

CHAPTER IV

WAGE AND SALARY ADMINISTRATION

- A FRAME WORK

4.0. WAGE AND SALARY ADMINISTRATION - A FRAME WORK

4.1. Concept and Operational Definitions

As brought out clearly in Chapter No.1 the wage and salary administration is difficult and important task before the management. These are probably the most vital factors in deciding the conditions of employment. Wages and salaries are not merely important determinants of standard of living and the per capita income of the workers, but master key to achieve higher productivity and higher morale. Amongst all the problems, the workers face, wages is the most pressing and persistent one. The efficiency of the workers, the discipline among the workers and the standard of living, the economic well being of the workers, the cost of wages as an item of cost of production and the competitive strength of the industry, are all related to the problem of wages.

In the primitive stage, when man's needs and wants were relatively few, the workers were paid in kind especially in the form of foodgrains. As wants were relatively few in numbers and number of workers employed were small, there was no inscrutable problem of formulating sound wage policy or wage and salary administration.

We are in era of the management by specialisation in which perceive tripartite system of wage determination is coming in to vogue. In India, under the influence of a tripartite machinery the Indian Labour Conference and the Standing Labour Committee, the Industrial Committees and various Wage Boards had been set up for various industries to establish certain policy, guide-lines to determine wages in industries.

Wage Definition :

Wage is the remuneration paid by the employer to his employee in return for the services rendered by the later to the former. According to Laissez fair policy, wage is the price paid to the worker for the services he has sold to the employer. It could be the contract income settled between the employers and the employees. But the commodity theory of labour is no more in practice and so wage cannot be treated as ^amere price for the services sold to the employer. It is a compensation paid to the worker in return for the contribution he makes for the achievement of the corporate objectives. At the same time wages do not include the perquisites like travelling allowances, employers contribution to provident fund, value of housing accommodation,

welfare amenities provided for the worker, gratuity payable on discharge, overtime payments, family allowance, etc. Wages are usually paid in terms of money soon after the completion of certain amount of work or a certain period of service like, one day, one week, two weeks and one calender month. (Monthly wages are generally called salary). The earnings may be expressed in terms of money - called Nominal wages or in terms of goods and services purchasable with money called Real wages.

Salary :

Salary is a compensation to an employee for the personal services rendered on weekly, monthly or annual basis. Salary is usually associated with office employees, supervisors, managers and professional as well as technical staff.

4.2. Principles and Fundamental Characteristics of Wage and Salary Administration

What a management can offer as compensation depends on factors that are inherent in the type of business it operates. The proportion of labour cost in the total cost of an end product, and market factors influencing sales,

necessarily limit the amount of compensation that can be offered. The nature of the work that is required will influence the choice of compensation systems such as time piece wage of added incentive payment. The cost of administration of wage system may be decisive factor in the management's choice. The competitive standing of business, the seasonal or permanent nature of its operation, its plans for the future, competition for labour, the available supply of labour, compensation practices prevailing in the place of business or in an industry all these factors influence the wage policies of an enterprise.

If the long-run interests of the workers, management and the consumers are to be served, the wage plans should possess certain fundamental characteristics which are as follows* :

1) The worker should be given a guaranteed minimum wage to protect him against conditions over which he has no control.

2) Base wage for each job classification or skill should be related to each other in terms of job requirements, due consideration being given to such factors as skills, length of time required in learning, versatility required,

* Business Administration and Management by Dr. S.C.Saksena, Sahitya Bhavan, Agra-3, Page 177.

and working conditions. Wage levels in different communities may vary, but different skilled jobs tend to bear the same general relationships to the common labour in each community.

3) Within a given classification or skill, wages for different workers should be primarily in terms of output. Motion and time study techniques should be used in establishing standards that may reasonably be expected.

4) The wage plan should facilitate the comparison of efficiencies of various departments of operating units.

5) The wage plan should be easily related to cost controls and the operating labour budget.

6) The wage plan should make adequate provision for learners.

7) The wage plan should be simple and easy to understand by the workers.

8) The wage plan should involve excessive clerical costs.

9) The wage plan should be flexible in order to meet changing conditions.

4.3. Factory Influencing Wage and Salary Structure and Administration

The wage policies of different organisations vary some-what. Marginal units pay the minimum necessary to attract the required number and kind of labour. Often these units pay only the minimum wage rates required by legislation, and recruit marginal labour. At the other extreme, some units pay well above the existing rates in the labour market. They do so to attract and retain the highest calibre of the labour force. Some managers believe in the economy of higher wages. They feel that, by paying high wages, they would attract better workers who will produce more than the average in the industry. The greater production per employee means greater output per man hour. Hence labour cost may turn out to be lower than those existing in firms using marginal labour. Some units pay high wages because of a combination ~~of~~ of favourable market demand, higher ability to pay and the bargaining power of a trade union. But a large number of them seek to be competitive in their wage programme i.e. they aim at paying somewhere near the existing rate in the labour market for the various classes of labour they employ. Most units give greater weight to two wage criteria viz. job requirements and the prevailing rates of wages in the

labour market. Other factors, such as changes in the cost of living, the supply and demand of labour, and the ability to pay are accorded a secondary importance.

A sound wage policy is to adopt a job evaluation programme in order to establish fair differentials in wages based upon differences in job contents. Besides the basic factors provided by a job description and job evaluation, those that are usually taken into consideration for wages and salary administration are* :

- 1) Organisation's ability to pay,
- 2) Supply and demand of labour,
- 3) Prevailing market rate,
- 4) Cost of living,
- 5) Living wage;
- 6) Productivity,
- 7) Trade Union's bargaining power,
- 8) Job requirements,
- 9) Managerial attitudes, and
- 10) Psychological and social factors.

