

CHAPTER THREE – THEORETICAL FRAMEWORK

3.1 Introduction –

Of all the factors of production, man is by far the most important. The importance of human factor in any type of co- operative endeavor cannot be overemphasized. It is a matter of common knowledge that every business organization depends for its effective functioning not so much on its material or financial resources as on its pool of able and willing human resources.

The overwhelming importance of this factor is due to its unique characteristics. This is the only resource, which is able to produce an output greater than its input. Man alone can produce through motivated creativity an output greater than the sum of this inputs. No other resource can do this. All other resources which are inanimate, inert and passive do not act in this way. Human resource is the most complex and unpredictable in its behavior.

The rise and growth of modern industries with a complicated industrial system has given rise to labour problems, like, fair wages, increase in bonus, improving the health of workers, Welfare of the workers should be understood such as services, facilities and amenities provided to the workers to perform their work in healthy congenial surroundings.

3.2 Concept of Labour –

Any work, manual or mental undertaken for certain pecuniary consideration is termed as ‘Labour’ in Economics. Labour represents labour force that works for a living. Labour is not only a means of production, but also an end of production. In other words, labour (working class) is not only

a significant segment of the population of a country but also the most important instrument for the achievement of national objectives. Labour as a factor of production has been variously conceived. From the stand point of peculiarity that labour is a perishable commodity and can't be stored up even for a single day.

The famous Declaration of Philadelphia, adopted at the 26th session of the General conference; of the International Labour Organisation, reaffirmed amongst various fundamental principles of the organization, that "Labour is not a commodity."

Definition of Labour –

1. "Any exertion of mind or body undergone partly or wholly with a view to some good other than the pleasure derived directly from the work is called labour."

- A. Marshall.

Labour in this sense, includes, "The very highest professional skill of all kinds as well as the labour of unskilled workers and artisans and of those employed in education, in the fine arts, in literature, in science, in the administration of justice and in the government in all its branches". Labour as such represents labour force that works for a living and yields a balance of utility to the agents irrespective of whether they are a source of utility to the other people.

Features of Industrial Labour –

1. Most of industrial workers have their roots in villages. Quite a large number of them have left their traditional occupations and have migrated to the cities in search of permanent or temporary employment. Most of them still retain their attachment to land and the periodic migration from the town to the village is a common characteristic of our industrial labour.

2. Secondly, industrial labour is largely uneducated. As a result, they do not understand the problems which their industries confront and the problems which they themselves are facing.
3. Thirdly, industrial labour in India is not united but is divided, sub-divided on the basis of region, language and caste.
4. Finally, Indian labour does remain in the same job for considerable amount of time. There is high labour turnover absenteeism and indiscipline. It may be because of their lack of education and love of leisure.

Causes of Disputes of Industrial Labour –

1. One of the most important causes of Industrial labour is the demand for more wages. It is generally known that the Indian Industrialists have not been following an enlightened policy in the matter of paying wages.
2. Second main cause is the demand for bonus or for the increase in bonus. There is an increasing feeling among the workers that they should have a greater share in the profit of the industrial concerns.
3. Thirdly, the demand for improved working conditions. This cause is divided such as lesser working hours, better safety measures in the factory, canteen facilities and leave.
4. Other causes of disputes are, non-implementation of labour acts, awards and agreements, workload, betterment of amenities.

These are the causes of disputes faced by the Indian workers in Industries.

A. Labour Welfare –

The Oxford dictionary defines labour welfare as “Efforts to make life worth living for workmen.” These efforts have their origin either in

some statute formed by the state origin some local custom or in a collective agreement or in the employer's own initiative

An employer may voluntarily own initiative welfare measures in his undertaking with the following objectives.

Objectives –

1. To give expression to philanthropic and paternalistic feelings.
2. To win over employees' loyalty and increase their morale.
3. To combat trade unionism and socialist ideas.
4. To build up stable labour force, to reduce labour turnover and absenteeism.
5. To build efficiency and productivity among workers.
6. To save oneself from heavy taxes on surplus profits.
7. To earn goodwill and enhance public image.
8. To reduce the threat of further government intervention.
9. To make recruitment more effective.

It is difficult to precisely define the scope of labour welfare efforts. Different writers have defined it in different ways. Some writers say that only voluntary efforts on the part of employers to improve the conditions of employment in their factories form the scope of labour welfare efforts. Some others say it includes not only voluntary efforts of the employer but also the minimum standards of hygiene and safety laid down in general legislation.

