value of the concession in respect of supplies of essential commodities at concessional rates, where so authorised; or

iii. an all-inclusive rate allowing for the basic, rate the cost of living allowance and the cash value of the concessions, if any.
Under Section 4(2), the cost of living allowance and the cash value of the concessions in respect of supplies of essential commodities at concessional rates shall be computed by the competent authority at such intervals and in accordance with such directions specified or given by the appropriate Government.

**Section 5: Procedure for Fixing and Revision Minimum Wages**

Section 5 lays down that in fixing minimum rates of wages in respect of any scheduled employment for the first time or in revising minimum rates of wages, the appropriate Government can follow either of the two methods mentioned below.

**Committee method**

The appropriate Government may appoint as many committees and sub-committees as it considers necessary to hold enquiries and advise it in respect of such fixation or revision as the case may be. After considering the advice of the committee or committees, the appropriate Government shall, by notification in the Official Gazette fix or revise the minimum rates of wages. The wage rates shall come into force from such date as may be specified in the notification. If no date is specified, wage fixed shall come into force on the expiry of three months from the date of the issue of the notification.

**Notification method**

Under this method, the appropriate Government when fixing minimum wages shall by notification, in the Official Gazette publish its proposals for the information of persons likely to be affected thereby and specify a date not less than 2 months from the date of notification on which the proposals will be taken into consideration. The representations received will be considered by the appropriate Government. The appropriate Government is also required to consult the Advisory Board constituted under Section 7 and thereafter fix or revise the minimum rates of wages by notification in the Official Gazette.

**Composition of Committee/Advisory Board**

Each of the Committees, sub-committees, and the Advisory Board shall consist of persons to be nominated by the appropriate Government representing:

i. employers in the scheduled employment; and

ii. employees in the scheduled employment who shall be equal in number. Further, there would be independent persons not exceeding one third of its total members, of which one such independent person shall be appointed as Chairman [Section 9].

**The Mode of Payment of Minimum Rates of Wages**

The wages to the workers are paid either in cash. However, where there is a custom to pay wages wholly or partly in kind the appropriate Government may authorise the payment partly or wholly in kind by the issue of notification. Further, if the appropriate government is of the opinion that provision should be made for supply of essential commodities at concession rate, it may authorise the supply of these articles at concessional rates. The cash value of wages in kind and of concessions in respect of supplies of essential commodities at concessional rates, in such cases, is to be estimated in the manner prescribed under the rules [Section 11].

**Payment of Minimum Rates of Wages**

The Act imposes an obligation upon the employer to pay minimum rates of wages without any deduction to the workers employed in a scheduled employment, wherever, the appropriate Government has fixed such wages by notification under Section 5 with respect to that employment [Section 12].

**Wages of a Worker Who Works for Less than normal working day**

If a worker, whose minimum rates of wages has been fixed in a prescribed manner works any day for a shorter period than a requisite number of hours constituting a normal working day for him, then he would be entitled to receive wages for the full day from the employer except when he wilfully fails to work for the normal working day without any fault on the part of the employer and for such default or other similar cases the rules provide that the wages may be deducted [Section 15].
Wages for Two or More Classes of Work
Where an employee does two or more, classes of work to which a different rate of minimum wages is applicable then the employee is entitled to receive wages from his employer in proportion to the time occupied by him in each class of work, calculated on the basis of minimum rates fixed for each of the classes of work [Section 16].

Minimum Time Rate Wages for Piece Work
Where an employee is employed on piece work for which minimum rates has not been fixed, but instead the appropriate government has fixed minimum time rates of wages under this Act, then the employer is required to pay to the employee engaged on piece work, minimum wages at not less than minimum time rate wages [Section 17]

Maintenance of Records and Display of Notices
Every employer is required to maintain registers and records containing following particulars:
   a. Particular of employees employed by him;
   b. The work performed by them;
   c. The wages paid to them;
   d. The receipts given by the employees; and
   e. Any other information as prescribed.

Claims and Procedure
(i) Introduction
The appropriate government is empowered to appoint by notification in the Official Gazette an authority to hear and decide for any specific claims arising out of (i) payment of less than minimum rates of wages, (ii) overtime rates and (iii) payment for work done on a day of rest to the employees employed by an employer of that area [Section 20(1)].

(ii) Who can be appointed as Authority?
Any one of the following persons may be appointed as an Authority to decide any claims relating to the matters specified above
   a. any Commissioner for Workmen’s Compensation;
   b. any officer of the Central Government exercising functions as a Labour Commissioner for any region;
   c. any officer of the State Government not below the rank of Labour Commissioner; or
   d. any officer with experience as a Judge of Civil or Stipendiary Magistrate
   e. the employee himself, or (ii) any practitioner, or (iii) any officer of a registered Trade Union authorised in writing to Act of his behalf, or (iv) any inspector or any person acting with the permission of the Authority before whom the claim is preferred may make an application.

(iii) Time for Making Claims
The application for claim is required to be presented within 6 months from the data on which the minimum wages or other amount becomes payable. But application can be admitted after six months, if the applicant satisfies the Authority that he could not make the application within prescribed time for ‘sufficient cause’.

(iv) Procedure for Deciding Claims
When an application for the claim is entertained, the authority is required to hear the applicant and the employer and afford them all reasonable facilities to present their case and hold any enquiry which he may deem necessary. If after holding an enquiry into the merit of the claim or if the Authority comes to the conclusion that the employer has made a default, then it may direct the employer to pay the difference between minimum wages payable to him and wages actually paid to him.
(v) Recovery of Amount
The Authority before whom the claim is preferred by a worker against an employer is vested with a power to order the recovery of the amount due in favour of a worker as it was a fine imposed on the employer, in case, the Authority happens to be a Magistrate. But in case the Authority is other than a Magistrate, then on the application of the Authority to the Magistrate vested with a power to decide a claim under the Act, the amount due to worker can be recovered on the orders of Magistrate like a fine [Section 20(5)].

6.4 Equal Pay for Equal Work
Wage differentials on the basis of sex were very common in agricultural and industrial sectors. This was not in conformity with the Constitution. Article 14 of the Constitution of India enjoins the State not to deny equality before regarding equal treatment of law and equal protection of law. Article 16(1) declares equality of opportunity in matters of employment or appointment to an office under the State.

Article 16(2) prohibits discrimination on ground, of religion, race, caste, sex, descent, place of birth, residence or any of them is ineligible for, or in respect of any employment or office under the State. The Directive Principles of State Policy under Article 39(d) envisages that equal pay should be given to men and women doing equal work. Further in 1958 India ratified ILO Convention No. 111 on Equal Remuneration. To give effect to Constitutional Directive and ILO Convention the Equal Remuneration Act, 1976 was enacted.

6.5 Equal Remuneration Act, 1976

Object of the Act
The object of the Act is to prevent discrimination on the ground of sex against women in respect of remuneration and in matters of recruitment and promotion of men and women.

Scope and Application of the Act
The Equal Remuneration Act, 1976 extends to the whole of India. The Act is applicable to several employments and establishments. However, the Act does not apply:

(a) to cases affecting the terms and conditions of a women’s employment in complying with the requirements of any law giving special treatment to women, or
(b) to any special treatment accorded to women in connection with:

(i) the birth or expected birth of a child, or
(ii) the terms and conditions relating to retirement, marriage or death or to any
(iii) provision made in connection with the retirement, marriage or death

Important Provisions of the Act

Section 4: Duty of Employer to Pay Equal Remuneration to Men and Women Workers for Same Work or Work of a Similar Nature
Section 4 prohibits the employer to:

1. Pay to any worker, employed by him at rates less favourable than those at which remuneration is paid by him to the workers of the opposite sex in such establishment or employment for performing the same work or work of a similar nature.
2. Reduce the rate of remuneration of any worker in the process of bringing parity in remuneration between men and women.
3. Where, in an establishment or employment, the rates of remuneration payable before the commencement of this Act for men and women workers for the same work or work of similar nature are different only on the ground of sex, then the higher (in cases where there are more than two rates,) of such rates shall be payable, on and from such commencement, to such men and women workers. This would, however, not entitle a worker to the revision of the rate of remuneration payable to him or her with reference to the service rendered by him or her before the commencement of this Act.
Section 5: No Discrimination to be Made While Recruiting Men and Women Workers

Section 5 prohibits the employer to make any discrimination against women. While making recruitment for the same work or work of a similar nature or in any condition of service subsequent to recruitment such as promotions, training or transfer except where the employment of women in such work is prohibited or restricted by or under any law for the time being in force. However, this provision would not affect any priority or reservation for scheduled castes or scheduled tribes, ex-servicemen, retrenched employees or any other class or category or persons in the matter of recruitment to the posts in an establishment or employment.