1. Ability to pay :

Wage increases should be given by those organisations which can afford them. Companies that have good sales and,

* Personnel Management. C.B.Mamoria, Himalaya Publishing House, Bombay-4, Pages 490, 491, 492.

therefore, high profits tend to pay higher wages than those which are running at a loss or earning low profits because of the high cost of production or low sales. In the short run, the ability to pay is very important. During the time of prosperity, employers pay high wages to carry on profitable operations and because of their increased ability to pay. But during a period of depression, wages are cut because funds are not available. Marginal firms and non profit organisations (like Hospitals and Educational Institutions) pay relatively low wages because of low or no profits.

2. Supply and Demand of Labour :

The labour market conditions or supply and demand forces operate at the national, regional and local levels and determine organisational wage structure and level. If the demand for a particular skill is high and the supply is low, there is a rise in the price to be paid for that skill. Similarly if the demand for manpower skill is minimal, the wages will be relatively low.

3. Prevailing Market Rate :

This is also known as the 'comparable wage' or 'going wage rate' and is the most widely used criterion.

An organisation's compensation policies generally tend to conform to the wage rates payable by the industry and community. This is done for several reasons.

- A) Competition demands that competitors adhere to the same relative wage level.
- B) Various Government laws and judicial decisions make the adoption of uniform wage rates an attractive proposition.
- C) Trade Union encourage this practice so that their members can have equal pay, equal work and geographical differences may be eliminated.
- D) Functionally related firms in the same industry require essentially the same quality of employees, with the same skills and experience. This results in a considerable uniformity in wage and salary rates.
- E) If the same or about the same general rates of wages are not paid to the employees as are paid by the organisation's competitors, it will not be able to attract and maintain a sufficient quantity and quality of manpower.

4. Cost of Living :

This criterion calls for pay adjustments based on increases or decreases in an acceptable cost of living index. The cost of living pay criterion is usually regarded as an automatic minimum equity pay criterion. When the cost of living increases, workers and trade unions demand adjusted wages to offset the erosion of real wages. However, when living costs are stable or decline, the management does not resort to this argument as a reason for wage reductions.

5. Living Wage :

The living wage criterion means that wages should be paid adequate to enable an employee to maintain himself and his family at a reasonable level of existence. However, employers do not generally favour using the concept of a living wage as a guide to wage determination because they prefer to base the wages of an employee on his contribution rather than on his need. Also, they feel that the level of living prescribed in a worker's budget is open to argument since it is based on subjective opinion.

6. Productivity :

Productivity is another criterion, and is measured in terms of output per man-hour. It is not due to labour efforts alone. Technological improvements, better organisation and management, the development of better methods of production by labour and management, greater ingenuity and skill by labour are all responsible for the increase in productivity. Actually, production measures the contribution of all the resource factors - men, machines, methods, materials and management. No productivity index can be devised which will measure only the productivity of a specific factor of production. Another problem is that productivity can be measured at several levels - job, plant, industry or notional, economic level. Thus, although theoretically it is a sound compensation criterion, operationally many problems and complications arise because of definitional measurement and conceptual issues.

7. Trade Union's Bargaining Power :

Trade Unions do affect rate of wages. Generally, the stronger and more powerful the trade union, the higher are the wages. A trade union's bargaining power is often measured in terms of its membership, its financial strength

and the nature of its leadership. A strike or a threat of a strike is the most powerful weapon used by it. Sometimes trade unions force wages up faster than increases in productivity would allow and become responsible for unemployment or higher prices and inflation. However, for those remaining on the pay roll, a real gain is often achieved as 'consequence of a trade union's stronger bargaining power.

8. Job Requirements :

Generally, the more difficult a job, the higher are the wages. Measures of job difficulty are frequently used when the relative value of one job to another in an organisation is to be ascertained. Jobs are graded according to the relative skill, effort, responsibility and job conditions required.

9. Managerial Attitudes :

These have a decisive influence on the wage structure and wage level since judgement is exercised in many areas of wage and salary administration - including whether the firm should pay below average or above average rates, what job factors should be used to reflect job worth, the weight to be given for performance or length of service, and so forth,

both the structure and level of wages are bound to be affected accordingly. These matters require the approval of the top executives.

10. Psychological and Social Factors :

Psychologically, persons perceive the level of wages as a measure of success in life, people may feel secured, have an inferiority complex, seem inadequate or feel the reverse of all these. They may or may not take pride in their work, or in the wages they get. Therefore, these things should not be overlooked by the management in establishing wage rates.

4.4. Types of Wages : New Terms

1. Minimum Wages :

Minimum wage, and fair wage and living wage are the terms used by the report of the committee on fair wages, set up by the Government in 1948 to determine the principles on which fair wages should be based and to suggest how these principles should be applied.

According to this committee, the minimum wage should represent the lower limit of a fair wage. The next higher

level is the fair wage and the highest level of the fair wage is the living wage. A minimum wage has been defined by the committee as "the wage which must provide not merely for the bare substance of life but for the preservation of the efficiency of the workers. For this purpose the minimum wage must also provide for some measure of education, medical requirements and amenities." In other words, a minimum wage should provide for the substance of the workers family, for their medical care and for some amenities.

The question of determining the minimum wage is a very difficult one for more than one reason. Conditions vary from place to place, industry to industry and from worker to worker. The standard of living cannot be determined accurately what then, should be quantum of the minimum wage ? What is the size of the family ? As these questions are difficult to answer, the issues are difficult to decide. Moreover, since the cost of living varies with the price level, it follows that this index should be periodically reviewed and modified.