3.3 Principles of Labour Welfare Services –

Following are generally given as the principles to be followed in setting up a labour welfare services :

1. The service should satisfy real needs of the workers - This means that the manager must first determine what are the employee's real needs with the active participation of workers.

2. The service should be such as can be handled by cafeteria approach - Due to the difference in sex, age, marital status, number of children, type of job and the income level of employees there is large difference in their choice of a particular benefit.

Hence, it is suggested that a package total value of benefits should be determined and the selection of the mix of benefits should be left to the choice of each individual employee. This is known as 'cafeteria' approach.

3. The employer should not assume a benevolent posture.
4. The cost of the service should be calculable and its financing established on a sound basis.
5. There should be periodical assessment or evaluation of the service and necessary timely improvement on the basis of feedback.

3.4 Types of Labour Welfare Services –

All labour welfare services are classified under two heads: intramural and extramural. Intramural services are those, which are provided within the factory (such as safety, health and counseling services) External services are those, which are provided outside the factory (such as education, housing, transport, recreation etc.)

Important welfare services are described as following as safety, health and counseling.

A. Safety Services –

Prevention of accidents is an objective, which requires no explanation. This is one area in which there is complete identity of employer employee interests. The employee does not want to be injured and the employer does not want to incur the costs of injuring him.

Accidents are the consequence of two basic factors: technical and human. Technical factors include all engineering deficiencies related to plant, tools, material and general work environment. Thus, for example,

improper lighting, inadequate ventilation, poor machine guarding and careless house keeping are some hazards, which may cause accidents.

Human factors include all unsafe acts on the part of employees. An unsafe act is usually the result of carelessness. In some cases it may be deliberate also. In most instances carelessness can be attributed to the mental condition of the employee.

Components of a Safety Services –

1. Appointment of safety officer – In big organization the appointment of a safety officer to head the safety department is a 'must'. In small organizations, the personnel manager may look after the functions of this department. The head of the safety department who is usually a staff man, is granted power to inspect the plant for unsafe condition to promote sound safety practices, to make safety rules, and to report violations to the plant manager.
2. Support by line management – The head of the safety department, whether enjoying a staff or a functional position, by himself, cannot make a plant safe. His appointment nulls line management into assuming that all its safety problems have been solved. This highlights the importance of making safety a line responsibility.
3. Elimination of hazards – Although complete elimination of all hazards is virtually an impossibility but following steps can be taken to help reduce them:
 - i) Job Safety analysis – All job procedures and practices should be analyzed by an expert to discover hazards.
 - ii) Placement – A poorly placed employee is more apt to incur injury than a properly placed employee. Employees should be placed on jobs only after carefully estimating and considering the job requirements.

- iii) Personal protective equipment – Endless variety of personal safety equipment is available now a days which can be used to prevent injury.
 - iv) Safeguarding machinery – Guards must be securely fixed to all power- driven machinery.
 - v) Materials handling – The careless handling of heavy and inflammable materials is an important source of several injuries and fire.
 - vi) Hand tools – Close supervision and instruction should be given to the employees on the proper tool to use and the proper use of the tool.
 - vii) Maintenance – Worn-out machinery guards and attachments, old and out-of-date fire-fighting equipment also contribute to a serious hazard. They often give employee a false sense of security and protection.
 - viii) Layout and design – construction of fireproof walls, adequate fire escape aisles, and storage space, doorways and passage ways location of hazardous items above employee reach, provision for non-skid floors, protection of radiators by grills can do much to reduce accidents.
4. Safety training education and publicity – Safety training is concerned with developing safety skills, safety education is concerned with increasing contest programmes safety campaigns suggestion awards and various audiovisual aids can be considered as different forms of employee education.
 5. Safety Inspections – An inspection by a trained individual or a committee to detect evidence of possible safety hazards is a very effective device to promote safety. Following are four forms of safety inspections.
 - a. Periodical safety audit – Here checklists are prepared of the points to be covered and an inspection programme is planned to deal with them at regular intervals.