Advisory Committee

1. For the purpose of providing increasing employment opportunities for women, the appropriate Government shall constitute one or more Advisory Committees to advise it with regard to the extent to which women may be employed in such establishments or employments as the Central Government may, by notification, specify on its behalf.

2. Every Advisory Committee shall consist of not less than ten persons, to be nominated by the appropriate Government, of which one-half shall be women.

3. In tendering its advice, the Advisory Committee shall have regard to the number of women employed in the concerned establishment or employment, the nature of work, hours of work, suitability of women for employment, as the case may be, the need for providing increasing employment opportunities for women, including part-time employment, and such other relevant factors as the Committee shall regulate its own procedure.

4. The Advisory Committee shall regulate its own procedure.

5. The appropriate Government may, after considering the advice tendered to it by the Advisory Committee and after giving to the persons concerned in the establishment or employment an opportunity to make representations, issue such directions in respect of employment of women workers, as the appropriate Government may think fit.

Authorities for Hearing and Deciding Claims and Complaints

1. Section 7 empowers the appropriate Government, to appoint such officers not below the rank of a Labour Officer as it thinks fit, to be the authorities for the purpose of hearing and deciding:
   (a) Complaints with regard to the contravention, appoint such officers not below the rank of a Labour Officer as it thinks fit, to be the authorities for the purpose of hearing and deciding.
   (b) Claim arising out of non-payment of wages at equal rates to men and women workers for the same work or work of a similar nature.

2. Every complaint or claim shall be made in the prescribed manner.

3. If any question arises as to whether two or more workers are of the same nature or of a similar nature, it shall be decided by the authority appointed under Subsection (1).

4. Where a complaint or claim is made to the authority appointed under Subsection (1) it may, after giving the applicant and the employer an opportunity of being heard, and after such inquiry as it may consider necessary, direct:
   (i) In the case of a claim arising out of non-payment of wages at equal rates to men and women workers for the same work or work of similar nature, that payment be made to the worker of the amount actually paid.
   (ii) In the case of complaint, the adequate steps to be taken by the employer so as to ensure that there is no contravention of any provision this Act.

5. Every authority appointed under Subsection (1) shall have all the powers of Civil Court under the Code of Civil Procedure, 1908, for the purpose of taking evidence and of enforcing the attendance of witnesses and compelling the production of documents and every such authority shall be deemed to be a Civil Court for all the purposes of Section 195 and Chapter XXVI of the Code of Criminal Procedure, 1973.

6. Any employer or worker aggrieved by any order made by an authority appointed under Subsection (1) on a complaint or claim may, within 30 days from the date of the order, prefer and appeal to such authority as the appropriate Government may by notification specify in this behalf; and that authority may, after hearing the appeal, confirm, modify or reverse the order appealed against and no further appeal shall lie against the order made by such authority.
Summary

- The concept of minimum wages first evolved with reference to remuneration of workers in those industries where the level of wages was substantially low as compared to the wages for similar types of labour in other industries.
- Till 1948, there was no machinery to regulate minimum wages and hence the workers of the industries where sweating labour was prevalent were the most exploited.
- The Minimum Wages Act was enacted in the year 1948 to give effect to the recommendations adopted by the International Labour Conference in the year 1928.
- Wage differentials on the basis of sex were very common in agricultural and industrial sectors.

References


Recommended Reading

Self Assessment

1. A bill to provide for machinery for fixing and revision of minimum ages was prepared and discussed at the _____ session of the Indian Labour Conference in November, 1945.
   a. 6th
   b. 7th
   c. 5th
   d. 8th

2. Which of the following act’s objective is to prevent exploitation of the ignorant, less organised and less privileged members of the society by the capitalist class?
   a. Minimum Wages Act, 1948
   b. Maximum Wages Act, 1936
   c. Equal Remuneration Act, 1976
   d. Equal Wages Act, 1966

3. Part II of the scheduled employment is related to employment in ____________.
   a. Banking
   b. Heavy industry
   c. Agriculture
   d. Software industry

4. Which of the following means an employment specified in the Schedule or any process or branch of work forming part of such employment?
   a. Unscheduled employment
   b. Scheduled employment
   c. Fixed employment
   d. Unfixed employment

5. Which of the following act’s objective is to prevent discrimination on the ground of sex against women in respect of remuneration and in matters of recruitment and promotion of men and women?
   a. Minimum Wages Act, 1936
   b. Maximum Wages Act, 1936
   c. Equal Remuneration Act, 1976
   d. Equal Wages Act, 1966

6. Which of the following statements is false?
   a. Every Advisory Committee shall consist of less than ten persons, to be nominated by the appropriate Government, of which one-half shall be women.
   b. The Equal Remuneration Act, 1976 extends to the whole of India.
   c. Wage differentials on the basis of sex were very common in agricultural and industrial sectors.
   d. The Schedule is divided into two parts namely, Part I and II.

7. The appropriate government may also add any employment to either part in respect of which minimum wages are to be fixed by notification under Section ____.
   a. 23
   b. 22
   c. 26
   d. 27
8. Which of the following statements is false?
   a. The Minimum Wages Act, 1948 extends to whole of India.
   b. The Minimum Wages Act was enacted in the year 1948 to give effect to the recommendations adopted by
      the International Labour Conference in the year 1928.
   c. Article 16 of the Constitution of India enjoins the State not to deny equality before regarding equal treatment
      of law and equal protection of law.
   d. The Directive Principles of State Policy under Article 39(d) envisages that equal pay should be given to
      men and women doing equal work.

9. The application for claim is required to be presented within ____ months from the data on which the minimum
   wages or other amount becomes payable.
   a. 8
   b. 5
   c. 6
   d. 3

10. Section 5 prohibits the employer to make any discrimination against ________.
    a. Man
    b. Woman
    c. Employees
    d. Trainer
Chapter VII
Design of Performance Linked Reward Systems

Aim

The aim of this chapter is to:

- define performance-linked reward system
- determine suitability of the various types of reward systems
- explicate various requirements for introducing a performance-linked reward system

Objectives

The objectives of this chapter are to:

- explain the steps in designing reward system
- elucidate issues and trends in reward system
- explicate forms of performance-linked reward system

Learning outcome

At the end of this chapter, you will be able to:

- define merit incentive pay method
- understand performance-linked reward system
- describe incentive schemes
7.1 Introduction

Performance-related reward system involves rewarding employees according to their performance, or results achieved or contribution to organisation’s performance as individuals or as a part of the group. It involves a shift of focus from remuneration models based on the worth of jobs and employee skills to their performance. Designing a performance-linked reward system is conditioned by a variety of factors such as the nature of business, type of technology, the attitude of unions and human resource management strategies of the organisation. Therefore, no particular model can be recommended; it has to be custom-tailored.

Performance-linked reward systems reduce labour cost, result in increase in real wages and motivate performance. They provide a method of absorbing cost escalation on account of pay increases and thus help in sustaining competitiveness of the organisation. It has been increasingly realised that performance-related pay, if used in isolation, may have little impact on motivation for performance. Appropriate conditions in the organisation have to be created for performance-linked reward systems to be motivationally effective. These conditions, for instance, will involve proper information, consultation, communication mechanisms, training and development of employees, developing proactive attitude and performance-oriented culture, providing non-monetary incentives and evolving an efficient performance management system and so on.