However, the principles for determining minimum wages are involved by the Government and have been incorporated in the Minimum Wages Act, 1948, the important principle being that minimum wages should provide not only for the

the bare substance of life, but also for the preservation of the efficiency of the worker by way of education, medical care and other amenities.

So, when the Minimum Wages Act was passed in 1948, it was really a landmark on the path to the realization of social justice in the country. The Act is meant for the unorganised sector occupations like cottage industries and handicrafts, building and construction work, beedies and cigar industry, tanneries, stone breaking and stone crushing, carpet weaving, etc.

2. Living Wage :

This terminology is also marked by the Fair Wages Committee, 1948, as the ultimate goal in wage policy.

"The 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 his children, protection against ill-health, requirements of essential social needs and a measure of insurance against the more important misfortunes including old age". In other words a living wage was to provide for a standard of living that would ensure good health for the worker and his family as well as a measure of decency, comfort,

education for his children, and protection against misfortunes. This obviously implied a high level of living.

Such a wage was so determined by keeping in view the national income, and the capacity to pay of an industry. The committee was of the opinion that although the provision of a living wage should be the ultimate goal, the present level of national income did not permit the payment of a living wage on the basis of the standard prevalent in more advanced countries.

The goal of living wage was to be achieved in three stages :

i) The wage to be paid to the entire working class was to be established and stabilised.

ii) Fair wages were to be established in the community-cum-industry.

iii) The working class was to be paid the living wage. The living wage may be somewhere between the lowest level of the minimum wage and the highest limit of the living wage, depending upon the bargaining power of labour, the capacity of the industry to pay, the level of the national income, the general effect of the wage rise on neighbouring industries, the productivity of labour, the

place of the industry in the economy of the country, and the prevailing rates of wages in the same or similar occupations in the neighbouring localities.

3. Fair Wage^{*} :

The committee on Fair Wages defines the fair wage "It is the wage which is above the minimum wage but below the living wage".

The lower limit of the fair wage is obviously the minimum wage, the upper limit is set by 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 wage will depend on a consideration of the following factors :

- i) The productivity of the labour,
- ii) The prevailing rates of wages in the same or similar occupation in the same neighbouring localities,
- iii) The level of the national income and its distribution, and
- iv) The place of industry in the economy of the country."

* Government of India, Ministry of Labour, Report of the Committee on Fair Wage 1954, Pages 6 and 10.

4. Saving Wage :

In 1955 Indian Labour Conference Shri Vishwanath Dubey of United Trade Union Congress suggested the concept of a Saving Wage, where he said, the worker should be paid such a wage as would enable him to save something for a rainy day.

5. Need-Based Minimum Wage* :

This concept is evolved by Indian Labour Conference 1957, as recommendations of the 15th Session as follows :

"It was agreed that the minimum wage was 'need-based' and should ensure the minimum human needs of the industrial worker, irrespective of any other consideration. To calculate the minimum wage, the committee accepted the following norms and recommended that they should guide all wage fixing authorities, including Minimum Wage Committees, Wage Boards, adjudicators, etc.

i) In calculating the minimum wage, the standard working class family should be taken consisting of three consumption units for one earner, the earning of women, children and adolescents should be disregarded;

* Management of Personnel in Indian Enterprises
by Prof. N.A. Chatterjee - Allied Book Agency,
Delhi, 24, 1978, P. 285.

ii) 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;

iii) Clothing requirements should be estimated at a per capita consumption of 18 yards per annum which would give for the average worker's family of four, a total of 72 yards;

iv) In respect of housing, the norm should be the minimum rate charged by Government in any area for houses provided under the subsidised Industrial Housing Scheme for low income groups; and

v) Fuel, lighting and other miscellaneous items of expenditure should constitute 20 per cent of the total minimum wage."

Both the First and the Second Pay Commissions appointed by the Government of India refused to accept this formulation as the need-based minimum wage for the Central Government employees. The Third Pay Commission, however, attempted to convert the various criterion contained in the 15th Labour Conference recommendation into monetary terms on the basis of the average prices prevailing in the

Metropolitan Cities of Bombay, Calcutta, Delhi and Madras for the 12 months ending 31st October, 1972. Having done that the Commission took into consideration the Planning Commission formula that the minimum desirable consumption standard on the basis of prices as in October, 1973, would be about Rs.40/- per capita. Also the per capita national income was taken into account. It also argued that the lowest paid Government employee at his normal age of entry (about 20 years) would seldom have a family to support - a view expressed by the Supreme Court also, and fixed the minimum wage of the fresh entrants at Rs.185/- per month. However the Government raised this to Rs.192/- per month.

4.5. Methods of Wage Payments :

The compensation that an employee can expect for his work is based either on the length of time at work or on the production capacity of the worker. The first method is called and characterised as Day Work because the rate of pay is fixed most usually by the day or per diem. The second is usually called piece work because compensation is paid by the piece or job.

i) Time Wage System :

It is the oldest system of remunerating labour.

Under the day work system of wages, the employer buys the time of the worker i.e. the worker is guaranteed a definite sum of money for a specified period of his working time. The unit of time bought may vary from one hour to one year so that the term 'day-work' is, in a way, a misnomer, handed down to us from the time when the day was a more common unit for wage payment. The essential point is that the production capacity of a worker is not taken into consideration in fixing the wages, he is paid at the settled rate, as soon as the time contracted for, is spent. According to Section 4 of the Payment of Wages Act, 1936, the payment of the wage may be made at the end of the day, the week, the fortnight or the month, as it is mutually agreed, provided that more than one month must elapse between two wage periods.