- b. Random spot check – Spot checks can be made in each area or department on a random sample or to cover special problems such as the inadequate use of protective clothing.
 - c. Daily check – Supervisors can be required to make checks of safety points in the department under their control which should list the problem conditions and indicate the action to be taken either by the supervisor himself, management or the safety advisor.
 - d. Regular inspection – This may be carried out when required by legislation or by insurance companies, of boilers, pressure vessels, pipelines, dangerous processes lifts, hoists etc.
6. Investigation of accidents – By determining the reasons for an accident, appropriate action can be taken to prevent similar future occurrences. Investigation of an accident involves the following steps:
- i) Define the problem or nature of accident
 - ii) Collect all relevant facts.
 - iii) Determine the cause of the accident.
 - iv) Develop several alternatives to prevent recurrence.
 - v) Select and implement the most effective alternative.
 - vi) Suggest disciplinary action against the employee whose actions were found deliberately unsafe.

B. Health Services –

The prevention of accidents constitutes any one segment of the function of employee maintenance. Another equally important segment is the employee's general health, both physical and mental. The factors, which influence the general health of the worker, can be divided into two broad groups, namely:

- i) Those which are associated with his working environment and
- ii) Those which he shares with the rest of the community.

There are two aspects of industrial health services : i)Preventive and ii) curative, The former consists of –

1. Pre – employment and periodic medical examination.
2. Removal or reduction of health hazards to the maximum extent possible.
3. Surveillance over certain classes of workers such as women, young persons and persons exposed to special risks.
4. Training of first aid personnel and education of workers in health and hygiene and
5. Attention to working conditions such as proper lighting, temperature, ventilation, noise.

The curative aspect begins only after a worker has fallen ill or caught any disease.

C. Counseling Services –

Counseling may be done by anybody in whom the employee has confidence and trust. It is not limited exclusively to professionally trained individuals.

Counseling is a discussion of the problem with the employee to help him cope with it better. Counseling produces the following advantages.

Advantages of Counseling

1. It improves both upward and downward communication – An important part of any counselor's help interpret company policies and procedures to employees as they discuss emotional problems related thereto.
2. It helps the employee in finding release of emotional tension – It is widely acknowledged fact that as a person begins to explain his problems to a sympathetic listener, his tension begins to subside and he becomes more relaxed.

3. It clarifies employee's thinking – The employee is enabled to look at his problems realistically and in a wider perspective. He is made to recognize and accept his limitations. He is often required to revise his level of aspiration to bring it more in line with his level of attainment.
4. It develops courage and confidence in the employee.

3.5 WELFARE SERVICES AND PROGRAMMES –

Introduction –Money wage is not the sole factor to improve the conditions of the working class. Labour Welfare measures are regarded to be a good investment for improving industrial efficiency and greater amelioration of labour conditions. Besides such activities are of significance in fostering good industrial relations. To achieve the goal of large scale industrialization, happy and contented workforce is essential. It is one of those basic pillars on which the edifice of our industrial structure is based. Workers hold key position in the society because their devotion to duty determines to a large extent, the material progress of a country. Therefore in our country, where workers have so far regarded industrial employment as a “necessary evil ” and try to escape from it at their earliest convenience, welfare measures have become a necessity with an efficient workforce. It is wrong to condemn the Indian industrial workers as lazy and inefficient but improvement in their conditions of life is to be brought about by the concerned factories. The Bombay Textile Labour Enquiry Committee has aptly remarked, “It is axiomatic that in all pursuits, a high standard of efficiency can be expected only from persons who are physically fit and free from mental worries that is, only persons who are properly trained, properly fed and properly clothed.”

Thus Welfare activities may be anything exclusive of money wage paid, meant for comfort and improving the health, safety, general well-being and efficiency of the workers, which are neither required by law nor have come to be the necessity of industry. However the scope of welfare activities calls for a

comprehensive analysis. The Labour Investigation Committee has clearly mentioned the scope of such activities as, “For our part, we prefer to include under welfare activities anything done for the intellectual, physical, moral and economic betterment of the workers, whether by employer, by Government or by other agencies, over and above what is laid down by law or what is normally expected as a part of contractual benefits for which the workers have bargained. Thus, under this definition, we may include housing, medical and educational, facilities, nutrition (including provision of canteens) facilities, day nurseries and crèches, provision of sanitary facilities, holidays with pay, social insurance measures undertaken voluntarily by employers alone or jointly with workers including sickness and maternity benefit schemes, provident funds gratuities and pensions.”

Actually, the term ‘Welfare’ is a comprehensive one which lends itself to various interpretations. Hence, it is very difficult to define the term ‘Welfare’ precisely. Prof. Richardson has analyzed it as “any arrangement of working conditions organization of social and sports club and establishment of funds by a firm, which contribute to the workers, health and safety , comfort, efficiency, economic security, education and recreation.” The Encyclopedia of social sciences define, ‘Welfare works’ as “Voluntary efforts of an employer to establish, within the existing industrial system, working and sometimes, living and cultural conditions of his employees beyond what is required by law, the customs of industry and conditions of the market.”