Reward system cannot be seen in isolation from compensation management. Compensation management is getting increasingly integrated with business and human resource management strategy. Reward system should, therefore, be considered as an aid to better performance in a performance management system which may be integrated with the overall business plan and strategy.

7.2 Forms and Choice of Performance Linked Reward Systems

There are several types of performance-linked reward schemes. Generally, these are designed to share with or distribute to employees as individuals, groups or as collectively productivity gains, profit improvement or financial results of enterprise performance. Such schemes fall into the following broad categories:

- Schemes based on individual or small group performance including piece rates, traditional merit pay, and sales commission
- Incentive schemes which may relate pay to profits on the basis of a predetermined formula
- Bonus schemes based on contribution to productivity and profitability according to a pre-determined formula with gains sometimes distributed among the individual employees on the basis of merit rating
- Productivity bargaining
- Employee Stock Options Plan (ESOP)
- Competency-based pay

7.2.1 Merit Incentive Pay

A common method which has long been in existence is pay increase or bonus payment on the basis of performance rating. The merit incentive pay scheme provides another method of recognising and rewarding differential performance. This method could particularly be suitable for office staff. The scheme essentially involves the following steps:

- The determination of result-oriented merit rating procedures
- The identification of job factors and their relative importance
- The formulation of a scale of reward
- The communication of the basis of monetary reward

Job factors of salesman can be identified as:

- Sales promotion
- Realisation of out standings
- Good-will calls
- After-sales service
- Investigation of complaints
These tasks will differ in their degree of importance. This difference can be recognised by imputing numerical values to different job factors. Hypothetically, let us assign weight values of 5, 3 and 2 respectively to the above tasks. In practice, weight values can be ascertained through job analysis. Suppose it is intended to give an incentive opportunity of 20 per cent. Correspondingly, let there be 20 performance points, each point constituting 1 percent of basic wage. If each identified job factor has a 4-point scale, then the 20 points will be distributed as follows:

<table>
<thead>
<tr>
<th>Job Factors</th>
<th>Scale Values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Sales task</td>
<td>0</td>
</tr>
<tr>
<td>Realisation of out standings</td>
<td>0</td>
</tr>
<tr>
<td>Good-will calls</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 7.1 Scale of distributing incentive opportunity points

Maximum points = 20

Each degree will have to be precisely and operationally defined. Take, for example, the job factor of sales task. The four points on the scale can be defined as follows:

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsatisfactory</td>
<td>Satisfactory</td>
<td>Fair</td>
<td>Good</td>
</tr>
<tr>
<td>Sales target not achieved</td>
<td>Sales target achieved</td>
<td>3% above sales achieved</td>
<td>5 per cent above sales achieved</td>
</tr>
</tbody>
</table>

Table 7.2 Definition of a point on the merit rating scale

The actual merit rating score will give the percentage of basic wage or basic wage plus D.A. as incentive bonus. Given a result-oriented merit rating procedure and its objective operation in an organisation, it should not be difficult to install a merit incentive pay system. This is not to minimise the difficulties that are usually encountered in operating a merit rating system. The effectiveness of the performance appraisal system will depend on the soundness of the performance appraisal system. Sometimes merit increments and merit awards are also given in recognition of superior performance on the part of individuals. These are poor substitutes for a system of merit incentive pay because of several shortcomings.

Under a system of merit increments, there is no prompt relationship between reward and effort. The quantum of reward at a point of time will be considered inadequate. Additional cost in the form of enhanced allowances is built for the company on permanent basis. Employees continue to benefit from their best performance even if it remains below standard in the future. Employees getting merit awards cannot visualise a proportionate relationship between their performance and reward. The basis of determining the quantum cannot be explained to employees who are not given such awards. This may evoke jealousy and friction and may thus jeopardise cooperation and goodwill.

7.2.2 Incentive Payments

Lump sum payments such as sales commission is another traditional method. Generally, the performance and the payment of lump sum are linked by a formula. Sales commission, however, does not generally consider other parameters of performance such as realisation of out standings and selling high profit margin products. Another traditional method of rewarding performance is piece rates. There are several weaknesses in this system. It is not easy to agree with workers on the standard output required.
Frequent changes may be needed in the standard output due to technology changes and this may lead to conflict between unions and management. Also, factors other than individual performance such as change in work method affect output. Conflicts may also arise between different work groups when one group is dependent on another. There is a potential for conflict when norms have to be revised because of such factors as technology changes. Also, modernisation of technology and automation has rendered piece rates somewhat obsolete.

7.2.3 Incentive Schemes
Output-based incentive schemes are appropriate where tasks are repetitive and measurable. These involve the following steps:

- Selecting the objectives
- Determining the parameters of performance in accordance with the objectives
- Determining the norms or base values or benchmark values for each parameter and pay restructuring
- Determining performance-reward relationship
- Fixing the relative importance of the selected parameters, that is, their weight ages
- Designing information and procedure formats
- Determining the maximum payable incentive amount (incentive opportunity) and payment period
- Formulating a communication and review scheme

7.2.4 Group Incentive and Productivity Gain Sharing
Under the productivity gain sharing schemes, productivity gains are shared in accordance to an agreed pre-determined formula. Profit sharing gives a share of profit. Sometimes, the quantum of bonus is determined on the basis of profit as well as productivity improvements according to a pre-determined benchmark value for each of them.

7.2.5 Productivity Bargaining
Productivity bargaining provides another method of improving productivity and linking wage increases to such improvements. Productivity bargaining, however, does not mean an incentive scheme or wage increases in return for assurances and promises from unions for achieving production targets. This method implies:

- a detailed analysis of the firm’s operations,
- the identification of cost-reduction possibilities,
- estimation of savings in cost, and
- the development of a system of indexing wage increases with cost reductions actually realised over time

The climate for productivity bargaining has never been more favourable than now. It is for the managements to take initiative and build this approach in there, collective bargaining relationship with unions.

7.2.6 Long-Term Incentive (ESOP)
Long-term incentive in the form of employee stock options schemes are operated both to improve long-term incentive and to reduce fixed cost. ESOP envisages employee participation in and ownership of a company’s equity. This plan is intended to provide an incentive to the employees to improve the all-round performance and growth of the company and share its prosperity. The plan usually involves allotment of equity shares according to a laid down procedure and subject to governmental regulations, laws and rules. The employees benefit in the form of enhanced market value of his shares and capital gains, which in turn depend on companies and employee performance. Several software and high-tech organisations such as Infosys have conceived and designed such plans.

7.2.7 Competency-based Pay
The competency is a critical determinant of performance. Therefore, there is an increasing interest in offering monetary incentive for acquiring competencies required for higher performance on the present job or for the next job. Such competency may for instance include values, attitude and behavioural characteristics which influence performance.
In designing a performance linked reward scheme, choice of an appropriate scheme should be considered as critical. The choice will be determined by a variety of factors such as the nature of the organisation, the nature of technology, the nature of profits, the nature of markets, the human resource strategy and business objectives.

### 7.3 Steps in Designing Performance–Linked Schemes

There are a variety of performance-linked schemes. These must be closely adapted to the particular conditions of individual enterprises and the concerned groups of companies. In designing a custom-tailored performance-linked reward scheme, the following steps are important:

#### 7.3.1 Custom-Tailored

There is little scope for relying on model or standardised schemes. Attempts to impose specific performance-linked reward systems through central regulations generally appear to fail. Frequently the appropriateness of what is being required may appear questionable from the perspective of individual enterprises. Therefore, care must be taken in adapting such schemes to the particularities of individual enterprises.

#### 7.3.2 Objectives

The objectives of the schemes need to be carefully formulated. Such objectives are needed to guide the selection of performance measures, the specification of bonus calculation formulae and reaching a common understanding on the size of bonuses that may be expected through the schemes. The potential for performance improvement may vary greatly from one enterprise to another, as well as with the passage of time. Both the short and long run objectives for the scheme should be identified.