Advantages :

i) The method is the simplest system of remunerating labour, as the amount earned by the worker can be easily calculated.

ii) It is very satisfactory if the rates reflect the value of the time spent on the work.

iii) It possesses an element of security as the workers are sure to receive their fixed wages, irrespective of temporary reductions in personal efficiency.

iv) As it is simple and easy to understand, it is very much appreciated and liked by the trade unions.

v) It requires less administrative attention because the very basis of the time wage contract is in good faith and in mutual confidence between the parties.

vi) Under this system there is no hurry to complete the task immediately or at the earliest, hence the worker gets ample opportunity to show his craftsmanship and enjoy the pleasure of a perfect product without any loss to himself.

vii) Due to careful attention of the worker, the quality of the work is also not degraded.

viii) Due to 'slow and steady pace' of the workers there is no rough handling of machinery.

ix) Under this system, the worker is paid what he is worth to the company from a long time standpoint, rather than the estimated worth of the work he does at any one time.

x) It is the only system of payment, which can be used where the output of individual worker or group of workers can not be easily measured.

xi) All workers employed for doing a particular kind of work receive the same amount of wages, ill-will and jealousy among them are avoided.

In short, time wage system is the best system provided it is used after proper job evaluation and merit rating.

Disadvantages :

i) The employer ceased to hire men and began to buy labour like any other commodity. The inevitable result was that the better men, unable to obtain higher pay than their more inefficient fellows. This system represses the superior man as there is no incentive to hard work, and both good or bad workers are paid alike.

ii) It leads to the reduced quantum of work unless a strict supervision is arranged.

iii) It destroys the morale of workers, and efficient workers are either driven out or pulled down the level of inefficient workers.

iv) The result of all these factors is that latent talent finds vent in antagonistic forms of activity rather than productivity, for it produces a sense of personal injury in exceptional men.

v) It leads to employer-employee trouble.

ii) Piece Wages System :

It is the second oldest method of remunerating labour. "Under this plan workmen, working in given conditions and with given machinery, are paid exactly in proportion to their physical unit". Under this system the worker makes all the gain or loss of his own time. If he shortens the time used, i.e. works with greater speed, he receives no less for the job finished and he gains time in which to make extra earnings at the same time. If he takes a longer period, his remuneration may fall below time wages. Another characteristic of this system is that while the employee makes all the gain or loss of his own time, the employer gains by rapid performance from the fact that factory burden to be charged to each piece or job is decreased. This system is applicable to repetitive work and tasks which can be readily measured, inspected and counted. It is particularly suitable for the standardised processes.

A worker's earnings can be calculated on the basis of the following formula :

$$W E = N R$$

where

W E = The workers earnings.

N = Number of pieces produced.

R = Rate per piece.

Advantages :

i) Under this system, the remuneration depends upon the volume of production. There is a direct stimulus to increase production.

ii) It encourages voluntary effort as against a 'drive' under time rate, creating an atmosphere of willingness and zeal of work.

iii) The cost of supervision becomes comparatively less as the workers tend to drive themselves in their own interests.

iv) As the direct labour cost per unit of production remains fixed and constant, calculations of costs or making of tenders and estimates become easier.

v) The total unit cost of production comes down with larger output because the fixed overhead burden can be distributed over a greater number of units.

vi) The working arrangements may be improved by the workers themselves to speed up work.

vii) Not only the output and wages are increased, but methods of production are improved as the worker demands materials free from defects and machinery in perfect condition.

Disadvantages :

i) When a piece rate has been introduced in place of time rate, under the influence, the workers have increased their output and income. The employers, thinking that some men were now earning too much money, have often 'cut' the rate or 'nibbed' it at frequent interval, which the workers resent, for they consider 'cuts' as violations of agreement.

ii) The system creates a huge gap between men and management.

iii) Too much emphasis on the quantity of production may lower the quality of products.

iv) Keeping of individual production records and the making of pay rolls involve time and cost.

v) Trade unions are often antagonistic to piece rates, as this form of wage payment encourages rivalry between workers and labour unions.

vi) Excessive speeding up of work often results in careless handling of machines and equipment that require frequent replacement.

vii) Faulty production planning and control, intermittent orders and absence of other production facilities prevent the workers from making high wages, and consequently workers may adopt a hostile attitude towards the management.

viii) In their eagerness for increased earnings, workers may exert themselves to the point of exhaustion as the undertime health and efficiency.

4.6. Incentive Plans of Wage Payments*

The relative advantages of time and speed as bases of wage payment suggest a compromise between them, which may combine the good points of each. Systems which attempt to do this, are generally known as 'Incentive Plans'. They are also called as 'Premium or Bonus Methods'. Premium or Bonus systems have been devised so as to combine within themselves all the following advantages.

* Personnel Management, C.B.Mamoria, Himalaya Publishing House, Page 523.

i) It stimulates production by encouraging workers to earn more than average wages;

ii) To obviate the tendency of cutting down of rates by combining the workmen's bonus with some benefit in the savings of wages to the employers;

iii) To help towards economical production by reducing wage and production cost per unit; and

iv) To unify the conflicting interests of the employers and the employees so as to promote and sustain increased and smooth working.

All premium or bonus systems consist of : (a) the setting of a standard time for completion of a definite output or piece of work for a fix wages, and (b) the fixing of a rate or percentage by which bonus would be earned by the worker over and above the set wages, if the standard time is saved or the standard output is exceeded. The incentive plans result in higher wages, lower labour turnover, and better industrial relations and morale. Following are the some important Wage Incentive Plans.