SERVICES AND PROGRAMMES –

The main objective of employee services and programmes is to improve human relations. The term ‘employee services’ includes a number of services provided by the organization for the employees and in some cases for members of employee’s families. These services are housing, health, education, recreation credit, canteen, transport, retirement benefits etc. Some of these measures have been required to be provided by the legislation but many fall

outside the scope of the legal requirements, while some employers provide these services over and above legal requirements. The different purposes served by the personnel programmes, from the point of view of both the organization and the employees, are listed below :

For the organization :

- To increase output,
- To reduce turnover and absenteeism,
- To increase employee morale,
- To increase employee's loyalty towards organization,
- To reduce grievances,
- To increase welfare of employees in connection with, their personal and social needs,
- To improve public and community relations,
- To facilitate recruitment and retention of employees,

For the employees:

- To provide assistance in solving personal problems.
- To provide conveniences and facilities not otherwise available or available in less a convenient form.
- To increase job satisfaction.
- To contribute to personal advancement and well-being of individual employees.
- To reduce feeling of insecurity.
- To provide additional opportunities to attain status.
- To provide extra compensation.

3.5 FRINGE BENEFITS –

The term 'fringe benefit' refers to various extra benefits provided to employees, in addition to the compensation paid in the form of wage or salary. Cockmar defined 'fringe benefits' as "those benefits which are provided by an

employer and which are not in the form of wages salaries and time-related payment.”

Different terms are used to denote fringe benefits. They are welfare measures, social changes, social security measures, supplement, sub-wages employee benefits etc. The International Labour Organization has defined ‘fringe benefits’ as “wages are often augmented by special cash benefits by the provision of medical and other services or by payments in kind that forms part of the wages. In addition, workers commonly receive such benefits as holiday with pay low cost meals, low rent housing etc. such additions to the wage proper are sometimes referred to as fringe benefits. Benefits that have no relation to employment or wages should not be regarded as fringe benefits even though they may constitute a significant part of the workers ‘total income’

Thus, fringe benefits are those monetary benefits given to the employees during and post employment period which are connected with employment but not to the employees contribution to the organization.

The term ‘fringe benefits’ covers bonus social security measurements retirement benefits like provident fund, gratuity, pension, workmen’s compensation, housing, medical, canteen, cooperatives credit, consumer store, educational facilities, financial advice and so on. The purpose of such benefits and services is to retain the people in the organization and to stimulate them to greater effort and higher performance. They foster loyalty and act as a security base for the worker. But while some employers provide these services over and above the legal requirements to make effective use of their workforce, some restrict themselves to those benefits which are legally required.

TYPES OF FRINGE BENEFITS –

Organization provides a variety of fringe benefits. Robert H. Hodge has classified the fringe benefits as follows :

1. Payment for time-not-worked: Benefits under this category include sick leave with pay, vacation pay, paid rest and relief time, paid lunch periods, grievance time, bargaining time, travel time etc.
2. Extra payment for time worked: This category covers the benefits such as premium pay, incentive bonus, shift premium, old age insurance, profit sharing, unemployment compensation, Christmas bonus, Diwali or Pooja bonus, food cost subsidy, housing subsidy, recreation etc.

A detailed classification of the fringe benefits is given in the following table.

Table No. 3.6.1
Types of Fringe Benefits

Sr. No.	Category of Fringe Benefits	Nature of Fringe Benefits
1	Payment for Time-not-worked	Hours of work Paid Holidays Shift Premium Holiday pay Paid Vacation
2	Employee Security	Retrenchment compensation Lay-off compensation
3	Safety and Health	Safety Measures Workmen's compensation Health Benefits
4	Welfare/Recreational Facilities	Canteens, Consumer societies Credit Societies Housing Legal Aid Employee Counseling Welfare Organizations Holiday Homes Educational Facilities Transportation Parties and Picnics Miscellaneous
5	Old – Age and Retirement Benefits	Provident Fund Deposit linked Insurance Gratuity, Medical Benefits, Pension

3.7 Factories Act, 1948

The principal Act to provide for various labour welfare measures in India is the Factories Act, 1948. The Act applies to all establishments employing 10 or more workers where power is used and 20 or more workers where power is not used and where a manufacturing process is being carried on.