#### 7.3.3 Selection of Performance Measures

The selection of performance measures must be consistent with the scheme objectives. These must encourage those types of behaviour considered important for organisational performance such as increasing output, reducing labour and other costs, improving quality or timeliness of delivery, encouraging co-operation amongst work groups, enhancing adaptability and innovations, etc. In addition, they must not be pursued at the expense of other performance parameters.

At the same time, the measures of performance selected should, to a large extent, be under employee control, and not influenced by external influences. Employees will be de-motivated if their best efforts are offset by factors they cannot control. The unit, the performance of which is measured, should be small enough to ensure that workers can see some relation between their efforts and rewards. To ensure motivational effectiveness, the measures of performance should also be easily understood by the workers concerned, subject to ready verification if suspicions arise, and be calculable at frequent intervals.

#### 7.3.4 Basis

Depending on circumstances, performance awards may be determined on the basis of improvements over the previous year, improvements over a base period performance, or the maintenance of a high level of performance. Bonuses which become exceptionally large should be integrated into basic wages in order to avoid distortions in pay structures. Where necessary, it may be advisable to resort to procedures for stabilising bonuses of lengthening the period over which performance is calculated.

#### 7.3.5 External Influences

To the extent possible, the initial agreement establishing the scheme should specify how target performance levels are to be dealt with when their achievement is affected by external influences such as changes in production methods, product mix and prices of inputs and outputs.

#### 7.3.6 Distribution

The rule for the distribution of bonuses amongst workers should be simple and widely supported. It may be based on wage rates or average earnings. Also, to discourage excessive absenteeism, bonus is sometimes varied with the number of hours or days worked. However, distributions in accordance with assessments of individual worker performance by supervisors may be problematic, especially if such assessments lead to significant variations in pay.
7.3.7 Equity
There should be equal opportunities to earn bonuses, even though the performance measures may vary. In addition, performance targets should be set after a careful scrutiny of the historical behaviour of the measures selected. The quantum of bonus should be significant enough to evoke extra efforts. At the same time performance awards should not be so large as to put at risk a significant part of employee earnings for reasons beyond their control.

7.3.8 Safeguards
Such schemes should not be substituted for wage increases that otherwise would have been granted or replace fixed wages with variable wages. Performance pay should supplement rather than replace existing wage bargaining arrangements and should not question the need to maintain basic wages at adequate levels. It is very important to give assurances to existing employees that productivity improvements would not place their jobs in trouble.

7.3.9 Involvement and Communication
Such schemes must be perceived as acting in the interest of employees as well as employers. Accordingly such schemes must be implemented in ways that convince employees that they will receive a fair share of the benefits derived from their extra efforts and their jobs will not be threatened. Schemes based on collective performance work more effectively, when the scheme objectives and operations are explained in detail to all the employees concerned. The success of schemes depends to a large extent on the amount of effort given by management to consultation at various stages in the planning and design of the scheme, in the process of implementation and monitoring of results. In addition, the schemes have a better chance of success, if employees are provided with full opportunities to present their ideas for bringing about improvement. Performance linked schemes function most effectively when they are accompanied by a formal participative system that facilitates:

- the transformation of agreed practical suggestions into actual changes in operating methods and procedures;
- two-way communications at all levels on operating difficulties and general business trends

7.3.10 Union Participation in the Design
Performance reward schemes may work most effectively when worker representatives are given full opportunity to participate in their design and administration. Such involvement may facilitate comprehension and acceptance of scheme objectives. Moreover, workers may only fully trust the scheme, if it has been elaborated in consultation and agreement with worker representatives and they are subsequently given opportunities to verify that awards are calculated fairly. Also, the commonality of interests of workers and employers in improved productivity, performance, earnings and equity is likely to be much more apparent where pay systems are developed and elaborated in accordance with rules established through collective bargaining.

7.3.11 Review
There should be a clear provision for modifications owing to changes in production methods or in prices or inputs or outputs. The effectiveness of all pay systems decays with time and the duration of schemes based on collective measures of performance are particularly short. Accordingly it should be foreseen that the basic parameters of such schemes would undergo regular periodic revisions. Indeed it should be expected from the outset that the collective performance measures and targets would undergo continuing changes every few years in the light of the experience.

7.4 Issues and Trends
Following are the issues and trends:

7.4.1 Level of Education
The level of education of the employees, among other factors, will determine what type of scheme is likely to be easily understood by them and will motivate them. The nature of the business and the operations will also influence. Organisations in low-cost manufacturing or which promote innovation, skills and higher performance or which are in service industries may need to consider different forms of performance pay. Their business and human resource management strategy will differ, the form and content as well as objectives of performance pay should be consistent with them.
7.4.2 Trade Union
The chance of success of performance-linked pay will depend on the tradition of collective bargaining and attitudes of unions. While the negative attitudes hinder its introduction, the positive attitude considerably facilitates it.

7.4.3 Organisational Culture
Performance pay gives better results in organisations characterised by employee involvement and team spirit. A pro-active culture in the organisation is found to be valuable to performance and productivity.

7.4.4 Package of Monetary and Non-Monetary Incentives
Performance pay is the best element in the reward management and motivational system. Besides performance pay, it is essential to pay attention simultaneously to such aspects as re-organisation of work process, training, employee involvement and participative decision-making, opportunities to contribute ideas and knowledge, non-monetary recognition, career development and goal setting.

7.4.5 Rewarding Good Performance
Rewarding good performance may include, among others, such mechanisms as cash awards, appreciation letter and certificates, training in reputed institutions, foreign travel, job enlargement and enriched roles, publicity in newsletters and membership of professional societies, etc. For higher effectiveness of performance-linked pay- system, such reward mechanisms should also be used.

7.4.6 Performance Pay and Performance Management
It is increasingly realised that performance is affected by a variety of factors. These factors, for instance, will include knowledge and skills which are developed through training, work attitudes and intrinsic rewards. These and other factors which affect performance are considered in the wider context of performance management and human resource management with performance pay constituting an element of it.

7.4.7 Caveats
It is being increasingly realised that:

- The performance pay systems should be designed to promote the kind of performance an organisation needs. It should, therefore, be integrated with human resource management strategy for better performance and growth of the organisation.
- The performance pay should underpin the organisation’s main values, such as team work, creativity, flexibility and quality.
- The system should provide an impetus to and support the behaviour expected of the employees. Therefore, it must communicate to employees the type of behaviour to be rewarded and the way in which it will be rewarded.
- The reward system should be strengthened through re-organisation of work process and enlarged job responsibilities, training, consultation, communication and participatory system. Employees should also be consulted in the formulation of the plan.
- The criteria for determining performance should be objective, measurable, easily understood and related to what employees can control.
- The quantum of performance pay should be significant enough to be motivationally effective and its distribution should be equitable.
- The payment of performance pay should follow the performance as soon as possible and as frequently as possible.
- The performance level should be achievable; otherwise it will have a de-moralising effect.
- The quantum of pay should be sufficiently flexible to absorb downturn and adequately reward when performance is good; it should also safeguard the minimum remuneration for the value of the job.
Summary

- Performance-related reward system involves rewarding employees according to their performance, or results achieved or contribution to organisation’s performance as individuals or as a part of the group.
- Designing a performance-linked reward system is conditioned by a variety of factors such as the nature of business, type of technology, the attitude of unions and human resource management strategies of the organisation.
- Performance-linked reward systems reduce labour cost, result in increase in real wages and motivate performance.
- Compensation management is getting increasingly integrated with business and human resource management strategy.
- Reward system should be considered as an aid to better performance in a performance management system which may be integrated with the overall business plan and strategy.
- A common method which has long been in existence is pay increase or bonus payment on the basis of performance rating.
- Output-based incentive schemes are appropriate where tasks are repetitive and measurable.
- The rule for the distribution of bonuses amongst workers should be simple and widely supported.
- There should be equal opportunities to earn bonuses, even though the performance measures may vary.
- Performance reward schemes may work most effectively when worker representatives are given full opportunity to participate in their design and administration.