1) Halsey Premium Plan* :

This plan was devised by F.A. Halsey, a mechanical Engineer. This plan is simple combination of time-spped basis of payment. Under this plan, it is optional for a worker to work on the premium or not, provided that he is not so incompetent as to be useless. A standard output within a standard time is fixed on the basis of past experience. The bonus is based on the amount of time saved by the worker. He is entitled to a bonus calculated on the basis of $33\frac{1}{3}\%$ of time saved. He, thus, gets wages on the time rate basis, if he does not complete the standard output within the stipulated time, he is paid on the basis of time wage. This plan is a combination of the day wage and the piece wage in a modified form.

2) Halse-Weir Premium Plan :

This plan is similar to Halse premium plan but expects more than 50 % of time saved, is given as premium to worker. Bonus is calculated on the following formula :

$$\text{Bonus} = \frac{1}{2} \times \text{Time saved} \times \text{Hourly Rate}$$

* Personal Management, C.B. Mamoria, Himalaya Publishing House, Pages 524, 525, 526.

3) Rowan Premium Plan :

Rowan premium plan differs from Halsey plan only in regard to the determination of the bonus. In all other respects, the two plans are the same. In Rowan plan, the time saved is expressed as a percentage of the time allowed, and the hourly rate of pay is increased by that percentage so that total earnings of the worker are the total number of hours multiplied by the increased hourly wages. The plan aims ensuring the performance of the premium rate, which is often cut by the employer when the worker's efficiency increases beyond a certain limit. The premium is calculated on the basis of the proportion which the time saved bears to standard time.

$$\text{Bonus} = \frac{\text{Time saved}}{\text{Time allowed}} \times \text{Time taken} \times \text{Hourly Rate}$$

4) 100 Percent Premium Plan :

Under this plan, task standards are set by time study or work sampling and rates are expressed in time rates rather than in money (e.g. 0.20 hour per piece). A definite hourly rate is paid for each task hour of work performed. The plan is identical with the straight piece-rate plan except for its higher guaranteed hourly rate and

the use of task time as a unit of payment instead of a price per piece. The worker is paid the full value of the time saved. If he completes the task of 10 hours in 8 hours and if the hourly rate is Rs.0.50, his total earning will be Rs. $8.0 \times 0.50 + (10-8) \times 0.50$

$$= \text{Rs. } 4.00 + 1.00$$

$$= \text{Rs. } 5.00$$

5) Bedeaux Point Plan :

This plan is used when carefully assessed performance standards have been established. It differs from the 100 % plan in that the basic unit of the time is the minute termed as B. Every job is expressed in terms of Bs (after Bedeaux), which means that a job should be completed in so many minutes. If a particular work is rated at 60 Bs (or one B hour), the worker is allowed one hour for its completion and received a bonus of 75 per cent for the number of Bs i.e. time saved. Suppose a worker earns 600 Bs in a day, if the rate per point is Rs.0.01, his total earnings would be :

$$\text{Rs. } 4.80 \times 0.01 + \frac{3}{4} (600-480) \times 0.01 = \text{Rs. } 4.80 + 0.90$$

$$= \text{Rs. } 5.70$$

6) Taylor's Differential Piece Rate Plan :

This system was introduced by Taylor with two objects.

- a) To give sufficient incentive to workmen to induce them to produce upto their full capacity.
- b) To remove the fear of wage cut.

There is one rate for those who reach the standard, they are given a higher rate to enable them to get the bonus. The other is the lower rate for those who are below the standard, so that the hope of receiving a higher rate (i.e. a Bonus) may serve as an incentive to come up to the standard. Workers are expected to do certain units of work within a specified period of time. The standard is determined on the basis of time and motion studies. Such scientific determination ensures that the standard fixed is not unduly high and is within the easy reach of workers. On a proper determination of the standard depends the success of the scheme.

The system is designed to encourage the specially efficient worker with a higher rate of payment and to penalise the inefficient worker by a lower rate of payment.

7) Merric's Multiple Piece Rate Systems :

This system, too, is based on the principle of a low piece rate for a slow worker and a higher piece rate for higher production, but the plan differs from Taylor's plan in that it offers three graded piece rates instead of two

- a) upto, say 83 % of standard output a piece rate + 10 % of time rate as bonus;
- b) above 83 % and upto 100 % of standard output - same piece rate + 20 % of time rate; and
- c) above 100 % of standard output - same piece rate but no bonus. —

Such a scheme is usually adopted in an organisation where the performance level is already high and management is aiming at 100 % efficiency.

8) Gnatt Task and Bonus Plan :

This plan has been devised by H.L. Gnatt and is the only one that pays a bonus percentage multiplied by the value of standard time. Under this system, fixed time rates are guaranteed. Output standards and time

standards are established for the performance of each job. Workers completing the job within the standard time or in less time receive wages for the standard time plus a bonus which ranges from 20 % to 50 % of the time allowed and not time saved. When a worker fails to turn out the required quantity of a product, he simply gets his time rate without any bonus.

9) Emerson Efficiency Plan :

Under this plan, a standard time is established for a standard task. The day wage is assured. There is no sudden rise in wages on achieving the standard of performance. The remuneration based on efficiency rises gradually. Efficiency is determined by the ratio between the standard time fixed for a performance and the time actually taken by a worker. Thus if the period of 8 hours is the standard time for a task and if a worker performs it in 16, his efficiency is 50 %. He who finishes the task in 8 hours has 100 % efficiency. No bonus is paid to a worker unless he attains $66\frac{2}{3}$ % efficiency, at which stage he receives nominal bonus. This bonus goes on increasing till, when he achieves 100 % efficiency, the bonus comes to 20 % of the guaranteed wage. At 120 % efficiency, a worker receives a bonus of 40 % and

at 140 % of efficiency the bonus is 60 % of the day wage.