The Act contains detailed provision about.

- The appointment of a labour welfare officer.
- The health of workers.
- The safety of workers and
- The welfare of workers

A) Labour Welfare Officer –

Section 49 of the Factories Act provides that in every factory wherein 500 or more workers are ordinarily employed and employer shall appoint at least one welfare officer. Government lay down the qualifications and duties of Welfare Officers. The Welfare Officers should possess:

- A university degree
- Degree or diploma in social services or social welfare from a recognized institution
- Adequate knowledge of the language spoken by the majority of the workers in the area where the factory is situated.

The duties of Labour Welfare Officer –

1. Supervision of i) Safety health and Welfare programmes like housing, recreation, sanitation service etc. ii) Working of Joint Committee iii) Grant of leave with wages iv) Redressal of worker grievances.
2. Counseling workers in – i) personal and family problems ii) adjustment to their work environment iii) understanding their rights and privileges

3. Advising Management in matters of – i) Formulating labour and welfare policies ii) Apprenticeship training programmes iii) Meeting statutory obligations to workers iv) Developing fringe benefits v) Workers education and use of communication media.
4. Establishing liaison with workers
5. Establishing liaison with management
6. Working with management and workers to improve productivity.
7. Working with outside public to secure proper enforcement of various Acts.

B) Health of Workers -

Health provisions are contained in Chapter II of the factories Act, 1948. These are as follows :

- Cleanliness – Every factory shall be kept clean by daily sweeping or washing the floors and work rooms and by using disinfectant where necessary.
- Disposal of wastes and effluents – Effective arrangements shall be made for the disposal of wastes and for making them innocuous.
- Ventilation and temperature – Effective arrangements shall be made for ventilation and temperature so as to provide comfort to the workers and prevent injury to their health.
- Dust and fume – Effective measures shall be taken to prevent the inhalation and accumulation of dust and fume.
- Artificial humidification – The State Government shall make rules prescribing standards of humidification and methods to be adopted for this purpose.
- Overcrowding – There shall be in every work room of a factory in existence on the date of commencement of this Act at least 4.2 cubic meters of space for every worker.

- Lighting – The State Government shall make provision for both natural and artificial lighting. Glares and shadows which cause eye strain shall be avoided.
- Drinking water – There shall be effective arrangement for wholesome drinking water for workers at convenient points. If their number is more than 250 then the arrangement shall be made for cool drinking water during hot weather.
- Latrines and Urinals – There shall be sufficient number of latrines and urinals, clean, well-ventilated conveniently situated and built according to prescribed standards separately for male and female workers.
- Spittoons – There shall be sufficient number of spittoons placed at convenient places in the factory.

C) Safety of workers -

Safety provisions are made in chapter IV and IV-A of the Factories Act. These are as follows:

1. Fencing of machinery – All dangerous and moving parts of machinery shall be securely fenced. Screws, bolts and teeth shall be completely encased to prevent danger.
2. Work on or near machinery in motion – Lubrication or other adjusting operation on a moving machinery shall be done only by a specially trained adult male worker. No women or young persons shall be allowed for this work.
3. Employment of young persons on dangerous machines - No young person shall be allowed to work on any dangerous machine. Similarly no woman or child shall be employed in any part of a factory for pressing cotton in which a cotton opener is at work.
4. Device for cutting off power – Suitable device for cutting off power in emergencies shall be provided.

5. Hoists and lifts – These shall be made of good material and strength thoroughly examined at least once in every six months and also suitably protected to prevent any person or thing from being trapped.
6. Proper construction and maintenance of floors and stairs – Floors and stairs shall be of sound construction and properly maintained free from any obstruction.
7. No excessive weights – No person in the factory shall carry load which is in excess of the weight prescribed by the State Government separately for men, women and children.
8. Suitable precautions against excessive light dangerous fumes and gases portable electric light and fire – Effective screens or goggles shall be provided to the workers to give them protection against excessive light manholes of adequate size.
9. Safety of building and machinery – The Inspector is empowered to serve on the occupier or manager of the factory an order in writing.
 - a) To furnish such particulars as would enable the inspector to determine the plant and buildings safety or
 - b) To take certain safety measures before certain date.
 - c) To discontinue the use of plant and building until these have been properly repaired.
10. Appointment of Safety Officers –
 - a) Wherein one thousand or more workers are ordinarily employed or
 - b) Wherein the opinion of the State Government any manufacturing process or operation is carried on.