References


Recommended Reading

Self Assessment

1. Which of the following system involves rewarding employees according to their performance, or results achieved or contribution to organisation’s performance as individuals or as a part of the group?
   a. Performance linked reward system
   b. Performance-related reward system
   c. Performance incentive reward system
   d. Reward system

2. Which of the following system reduces labour cost, result in increase in real wages and motivate performance?
   a. Performance linked reward system
   b. Performance related reward system
   c. Performance incentive reward system
   d. Reward system

3. Which of the following management is getting increasingly integrated with business and human resource management strategy?
   a. Wages management
   b. Performance management
   c. Reward management
   d. Compensation management

4. Which of the following schemes are appropriate where tasks are repetitive and measurable?
   a. Output-based incentive
   b. Input-based incentive
   c. Performance-based incentive
   d. Annual incentive

5. A _________ in the organisation is found to be valuable to performance and productivity.
   a. Organisational culture
   b. Pro-active culture
   c. Social culture
   d. Religious culture

6. Which of the following is very important to give assurances to existing employees that productivity improvements would not place their jobs in trouble?
   a. Incentives
   b. Bonus
   c. Safeguard
   d. Equity

7. Which of the following pay gives better results in organisations characterised by employee involvement and team spirit?
   a. Basic
   b. Performance
   c. Bonus
   d. Compensation
8. The rule for the distribution of ________ amongst workers should be simple and widely supported.
   a. Bonuses
   b. Basic Salaries
   c. Incentives
   d. Equities

9. The _____________ must be consistent with the scheme objectives.
   a. selection of performance measures
   b. external influences measures
   c. distribution
   d. basis

10. Which of the following statements is false?
    a. The quantum of bonus should be significant enough to evoke extra efforts.
    b. The potential for performance improvement may vary greatly from one enterprise to another, as well as with the passage of time.
    c. The competency is not a critical determinant of performance.
    d. Long-term incentive in the form of employee stock options schemes are operated both to improve long-term incentive and to reduce fixed cost.
Chapter VIII
Overview of Future Trends in Compensation Management

Aim
The aim of this chapter is to:

• explain compensation issues and problems
• elucidate compensation structure and its trend
• explicate various compensation policies

Objectives
The objectives of this chapter are to:

• explain compensation criteria
• elucidate compensation administration
• explicate pay comparison

Learning outcome
At the end of this chapter, you will be able to:

• understand executive compensation
• identify compensation issues
• describe compensation structure
8.1 Introduction

Laying down a sound compensation system and its implementation is one of the most complex assignments in any industrial organisation. It is a dynamic and complex field involving many workable principles and procedures. Over a period, the compensation system has taken different shapes and acquired a multi-dimensional character due to the rapidly changing technology and socio-economic transformation of the society. Employees began to compare their inputs and outcomes with those of others and expect just an equitable pay. It gave rise to innumerable disputes and frictions, particularly with regard to the relative pay to be assigned to certain jobs or occupational groups in organisations. Consequently, different patterns of compensation and methods of fixation began to assume an important role in the management of personnel in enterprises.

8.2 Compensation Issues

The main problem that any organisation faces is putting down a fair and equitable compensation system. While the objective is simple, the process is complex. For example, the employer will be concerned mainly with productivity. The employee’s prominence may be on higher compensation to offset their increased cost of living and perhaps the price his skill will fetch in a competitive job market. The compensation issues that command our interest today and likely to continue in future will centre on questions of compensation levels and compensation structures.

Obviously, this will raise questions concerning the level of compensation rates in the plant or firm, industry, region, or nation. Closely related to this is the broad question of the determinants of compensation relationships. This involves an understanding of various influences controlling compensation, the nature of decision-making bodies and different traditions and customary attitudes that have developed in individual organisations, firms or industries. In few cases, the controlling influences may be standards and more of a particular locality or region, sudden change in technology, source of labour supply, firm’s competitive standing, general sales-and-profits prospects of the industry, and so on.

A decision about compensation rates in a given situation has to be reconciled with a variety of considerations such as when pay rates should be changed and by how much, how they should be distributed among different employees, and what firms should be covered. Disputes between employers and unions over wages and salaries are often a part and parcel of conflicts over such diversified matters. One of the considerations in formulating a pay package is the quantum of take-home pay, which is the net packet, after an employee has paid for his deductions. Some of these deductions are savings for old age, like the provident fund and pension schemes.

The balance between what is received now and what he will get on retirement is something that is variable in each case. In an employee’s earlier years, normally, children’s education, medical treatment, etc., will necessitate a larger income. In his later years, an employee will need to provide for his old age, in terms of a house and a steady income to maintain his habituated life style. Another related issue is salary and tax planning. In this context, organisations have taken recourse to fringe benefits some of which are tax deductible. The incidence of tax, either on ‘money incomes or on the total taxable income including perquisites, has to be worked out.

8.3 Compensation Problems

There are innumerable pay problems which may confront a given business operation and the individual managers operating that business. One of the most basic pay problems is the question of pay relationships within the company. Employees are vitally concerned with how their pay compares with the pay of co-workers. Comparing their pay with that received by fellow-workers is not only a natural thing for them to do, but also the easiest for them to make. Where employees believe they see inequities in internal relationships, they will tend to feel that they are underpaid, they will suspect favouritism, and will generally lose confidence in the company pay programme regardless of their actual pay level. Employees are also sensitive about how their pay compares with that received by employees in other companies who do comparable work. Their knowledge of pay in other companies is generally quite imperfect. However, if they get the impression that their pay is lower than that in other companies, serious employee unrest will result. It may lead to considerable change not only in employee attitudes, but also has an important bearing on the company’s ability to obtain and retain the number and types of persons required efficiently. Inequitable compensation rates are a major source of dissatisfaction among workers which may cause loss of morale, enhance incidence of absenteeism and labour turnover, and adversely affect industrial relations climate. If organisations are to avoid dissatisfaction with pay, employees must be convinced that both internal and external equity exists.
8.4 Compensation Administration

Compensation administration deals with techniques and procedures for designing and maintaining salary structure regarding staff, and exercising pay control. The basic aim of compensation administration is to attract, retain and motivate employees by developing and maintaining competitive and equitable salary structure. It is concerned with:

- the design and maintenance of pay structure;
- the operation of salary progression systems;
- the provision of employee benefits and other allowances; and
- the development of a total remuneration policy

The task of a wage and salary administrator is a broad and complex one. There is a wide range of pay problems that are essentially administrative in nature. These include designing and maintaining a competitive and equitable, wage, structure, establishment of policies, procedures, and practices, communication of pay information to supervisors and employees, and maintenance of proper records, data and other information. One of the problem areas in compensation administration is the different dimensions of pay differentials and disparities which have both economic and social significance. On the whole, the compensation structure is characterised by high dispersal across occupations, industries and regions. Several factors are responsible for this in differing measures. These are:

- The supply of and the demand for labour
- The capacity of the employer to pay
- The minimum needs of the workers
- The collective bargaining with or without government intervention
- The changes in the price level
- The stage of development of the economy, the national income of the country
- The stage of development of the industry, or firm, and so forth

The key requirements for effective compensation administration are:

- Compensation should be competitive with what other employers are paying for similar skills or jobs
- Compensation paid to various individuals in an organisation should reflect the comparative value of their respective contributions to that organisation
- Compensation decisions should be made and communicated in a way that is perceived as rational and fair

The following aspects of compensation planning and administration are of particular importance at the executive and managerial levels:

- Position level
- Salary structure
- Performance appraisal
- Incentive bonus plans
- Supplementary forms of compensation

8.5 Compensation Criteria

Pay criteria enables an employer to arrive at a decision to choose one out of possible pay levels. Several authorities have provided tabulations of pay criteria. Lester. L in his study, obtained from employers’ opinions as to which factors were most important in setting wage levels. They are, in order of importance:

- Rates of pay prevalent in other firms in the area or industry
- Union pressure
- Changes in cost-of-living
- Shortage of surpluses of qualified labour
• Employee unrest
• The company’s financial position
• Profits of the company

The very existence of trade unionism influences wage level decisions. Union wage policy and union power represent only one factor among many that help to determine the wage level in a specific organisation. To Ross, union wage policy is determined largely by political factors—union rivalry, strength of different factions within a given union, need for delivery of results by union leaders if they wish to remain in power, comparison with gains made by other unions and the well-being of the union organisation instead of its members. To Dunlop, union wage policy is primarily determined by economic considerations—the state of the labour market, the movement of cost of living, the demand for products of the employer, and competition from other employers and other industries.