10) Co-Partnership System :

Co-partnership system tries to eliminate friction between capital and labour. The system under which, not only does a worker share in the profit of the undertaking but he also takes part in its control and, therefore, shares responsibilities. There are different degrees of this partnership and control allowed to the operatives in different cases, but in a complete co-partnership system. The following factors are present :

- a) The payment of the existing standard wages of labour;
- b) The payment of a fixed rate of interest on capital;
- c) The division of the surplus profit between capital and labour in an agreed proportion;
- d) The payment for a part of the worker's labour by the allotment of a share in the capital;
- e) The sharing in the control of the business by the representatives of labour.

This is very good system, which arouses and sustains the interest of the workers in their work. By giving them a voice in the management of the factory it raises their status as well. As they have become partners in the business, they try to make it a very profitable enterprise.

11) Profit Sharing :

Prof. Seager observes : "Profit sharing is an arrangement by which employees receive a share, fixed in advance of the profit". The International Co-operative Congress held in Paris in 1989 considered the issue and defined profit-sharing as "an agreement freely entered by which an employee receives a share fixed in advance of the profit".

The theory behind profit sharing is, that management feels its workers will fulfill their responsibilities more diligently if they realise that their efforts may result in higher profits, which will be returned to the workers through profit sharing.

4.7. Non-Financial Incentives :

Non-financial or non-monetary incentives include all other incentives planned or unplanned, which stimulate exertion. Merely cash wages cannot help in solving the

problems of industrial productivity. In order to infuse enthusiasm in a worker for greater and better work, non-monetary incentives have played a distinct and significant role. If, to create more interest, additional cash wages are paid to a worker, it is likely that it may not add to his efficiency, because, under the present socio-economic circumstances of the Indian working class, he is very likely to misuse the additional cash vices like gambling, drinking, prostitution, etc. Therefore, if incentive is provided in other than cash form, it is likely to lead to productive results. A simple example may clarify this point. If in a concern, the management notified that those workers who will work to the utmost satisfaction of their bosses will be awarded the honour of "Best in the concern" and their next promotion will depend upon this recognition; such an incentive is most likely to create healthy environment in the factory. All industrious workers will try their best to the 'Best' in the concern, and their efforts in this direction will benefit both the employers as well as the employees. Similarly, the labour welfare amenities are most potent non-monetary incentives. The provision of labour welfare facilities entirely changes the mental outlook of the worker. Welfare amenities carried on in the factories contribute in making the service more attractive for the working class and in creating a permanently settled labour force.

Whatever improves conditions of work and life for the employees, whatever leads to the increasing adaptation of the worker to his task and whatever makes him feel contented, will lessen his desire or need to leave it for a time and lighten for him and industry the burden of absenteeism. The provision of canteens, where cheap, wholesome and balanced food is available to workers, must improve their physique; healthy entertainment must reduce the incidence of vices; child welfare, maternity and other medical aid must improve the health of the workers and their dependents and bring down the rates of general, infant and maternal mortality. Thus in short, the workers, by virtue of the non-financial incentives, are enabled to enjoy a richer and fuller life.

Following are the various forms of non-financial incentives. Some of the popular ones are as below :

- 1) Job security
- 2) Recognition
- 3) Participation
- 4) A sincere interest in subordinates as individual persons.
- 5) Pride in job
- 6) Delegation of responsibility
- 7) Other incentives such as quick promotion, provision

of facilities for technical training within the concern, sending selected employees for training in other technical institutes within the country and also abroad, provision of labour welfare amenities etc.

4.8. Fringe Benefits

Salaries and wages are not the only form of remuneration that an employee receives from his employer. According to Mr. Hoge, 'A fringe is a labour cost which is in addition to the regular wage or salary for time worked. A fringe may accrue from company policy, a bilateral agreement, or legal requirement. It may take the form of monetary payments, services, privileges, benefits or awards. It represents for pay for hours not worked or extra pay for hours worked. It is a labour cost for which no tangible return may be apparent to the employer, but which, in turn, provides the employee with extra pay, added security, or more desirable working conditions.'

Purpose :

- 1) To promote better industrial relations.
- 2) To promote employee loyalty to the company.
- 3) To promote employee welfare.

- 4) To meet legal requirement.
- 5) To promote high morale of employees.
- 6) To provide economic security to employees.
- 7) To provide a congenial work environment.
- 8) To promote employee health and safety.
- 9) To promote employment stabilisation.
- 10) To promote team spirit and employee identification with the company.

Since the end of the second world war, the payment of fringe benefits has become a regular feature of the industrial wage system.

4.9. Dearness Allowance

The system of dearness allowances owes its origin to the first world war when it was introduced for the first time in the cotton textile industry in Bombay and Ahmedabad. Also during the second world war, the organised labour in industry demanded introduction of dearness allowance to meet the rise in the cost of living. Consequently, the matter of dearness allowance became the subject matter of an industrial dispute in a large number of industrial units and it was several times referred for adjudication to the machinery set up under the Defence of India Rules by the Government of India or by the State Governments concerned.

During the post war period following principles have been suggested to fix the dearness allowance.

- 1) The cost of living prevailing in the region or locality.
- 2) The capacity of the industry to pay.
- 3) The practices in similar concern.
- 4) The extent of neutralisation.
- 5) The feasibility of linking of dearness allowance to the cost of living index number.