The duties, qualifications and conditions of services of safety officers shall be such as may be prescribed by the State Government.

D) Welfare of Workers -

Chapter V of the Factories Act contains provisions about the welfare of workers. These are as follows :

1. There shall be separate and adequately screened washing facilities for the use of male and female workers.
2. There shall be suitable places provided for clothing not worn during working hours and for the drying of wet clothing.
3. There shall be suitable arrangement for all workers to sit for taking rest if they are obliged to work in a standing position.
4. There shall be provided the required number of first-aid boxes or cupboards equipped with the prescribed contents readily available during the working hours of the factory.
5. The State Government may make rules requiring that in any specified factory employing more than 250 workers, a canteen shall be provided and maintained by the occupier for the use of the workers.
6. There shall be provided sufficiently lighted and ventilated lunch room if the number of workers ordinarily employed is more than 150.
7. There shall be provided and maintained an adequately lighted and ventilated room for the use of children under the age of 6 years of women workers if their number exceeds 30.

E) Welfare Funds –

The welfare funds have been established to supplement the efforts of the employers and the State Government under respective enact-ment. The funds have been created by levy of the cess on production or consumption or export of the minerals and in the case of Beedi, on the manufactured beedis. The welfare measures financed out of the funds relate to development of medical facilities, housing ,supply of drinking water, support for education of dependants and recreation.

F) Voluntary Benefits –

Besides the above statutory benefits, many benefits are also given voluntarily to workers by some progressive employers. These include loans for purchasing houses and for educating children, leave travel concession, fair price shops for essential commodities and loans to buy personal conveyance. Many organizations both in the private and public sector are developing town – ships for their workers. These townships have well laid-out housing colonies properly maintained roads and other amenities like schools, hospitals, community centers, shopping centres ,recreation clubs, cultural centers , parks etc.

Workers' Educations In India – The Government of India set up in 1958 a semi autonomous body called the Central Board of Workers' Education (CBWE) with the following objectives.

1. To develop stronger and more effective trade unions through better trained officials and more enlightened members
2. To develop leadership from the rank and file and to promote the growth of democratic process in trade union organization an administration.
3. To equip organized labour to take its place in democratic society and to fulfil its social and economic responsibilities

To promote among workers a greater understanding of the problems of their economic environment and their privileges and obligations as union members and officials and citizens.

3.8 Employee Compensation –

Introduction -

Good compensation plans, well administered, have a salutary effect on the entire enterprise. Employees are happier in their work, if co-operation and loyalty are higher, productive output is up, and quality is better. In the absence of such plans compensations are determined

subjectively on the basis of haphazard and arbitrary decisions. This creates several inequities, which are among the most dangerous sources of friction and low moral in an enterprise.

Although there can be both monetary and non-monetary forms of compensation prevalent in an enterprise, yet it is the former which is the most basic element by which individuals are attracted to an organization, persuaded to remain and induced to engage in behavior beneficial to the organization.

The administration of monetary compensation is divided in two parts.

1. Primary compensation and
2. Incentive compensation

3.9 Primary Compensation –

The primary monetary compensation is basic pay in usage a distinction is drawn between these two words. The word ‘wage’ is used to denote hourly rated production workers and the word ‘salary’ is used to denote payments to clerical, supervisory and managerial employees.

Time as Basis for pay –

The oldest and most common system of rate per hour, per day, per week, per month or per year. Under this system no consideration is given to the quality or the amount of output. The employer buys the time of the worker i.e. the worker is guaranteed a definite payment for a specified period of working. Use of time rates for salaried employees is almost universal. Time basis is more satisfactory when units of output are not distinguishable and measurable and employees have little control over the quality of output or when there is no clear-cut relation between effort and out-put as on some machine-paced jobs; work delays are frequent and beyond the employee’s control; quality of work is specially important; supervision is good and the supervisors know what constitutes “a fair

day's work" and competitive conditions and cost control do not require precise advance knowledge of labour costs per unit of output.

Merits of the system are as under –

1. It is simple to understand workers can easily calculate their remuneration.
2. It is linked by trade unions because it does away differences of payments and assures a guaranteed income for a given period of work.
3. It helps in maintaining the quality of output because the worker is not tempted to increase his speed to produce sub-standard units to earn more.
4. It saves machine from being overworked and damaged.
5. It protects employees from overwork and fatigue.
6. It is the only satisfactory system when the output is not distinguishable or measurable or when there is no clear-cut relationship between the effort and the output of a worker.