In unionised organisations, wage levels are set through the mechanism of collective bargaining. The system of collective bargaining at the plant and industry level covering both blue-collar and white-collar workers has become the cornerstone of wage level determination in several countries. In the course of collective bargaining, trade unions and managements use whatever wage criteria best serve their immediate objectives and interests. To achieve standardisation of wages throughout a trade or industry, legislative measures have been adopted in many countries for extending coverage of collective bargaining agreements to those employees who are left uncovered.

The wage policies have been geared to achieve social justice and cope with inflation. Many countries have taken recourse to productivity bargaining for larger output and real improvements in the level of living of workers and other groups in the economy. Emphasis on productivity bargaining has been one way of coping with wage revisions under inflationary pressure. Dealing with inflation by different countries has taken the shape of linkage of employee earnings with various measures of price escalation and cost of living.

Wages are influenced not only by economic factors but also by custom, public opinion, legislation, and certain institutions. Knowledge of work opportunities and remuneration systems elsewhere aids in ironing out inequalities in wages and salaries and in reducing local shortages of labour. Minimum wage legislation has a direct effect upon wage rates in the unorganised sector. In the regulation of wages by minimum wage legislation or trade union action, wage differentials are of considerable practical importance.

### 8.6 Compensation Survey

The availability of accurate statistical information on wages is very essential for effective and timely action. A successful and socially significant compensation policy can be built up only on the strong foundation of correct and meaningful data on various aspects of pay determination, compensation levels, compensation structure, payment systems in different industries and occupations. This information is important not only for attracting employees, but also for retaining them by ensuring that external equity is maintained. The most common means of obtaining the desired compensation information is to conduct a compensation survey. Aside from the obvious need to reconcile internal with external job work, there are many other reasons for an organisation to conduct a survey of pay and benefits. These are:

• To gain more information about one or more particular jobs for which there is a great demand
• To test whether the company’s entire pay structure may be too low
• To find out more about starting rates for entry level jobs
• To look at pay differentials for selected jobs
• To get more information about employee benefits
• To get more facts about related matters, such as, hours of work, frequency of pay reviews, automatic and merit pay increases, and trends in pay and benefits
Compensation surveys actually take many forms and vary considerably depending upon their purpose. They generally include:

- A determination of the companies to be surveyed
- A selection of jobs to be surveyed
- A decision on what supplemental data are to be obtained
- The technical process of conducting and reporting the survey

Under the best of conditions, selecting companies for survey is not an easy task. To complicate matters, most businesses operate not in one labour market but in a number of different markets. The value of the survey data depends to a considerable extent on how carefully these jobs are selected and how well the key jobs match jobs in similar companies.

### 8.7 Pay Comparison

Pay comparisons are important to the employer, to the employee, and to the union. Comparative pay structures have an important effect on the company’s costs and, therefore, on its ability to compete effectively in the product market. However, wage comparisons involve a number of problems. The main difficulty is the determination of comparable jobs in the community. In some instances, the data for other companies are not publicly available. Job descriptions may be and usually are, very misleading. The universe of wage comparison which will be useful often is influenced by the method of bargaining prevalent in an industry, area, or company. Also, problems arise when a company or industry negotiates with two or more unions.

The wage comparison criterion plays a major role in collective bargaining. Comparison of levels of wages may be direct comparisons with other companies or industries. Comparison of levels of wages is often made by indicating the changes in the relative ranking of the given company or industry as compared with other companies or industries. As economic conditions change, relationships also change. A number of factors, such as maturity of an industry, the stage of the business cycle, union operating in the organisation, the relative importance of labour costs, and competitive pressures contribute to the changing wage relationships. Another phase of comparisons of levels of wages is concerned with wage differentials among the various regions of the country.

Geographic wage differentials imply different rates for the same job in a company and differences in the average wage among regions because of the types of industries located in each. Under the slogan, “equal pay for equal work”, the demand is frequently made to eliminate such differentials within a company. Where a union represents workers in a company with plants in different regions of the country, one of the announced objectives usually is to eliminate geographic wage differentials. Apart from establishing desired relationship with the external market, it is also vital that the internal pay relationship be maintained. Periodic review of job evaluation and salary structure is to be carried out to assure the company’s ability to pay on a competitive basis.

### 8.8 Compensation Structure

The various components that go into the compensation structure of India are basic wage, dearness allowance, other allowances, bonus, incentives and fringe benefits. Determination of the relative importance of each component in the pay packet is a delicate task. Furthermore, in devising a suitable wage structure, a balance has to be struck in the conflicting interests of the employers, the employees and the public. The recent trend in the wage structure shows that industrial wages are still low in certain occupations and among certain categories of employees, and they differ from state to state and are moving upward. Hence, there is need to review critically the existing wage and salary structure in order to ensure that they are economically viable and in consonance with the principles of social justice. The compensation framework has to incorporate the requirement for internal consistency, so that the structure is defensible in terms of logic and fairness. Also, it has to satisfy the requirement for external consistency, so that the needs of the pay market can be met. Moreover, while formulating a compensation structure in a given case, considerations of right and wrong, propriety and impropriety, fairness and unfairness, internal and external pay equity, stability and growth of the industry and the economy, have to be taken into consideration.
The wage fixation policy should ensure prevention of exploitation of labour through the payment of unduly low wages, particularly in those employments where sweated conditions exist and where the workers are vulnerable to exploitation because of lack of organisation. It is a step in the direction of realising the objectives of wage policy in a developing country like India, namely, the abolition of malpractices and abuses in wage payment, and the fixing of minimum wages for workers whose bargaining position is weak because they are unorganised or insufficiently organised. In a developing economy, with severe unemployment and under-employment, wages cannot be left to be determined entirely by the market forces, and the government has a positive role to play in ameliorating the conditions of the low-paid workers.

8.9 Compensation Policy

Wage policy in the Indian context is influenced by a number of forces, economic and social. Without controlling non-wage incomes and unaccountable incomes which have a suffocating impact on the economy, evolution of a wage policy would be difficult. It necessarily involves a delicate balance between numerous conflicting goals and interests. The Government has to exercise reasonable control over different forces and take into account not only the interests of the labourers, but those of the consumers and the entire economy. Generation of employment and need-based minimum wage are the two important considerations that should form the basis of such a policy.

Various aspects of wage determination at both the enterprise and national level will have to be constantly reconsidered in the light of changing socio-economic environment and technological improvements. Every organisation must frame its own wage policy keeping in mind the interests of the management, the employees, the consumers, and the community in general. In order to make the wage policy more effective, it should be carefully formulated, must be communicated not only to the managerial staff but also to the workers and their trade unions. It should be examined, evaluated and reviewed periodically to meet the changing needs of the organisation. Increasing emphasis has to be given for rationalisation of the wage structure keeping in view the goal of higher productivity in the years to come. Further, a wage policy must be geared to achieving the best prices, the best wages, and the best profits. Prices, wages, and profits must be thought of together. Only when we have achieved the best balance among them can the economy function at its fullest.

8.10 Compensation—Future Trends

Introduction of performance related payment systems in various industrial organisations is a much debated topic today. Although performance related pay appears to be an attractive proposition, it is very difficult to implement effectively. The organisation has to be confident that it can measure performance accurately and introduce a scheme that is objective and perceived to be fair. A further problem of relating pay to performance occurs in setting appropriate targets.