The purpose of paying dearness allowance is to maintain the real wages as far as possible so that the economic well being of the worker is not adversely affected by the rise in prices. This means that the effect of higher prices on the workers family budget is neutralised. But this neutralisation should not be 100 % but should be less than that of maintaining standard of living fixed income group workers.

A dearness allowance is a compensation for the fall in the value of money. There should be no difference in the amount of dearness allowances granted to the same income group in different industries in the same area. In India dearness allowance paid to textile industries is highest while in sugar and engineering industries it is much less. There are 3 methods of payment of dearness allowance.

- a) Flat rate
- b) Rate linked to consumer price index
- c) Graduated scales according to slabs.

Merger of D.A. with basic wages :

In our country, there has been a demand that at least part of dearness allowance should be merged with basic wages. This is demanded on the ground that the rise in prices has come to stay. In the past, benefits of provident fund, retrenchment relief etc. used to be calculated on the basis of wages. But now many of the benefits are determined on the basis of total wages i.e. basic wages plus dearness allowance.

In some cases the merger of dearness allowance with basic wages has been effected in part as in Government service. In other cases merger is opposed on the ground, that it will disturb the prevailing wage differentials. This is so because the existing rates of D.A. are generally not proportional to the basic wages.

4.10. Bonus

In India the payment of bonus to the workers has been a prolific source of disputes over the decades.

Bonus implied originally a kind of payment in addition to wages as a gesture of goodwill. It has been customary in India to pay a bonus to workers before an important festival. Now it is demanded as a matter of right. The labour Appellate Tribunal evolved a formula which was later adopted by the Bonus Commission and with some modifications, accepted by the Government. The payment of Bonus Act, 1965 was expected to end disputes on bonus, but did not do so. It applies to establishments employing 20 or more persons. It also applies to Public Sector enterprises which complete, even partially, with the private sector. All employees drawing salary upto Rs.2500/- per month are eligible for bonus, restricted to Rs.750/- of the pay.

In September 1975, came an important amending Act. Bonus was to be paid only if the company is in profit. The minimum was 4 % or Rs.100 or Rs.60 whichever is less respectively. Now the Government has announced that the Act is going to be amended to provide for a minimum bonus of Rs.100 and Rs.60 if the company makes a profit, whatever be its size.

In keeping with the promise contained in the party's election manifesto the Janata Government at the Centre has restored the minimum bonus of 8.33 % for the accounting year of 1976. An attempt has been made to induce the workers to

invest the additional bonus together with the additional Dearness Allowance released in National Development Bonds. Decision on bonus for 1977 will depend on the report of a committee on wage and income policy which is currently at work.

4.11. Recent Government Committee Decision appointed to consider the demands of the factory workers in sugar industry*

Under Government Resolution, Industries, Energy and Labour Department No. BIR/1080/Lab-9, dated the 1st December 1980, Government had constituted a committee under the Chairmanship of Shri Shankarrao Bajirao Patil, M.P. to consider the demands of the workers employed in sugar industry. The committee submitted its report to Government on 19th November 1981. There was no unanimity between the representatives of the employers and the representatives of the employees on the committee over any of the demands of the workmen. The representatives of both, therefore, expressed a desire that the chairman of the committee should give decision and accordingly the chairman gave decision on various demands in respect of the factory workers in sugar industry and the workers engaged in harvesting and transport of sugarcane. The decision of

* Govt. of Maharashtra, Industries, Energy and Labour Deptt. Resolution No. BIR/1181/5938/Lab.9 of 15-1-1982.

the chairman and Government Resolution thereto is as follows :

Demand No.1

Wage Scales, Fitment, Increments etc.

A) Flat increase of Rs.32/- to be given to all the employees in their existing basic wage with effect from 1-11-1980.

B) The Revised Wage Scales will be as under :

Unskilled : Rs.292-5-317-7-387

Semi-skilled : Rs.305-7-340-9-430

Skilled [C] : Rs.312-9-357-11-467

Skilled (B) : Rs.327-11-382-13-512

Skilled [A] : Rs.352-13-417-15-567

Highly skilled : Rs.387-15-462-17-632

CLERKS

Grade V : Abolished.

Grade IV : Rs.319-9-364-11-474

Grade III : Rs.342-11-397-13-527

Grade II : Rs.367-13-432-15-582

Grade I : Rs.437-15-512-17-682

SUPERVISORY

Grade C : Rs.437-21-542-27-812

Grade B : Rs.487-27-622-34-962

Grade A : Rs.557-45-782-60-1382

Notes : Grade Clerical V is hereby abolished and Supervisory Grade A-II and A-I are hereby merged in one grade only and the new grade will be called as supervisory 'A'. Consequently, hereafter there will be only 13 grades in all as detailed above, instead of 15 grades prevailing hereto before.

C) Fitment :

- 1) For fitment purposes the amount of Rs.32/- as stated above shall be added to the existing basic wage of an employee and his wages will be fixed in the new revised scale mentioned above.
- 2) In case an employee's wages fall short by any amount while fitting him in the revised scale, his wages shall be stepped up in next immediate stage of the revised scale.

D) Service Increments :

After fitting the employees in the new scale as above, service increments will be granted at the following rate to all the permanent as well as seasonal-permanent employees as under :

- a) Those who have completed 6 years of service on 1st November 1981, shall be granted 1 increment in their respective revised scale.
- b) Those who have completed 10 years of service on 1st November 1981, shall be granted 2 increments in their respective revised scales.

Such service increments shall be effective only from 1st November 1981.