Following are the demerits of this system

1. This system does not distinguish between efficient and inefficient workers. All workers are paid equal remuneration irrespective of their quantity of output.
2. In order to make the labourers work without wasting their time, supervision becomes necessary. This increases cost of production.

Nominal and Real Wages –

Wages can be expressed in two ways –

When they are expressed in terms of money paid to the worker they are called nominal wages.

When they are expressed in terms of their purchasing power with reference to some base year they are called real wages. These wages

are arrived at by making adjustment in the nominal wages for the rise or fall in the cost of living.

3.10 Requisites of a sound primary compensation structure –

There are three requisites of a sound primary compensation structure, viz; internal equity, external competitiveness and performance based payment. A description of these requisites now follows:

1. Internal Equity –

This means that there should be a proper relationship between the wages and salaries of various positions within the enterprise. If, for example, the salary of a foreman is lower than that of his subordinates there is inequity in the rates. Unfair differentials in pay lower morale and often result in high turnover. Managements answer to the problem of pay inequities in job evaluation. Job evaluation is useful in eliminating the following discrepancies of a wage payment system.

- a) Payment of high wages and salaries to persons who hold jobs and positions not requiring great skill, effort and responsibility.
- b) Paying beginners less than they are entitled to receive in terms of what is required of them.
- c) Giving a raise to persons whose performance does not justify the raise.
- d) Deciding rates of pay on the basis of seniority rather than ability.

Advantages of Job Evaluation -

- a. It helps in removing unjust differentials in the existing wage structure.
- b. It helps in fitting new jobs at their appropriate place in the existing wage structure.
- c. It improves labour management relations.
- d. It simplifies wages administration by making wage rates more uniform.

Limitations and problems of Job Evaluation –

- a. Job evaluation cannot provide scientifically determined, objectively fair rates.
- b. Job evaluation fails to consider a number of variables, which influence the value of a given Job from the worker's point of view.
- c. Job evaluation tends to destroy traditional wage differentials, which have had long-standing acceptance.
- d. Job evaluation results into freezing of wage differentials among jobs.

2.External Competitiveness –

The wages and salaries of workers must be in the alignment with the wages and salaries other organizations are paying at similar levels. If this external alignment or comparability is lacking, the organization will not be able to retain its capable employees or attract employees from outside.

To achieve external alignment the management must first know what average rates of its key jobs are prevailing in the community. It can then fix its own wage level at this average level or it may decide a higher or a lower level of wages for itself.

3. Performance based payment –

In the final step, management has to decide whether all individuals in jobs of the same level should be paid the same pay or different pay and how this should be determined

There are four basic approaches to the determination of individual pay.

1. Single rates – when employee performance does not vary significantly on the job because every one is required to work at about the same pace single rates are frequently paid to employees on jobs.

2. The informal approach – Sometimes individual pay decisions are made on an informal basis without formal guides or controls. This is

most incorrect because this creates inequities and confusion among employees regarding what is expected of them.

3. The automatic approach – Under this approach both the amount of the pay increase and the period of review are usually predetermined.

4. Merit approach – Merit rating is a management practice designed to gear the pay of employees to actual differences in work accomplishments.

3.11 Incentive Compensation –

Incentive Compensation is called payment by result is essentially a managerial device for increasing workers productivity. It is a method of sharing gains in productivity with workers by rewarding them financially for their increased rate of output. The belief underlying an incentive compensation is that an offer of additional money will motivate workers to work harder and more skillfully which will result in an increased rate of output.

Advantages of Incentive Compensation –

1. Good salary is one of the hygiene factors in the absence of which people are unhappy and dissatisfied. Wage incentive offers them the prospect of earning more.
2. The scientific work study which is done before introducing a wage incentive plan brings about improvements in methods, work-flow, man-machine relationship.
3. Management becomes more alert in areas such as flow of process materials, adequate spares.
4. Employees are encouraged to become inventive.
5. There is improvement in discipline and industrial relations.
6. There is effective reduction in the supervision costs.

7. There develops a feeling of mutual co-operation among the workers and their operations.

3.12 Kinds of Incentive Compensation Plans –

Such plans are classified into the following four categories.