Another problem of relating pay to performance is how to reward those jobs where it is difficult to set output-targets. Examples include legal, administrative and research links, where outputs are very difficult to measure. In such cases a competency based approach might be required, in which the organisation rewards successful behaviours rather than tangible outputs. There are some organisations who see pay as the clearest method of delivering a message to an employee to reinforce the value of teamwork. As interest in individual schemes declines, the interest in team-based schemes grows. There have been a set of recent research findings in the U.S. reporting the success of team-based schemes. These have concentrated on gain-sharing and profit-sharing schemes. Team-based pay appears to be growing at a rapid rate in the U.S. and Japan. Incentive schemes play a major part in remuneration system. For instance, in our country different types of productivity and profit-linked bonus schemes are operating in different enterprises over a period. The recent innovation in the compensation system is stock option. This incentive is used to recognise improved performance and rich contribution of the employees and provide them with an opportunity to build ownership. Its major purpose is to reward performance over a longer period of time and to encourage employees to stay with the organisation. In future, stock option schemes are likely to gain momentum and popularity as a fringe benefit in many industrial organisations in our country.
8.11 Executive Compensation

The importance of compensation element is its impact in attracting, retaining and motivating the executive. Pay is admittedly not of equal importance to all executives. The importance of pay in altering or reinforcing performance is strongly influenced by several factors, including background and current economic status. The absence of internal equity and disparities in compensation pattern often leads to dissatisfaction among executives. To make the executives happy to the extent possible, and further to keep them from turning downright hostile, companies have been giving in, recent years, bigger and more frequent rises in salaries.

The cumulative effect is that executive compensation cost is today a sizeable and rising cost. Companies have started looking at executive compensation more systematically and pro-actively so that they can expect better performance from them. Executives play a major part in looking after the economic health of the company and are important for the success, growth and profitability of an organisation. Companies, therefore, have started looking at executive compensation more systematically and more pro-actively, so that they can expect better performance from the executives.

Equitable and fair payment of compensation is a problem for employees at any level, but there is a particular difficulty in this regard in the case of individuals at the middle and higher management/executive levels. At the lowest supervisory level the influence of local labour market condition, and at the middle management level national labour market conditions play an important role. Salaries at the top management level appear to be influenced by factors like size of the organisation, specific type of industry and contribution of the individual executive to the process of making decisions. The larger the company, the greater is the amount of salary paid to individual executives in the top level group. Again, since there are considerable industry differences, particularly in respect of the competitive environment, the industries that are more highly constrained by Government regulation pay relatively low salaries.

8.12 Compensation Management

To be effective, executive compensation has to be seen as a whole, evolved for a situation and administered in letter and spirit. Essentially, an executive compensation system or scheme for an organisation has to be tailor-made. Also, it has to be reviewed and revised from time to time. Top management should develop an approach to compensation that accounts for internal as well as external equity incorporating:

- A policy on pay differentials that reflects the dominant norms of equity of the management group as a whole, as well as the requirements of the industry in which the company operates
- Procedures for ensuring consistency of pay packets both within the company and with respect to other companies.
- A policy of relating pay to individual effort and performance
- An annual disclosure of the distribution of salary for the company as a whole, supported by a statement of how the compensation structure relates to corporate goals and strategies

If a compensation programme is to serve as a positive motivational force, the most difficult and at the same time the most critical requirement is to relate compensation to individual performance. Virtually all salary programmes for executives and managerial personnel require some judgment of individual performance as a key ingredient in compensation decisions. Non-cash forms of compensation, such as contributions to social security funds, deferred profit sharing and savings plans, medical, transport, have become increasingly significant elements of the total compensation programme. At the executive level, certain forms of compensation have special interest and significance because of their tax implications. The approach taken to executive compensation influences other practices and conditions that make up the executive environment. Therefore, executive compensation demands careful thought and attention to maintain the kind of leadership that is essential for an organisation’s continued growth and vitality.
Summary

- Laying down a sound compensation system and its implementation is one of the most complex assignments in any industrial organisation.
- The main problem that any organisation faces is putting down a fair and equitable compensation system.
- There are innumerable pay problems which may confront a given business operation and the individual managers operating that business.
- Compensation administration deals with techniques and procedures for designing and maintaining salary structure regarding staff, and exercising pay control.
- Pay criteria enables an employer to arrive at a decision to choose one out of possible pay levels. Several authorities have provided tabulations of pay criteria.
- The various components that go into the compensation structure of our country are basic wage, dearness allowance, other allowances, bonus, incentives and fringe benefits.
- Wage policy in the Indian context is influenced by a number of forces, economic and social.
- Various aspects of wage determination at both the enterprise and national level will have to be constantly reconsidered in the light of changing socio-economic environment and technological improvements.
- The importance of compensation element is its impact in attracting, retaining and motivating the executive.

References


Recommended Reading

Self Assessment

1. Which of the following is a dynamic and complex field involving many workable principles and procedures?
   - a. Performance management
   - b. Reward management
   - c. Compensation management
   - d. Wages management

2. __________ administration deals with techniques and procedures for designing and maintaining salary structure regarding staff, and exercising pay control.
   - a. Compensation
   - b. Organisation
   - c. Employee
   - d. Resource

3. Which of the following policy in the Indian context is influenced by a number of forces, economic and social?
   - a. Economic
   - b. Wage
   - c. Political
   - d. Social

4. The __________ effect is that the executive compensation cost is today a sizeable and rising cost.
   - a. compensation
   - b. continuous
   - c. cumulative
   - d. direct

5. __________ play a major part in looking after the economic health of the company and are important for the success, growth and profitability of an organisation.
   - a. Managers
   - b. Team leaders
   - c. Employees
   - d. Executives

6. At the ______ supervisory level the influence of local labour market condition, and at the middle management level national labour market conditions play an important role.
   - a. lowest
   - b. highest
   - c. modest
   - d. extremist

7. The ______ the company, the ______ is the amount of salary paid to individual executives in the top level group.
   - a. larger, lower
   - b. smaller, greater
   - c. larger, greater
   - d. smaller, lower
8. The wage comparison criterion plays a major role in _____________.
   a. collective bargaining
   b. compensation
   c. comparative pay
   d. incentive pay

9. Which of the following statements is false?
   a. Maximum wage legislation has a direct effect upon wage rates in the unorganised sector.
   b. The availability of accurate statistical information on wages is very essential for effective and timely action.
   c. Wages are influenced not only by economic factors but also by custom, public opinion, legislation, and certain institutions.
   d. Pay criteria enables an employer to arrive at a decision to choose one out of possible pay levels.

10. In __________ organisations, wage levels are set through the mechanism of collective bargaining.
    a. organised
    b. unorganised
    c. unionised
    d. capitalised
Case Study I

Team-Based Incentive Rewards

Network Cable, Inc., operates throughout the central and southern portions of Florida’s east coast. With approximately 43,500 subscribers, the company is a service provider for cable TV and high-speed Internet connections.

Network Cable operates in an area described as a “high-growth market.” In January 2001, Tara Gilbert, vice president of human resources for Network Cable, convinced company president and CEO Jeff Lesitner that restructuring the organisation workforce into teams would benefit both Network Cable and its employees. Cost savings, improved morale, and team synergy were cited as inherent benefits of teams. Based on these assessments, in June 2001, a select group of three senior managers, plus Tara Gilbewrt and the company’s financial officer, implemented teams within the company’s installation department. Here, forty installers were formed into eight teams of five installers each.

Management set performance goals for the installation teams linked to attractive incentive rewards (cash bonuses above base salaries) when performance goals are reached.

Performance measures included indexes for improved installation time, customer satisfaction scores, additional sales, equipment maintenance, and repair/callback problems. Each team could earn incentive bonuses up to a maximum of $15,000 annually with cash bonuses shared equally by each team member – a possible cash reward of $3,000 for each installer. Team bonuses after the first years were as follows: two teams, $15,000; one team, $12,500; one team $7,300; one team, $3,150.

During August 2002, Tara Gilbert sent to all installers and their supervisors a survey requesting feedback on the satisfaction with teams and, specifically, the incentive rewards program. While survey results were generally positive, not all was rosy. Problems could be grouped into the following categories:

1. Some installers believed that various team members did not “buy into” the team concept and were simply “free riders” – average employees who benefited from the efforts of superior employees.
2. There was a general feeling that several teams were routinely assigned difficult installations that prevented them from achieving high performance goals.
3. Teams did not always display the motivation and synergy expected, since “bickering” was prevalent between average performers and super performers. Average performers complained that high performers made them look bad.
4. A high percentage of survey respondents (29 percent) felt the incentive rewards program was unfair and asked for a return to fixed across-the-board salary increases.


Questions
1. Management set performance goals on what basis?
   Answer
   Management set performance goals for the installation teams linked to attractive incentive rewards (cash bonuses above base salaries) when performance goals are reached.

2. What was the viewpoint if survey respondents?
   Answer
   A high percentage of survey respondents (29 percent) felt the incentive rewards program was unfair and asked for a return to fixed across-the-board salary increases.

3. Performance measures included indexes for what?
   Answer
   Performance measures included indexes for improved installation time, customer satisfaction scores, additional sales, equipment maintenance, and repair/callback problems.
Case Study II

Asian Polymers Ltd

Asian Polymers Ltd., reached an agreement with the Union on a production incentive scheme to increase production. The company had an unprecedented demand for its goods and the Union agreed for the incentive scheme. The management was pleased with the assurance of the Union leader to personally undertake the task of implementing the scheme. The management promised to give him a free hand if he could assist in increasing production.

The Union did increase production to almost double the original level. As a result, the Union gained importance. Any problem could be sorted out by the Union by its direct access to the Chief Executive. The incentive scheme benefited primarily the Union members. The scheme was inequitable some workers got disproportionately large incentives, some low and some no incentive at all. The second feature was that as the incentive was linked to the Consumer Price Index (CPI), the distortion got further accentuated. However, when the Union tried to misuse its new found powers, the management struck back one day by taking disciplinary actions against all the leaders and the Union found all of a sudden that it was without a leader.

Another Union arrived on the scene and the leader had established a rapport with the Chief Executive, and this new Union faithfully followed the tenets of the management but as a price extracted some benefits for its members exclusively. The Union saw to it that production became its exclusive responsibility and it had a hot line with CEO for any problem solution.

As the years passed, the Union started agitating for improvement in the wage scales. Because of the incentive scheme, the company found that any improvement in the basic wage would pose greater problems and the primary question before the management was to delink the CPI from the incentive scheme. The Union refused to delink the CPI from the incentive scheme as some of its members were earning an amount equal to, if not more than the salary, as an incentive itself. At the same time workmen with no incentive and being grade barred began to lose. And this resulted in discontentment amongst the workmen. But the dilemma could not be resolved and this led to an explosive situation.

A third union emerged on the scene and this led to intense inter-union rivalry resulting in indiscipline, loss of production, and violence within the factory premises, as a result of which the company declared a lockout.

When the plant reopened after four months, the Union in power lost its credibility and the new Union had the complete support of the workmen. The new Union leader could develop a rapport not only with the workmen but also with the management and expected the management to solve the problem of not having revised the wage scales for a long period. But this was not an easy task as there were a lot of inequalities that the management wanted to set right.

The union, though agreeing with the management, would not agree for a cut in the wage in any manner to set right the inequalities. The Union not only wanted to cling to the beneficial aspects of the incentive scheme but also insisted that the management somehow give an increase in the basic wages. The management was being drawn into a vicious circle of the incentive scheme being inequitable but when the Union’s attention was being brought to the high incentive categories, it reverted to the low basic wage theme. The management remained in a quandary as regards how to convince the workmen, to win over the constituency of workmen and make managers effective and regain supremacy in production.


Questions

1. Identify the problems and their causes in this case.
2. Under the given situation, how are the problems to be remedied?
3. Suggest various principles and strategies the management has to keep in mind while formulating a wage incentive scheme for the employees.
Case Study III

Panda International

Mohan Panda, a bright young M.B.A., fresh from Affinity Management Institute, one of the top management institutes, took over his father’s responsibilities as president of Panda International, a manufacturing unit in Orissa. The company which is situated at Rourkela is a major industrial unit which manufactures electrical equipments. The company employed approximately one thousand people in the production division. It had never laced with a demand for collective bargaining. So far as was known, none of its employees were union members.

The company enjoyed wide reputation for its product quality, customer dealings, distribution networks and above all its people friendly approach. Majority of employees were highly satisfied with company’s HR policy as well as wages and benefits offered to them. The wages offered by the company was so far best in the locality. The working condition was conducive for employees which had earned laurels for the company. Recently two major players in the electrical equipment segment started two major units at Rourkela and offered better wages to employees including prospective employees from Panda International. Some of the existing employees also joined in those units.

The new president, after three years of climbing the ladder to his position, had a conference with three long-term employees, who explained that they and their associates had been discussing the desirability of bargaining collectively. They gained through such formal representation. The employees had not voiced any strong criticism of management, but they had held several meetings and had invited representatives of a national union to talk with them. They concluded that they ought to try collective bargaining and for this purpose formed a union and enlisted a majority of workshop employees as members. The three representatives had been elected to the bargaining committee in order to present a written memorandum to the president with a request for collective bargaining agreement. A series of issues carefully spelled out by the union were handed over to the president by the three representatives.

The young executive received them cordially and listened carefully. He accepted their memorandum and suggested that he would like to have time to study it carefully. He proposed a meeting with them for tuesday of the following week.

When the committee members returned, the president reminded them that the company had been careful to maintain wages and working conditions at least on a par with those in unionised companies in the same industry and region. He expressed the opinion that the specific proposals they had presented seemed to him quite reasonable and appropriate. The president however expected the employees to maintain standard and raise productivity in order to overcome competition from other industries and maintain wage parity. He had been thinking of any of the same changes and would probably have made them without their request. He was pleased to hand them their memorandum with a notation indicating his acceptance. The members left, quite satisfied with the effectiveness of their negotiations and promising to report back to him as soon as possible.

One week later, the president found the same group of representatives waiting to see him. They appeared somewhat crestfallen and embarrassed. They reported that they had gone back to the membership, presented a full report of their discussions with him, explained. Is favourable attitude, and recommended formal ratification of the memorandum as a new collective bargaining agreement. After extensive discussion, when the motion for ratification came up for a vote, a majority of the membership voted against ratification.


Questions
1. What are the problems in this case?
2. Why did the members refuse to ratify the agreement?
3. What measures do you suggest to maintain wage equilibrium and how?
## Bibliography

### References

25. npTELHRD, 2010. Lecture - 17 Wage and Salary Administration, [Video online] Available at: <https://www.youtube.com/watch?v=EtbJBz6NWE0> [Accessed 17 July 2013].


Recommended Reading


Burgess, L. R., 1968. Wage and salary administration in a dynamic economy, Harcourt, Brace & World.


Self Assessment Answers

Chapter I
1. a
2. b
3. c
4. a
5. d
6. c
7. d
8. b
9. b
10. a

Chapter II
1. a
2. a
3. b
4. c
5. d
6. c
7. b
8. c
9. a
10. d

Chapter III
1. b
2. c
3. a
4. c
5. b
6. a
7. c
8. d
9. b
10. c

Chapter IV
1. a
2. d
3. d
4. a
5. a
6. b
7. c
8. b
9. d
10. b
Chapter V
1. a
2. c
3. a
4. a
5. a
6. c
7. a
8. a
9. a
10. d

Chapter VI
1. b
2. a
3. c
4. b
5. c
6. a
7. d
8. c
9. c
10. b

Chapter VII
1. b
2. a
3. d
4. a
5. b
6. c
7. b
8. a
9. a
10. c

Chapter VIII
1. c
2. a
3. b
4. c
5. d
6. a
7. c
8. a
9. a
10. c