- a) Individual incentive plans
- b) Group incentive plans
- c) Factory wide or plant wide incentive plans
- d) Payment by results to indirect workers

a) Individual Incentive Plans -

1) Plans in which workers' earnings vary in the same proportion as the extra output.

- ❖ The straight piece - rate system – This may be applied either to individual workers or to teams of workers employed together on a job. The earning paid to the workers are in direct proportion to the work done.
- ❖ Balance or Debt. Method – Under this system the worker is guaranteed a minimum weekly wages for a full weeks work and also has an alternative piece rate.
- ❖ The standard hour system – In this method along with the hourly rate a standard time is also fixed for completing a job.

2) Plans in which workers earning vary proportionately less than their output –

- ❖ Under this plan, a standard time is fixed for the completion of a job. A worker who completes his job in less than the standard time is paid at his hourly rate for the time actually spent on the job plus a bonus for the time saved.
- ❖ Rowan plan – A standard time is determined before hand and a bonus is paid according to the time saved.

- ❖ Points plan – The benefit of the value of time saved is given both to the worker and to the foreman in the ratio of worker three fourths and foreman one fourth.

3. Plans in which workers earnings vary proportionately more than their output

4. Plans in which workers earnings vary in different proportions at different levels of output.

i) Taylor Differential Piece – Rate-Under this plan, a standard task for all workmen is fixed and two piece rates are provided. The higher rate is meant for those who can complete the standard task within the allotted time and the lower rate is for those who can not complete the standard task within the allotted time .

ii) Merrick's Multiple Piece Rate – Under this plan three rates are prescribed.- Those whose performance is less than 83 percent of the standard task are paid at a low piece rate, those producing 83 percent of the standard task are paid at a high piece rate and those attaining or exceeding the standard task are paid at a still higher piece rate.

iii) Gantt's Task and Bonus Plan – Under this plan a definite output is fixed as a standard daily performance. The worker is also guaranteed a minimum daily wage irrespective of his daily output.

iv) Emerson's Efficiency Plan – Under this plan bonus at a fixed rate is paid to those workers only who attain or exceed the 100 percent efficiency and no bonus paid to those who are below 100 percent efficiency this plan provides for the payment of bonus at an increasing percentage to all workers above a minimum level of efficiency.

b) Group Incentive Plans -

One particular advantage of group incentive plans is that they encourage team spirit – a sense of mutual co-operation amongst workers.

Co-operation reduces wastage of idle time and material and a better productivity is obtained.

c) Factory wide or Plant wide Incentive -

Under this scheme certain percentage of profit is distributed among employee's usually, annually or bi-annually as an incentive over and above their wages and salaries. Employee's individual shares may be determined either on the basis of their length of service or on the basis of the number of hours each has worked during the year or on the basis their wages and salaries.

d) Payment by Result to Indirect Workers -

Payment by results are sometimes designed for indirect workers such as maintenance workers, cleaners, inspectors and packers to reward them for their increased efforts. Payment by results may also be designed to avoid the dissatisfaction or dissension among the workers in a plant.

3.13 Requisites for the success of an Incentive Plan –

1. Employees must have full knowledge of the goal of the scheme.
2. The incentive plan should be simple to understand.
3. Plan should be equitable.
4. Plan should be flexible.
5. Incentive payment under the plan should be large enough in relation to the existing income of employees.
6. Standard working conditions should exist.
7. Incentive payments should follow the work as close in point of time as possible.
8. The plan should not be very costly in operation.
9. The plan should not be detrimental to the health and welfare of the employees.

10. A guaranteed base rate should be included in any plan. This constitutes the element of security that employees want.

11. The standard of performance for the payment of wages incentive should be properly set after a careful work study which consists of two complementary techniques, viz., methods study and work measurement.

12. Work standards once established should be guaranteed against change.

13. Management must set up a suitable machinery to handle all grievances arising from the implementation of the incentive plan.

3.14 Problems of Incentive Compensation in Indian Context.

1. Far too many incentive schemes in India have been framed on the basis of past performance and without the help of work-study. This has led to loose standards and consequent complications.

2. The inflation in recent years has reduced the attractions of moderate increases in earnings which are secured at the cost of much physical effort.

3. A number of units have unnecessary complex incentive plans probably transplanted from European firms which are not easily comprehensible to our illiterate workers.

4. In case where group incentive plans are in vogue there is no direct link between effort and earnings.

5. Co-operation between labour and management which is at low ebb in Indian industry today is the most urgent problem that needs attention in the context of installing incentive schemes and other productivity measures.