Demand No. 2 :

Classification and Gradation :

After going through the classification, nomenclature standardisation, etc. of the Ist and IInd Wage Boards, I find that classification and nomenclature for different categories of employees is a highly technical job and I do not feel it necessary to disturb the same. This matter should be examined by a separate committee of technical persons, if Government finds it necessary.

Demand No. 3 :

Retention Allowance :

The existing practice should continue.

Demand No. 4 :Gratuity :

During the course of deliberations, it has been brought to my notice that some of the sugar factories are not paying gratuity as per the Gratuity Act, but consider that since the sugar industry is a seasonal industry, all employees in the sugar factories, both permanent and seasonal, are entitled to only 7 days' wages as gratuity and are paying them accordingly. This practice, to my mind, does not appear to be correct. I, therefore, decide that the sugar factories shall pay the gratuity as under :

- a) 7 days' wages for every completed season of service for seasonal workmen.
- b) 15 days' wages for every completed year of service for permanent employees.

This should be in accordance with the provisions of the Payment of Gratuity Act, 1972.

Demand No. 5 :34 % Reservation for B.C. and O.B.C. etc. :

Representatives of employers have accepted this demand and I grant the same. I would like to make it clear

in this regard that this percentage would always be maintained by all the sugar factories.

Demand No. 6 :

Implementation of IInd Central Wage Board and
Patil Committee Recommendations :

Representatives of the employers have accepted this demand and therefore, I grant the same. The Government should take effective steps to see that these recommendations are implemented immediately.

Demand No. 7 :

Contract Labour :

The practice of contract labour should be discouraged by the sugar factories in consonance with the contract labour (Regulation and Abolition) Act.

Demand No. 8 :

Uniform Leave Rules :

I decide that the employees of the sugar factories shall be entitled to leave, on completion of one year's service as stated below :

		Privilege leave	Casual leave	Sick leave
a)	Seasonal employees	As per Factories Act	4	7
b)	All other employees	18	8	7

I therefore decide that production of medical certificate for sick leave below 3 days shall not be necessary.

Accumulation of leave :

Present practice to continue.

Encashment of leave :

The present practice followed by factories shall continue.

Demand No. 9 :

Outstation Allowance :

The employees required to halt for more than 12 hours at outstation in connection with factory's work, shall be paid daily allowance at the following rates.

Place of halt	Daily Allowance
Bombay, Pune and other Corporation Cities	Rs. 25/- per day, for clerical grade I and Supervisory grade A, B, C and Rs. 20/- per day for clerical grade II and all other employees.
Other places excluding the area of operation of the factory	Rs. 20/- per day for clerical grade I and Supervisory grade A, B, C and Rs. 15/- per day for clerical grade II and all other employees.

NOTE :

1) The employees required to halt for more than 6 hours, but less than 12 hours at outstations mentioned above in connection with factory's work shall be paid daily allowance at the rate of 50 % of the above mentioned rates for the representative categories.

2) I further decide that the daily allowance mentioned above shall be in addition to the T.A. incurred by the concerned employees.

Demand No. 10 :

Uniform Festival Holidays :

The present practice shall continue subject to the condition that the sugar factories shall give minimum 12 paid holidays as festival and national holidays. Out of the said 12 paid holidays, 2 paid holidays shall be fixed in consultation with the representative Union.

Demand No. 11 :

Night Shift Allowance :

Not granted.

Demand No. 12 :

Rent Allowance and Conveyance Allowance to the Employees not provided with rooms in the colony :

Not granted.

Demand No. 13 :

Accident Relief :

The present practice to continue.

Demand No. 14 :

Applicability of the demands to Allied Industries :

Different allied industries have been put up by the management near about the sugar units. A detailed study of these industries is necessary. If thought fit, the Government may appoint a separate committee for this purpose.

Demand No. 15 :

Accident Relief to harvesting and Transport Workers :

Present practice to continue.

Demand No. 16 :

Bonus :

Existing practice shall continue.

N. B.

1) The Decisions covered hereinabove shall remain in force upto 1st October, 1984.

2) It is made expressly clear that the retrospective effect from 1st November, 1980 is granted in respect of increase in basic wages only. All other Decisions are effective from 1st November, 1981.

3) During the operative period of this Decision, if any Employee reaches the maximum of his scale, he will continue to draw the last drawn increment in his scale.

4) Arrears payable pursuant to this Decision shall be paid to the concerned employees on or before 15-1-1982. However, in the case of sick units, as defined in the Gulabrao Patil Committee Report, the said arrears shall be paid in two equal instalments. The 1st instalment shall be paid on or before 15-1-1982 and the 2nd instalment shall be paid within a week of the commencement of the next crushing season i.e. 1982-83.

5) In case wherever the existing facilities granted by sugar factories, in respect of leave, outstation allowance, paid holidays, etc. are more favourable to the employees than those given vide this Decision, then the said existing facilities and amenities shall continue as heretobefore.

6) This Decision shall apply to all such employees appointed by the sugar factories whether on daily wages or otherwise except those employed in allied industries as well as contracts' labour.

DECISIONS ON DEMAND IN RESPECT OF HARVESTING AND TRANSPORT
LABOUR

Demand No. 1 :

Attendance register of harvesting and transport workers :

A list of Harvesting and Transport workers shall be maintained by the Mukadam and a copy thereof shall be furnished by his^{an} to the Karkhana every fortnight.

Demand No. 2 :

Table of distances between fields and sugarcane carrier :

Not granted.

Demand No. 3 :

Arrangements for stay, water, light etc. :

The management should see that the basic amenities like water, electricity, etc. are provided to the harvesting and contract labour.

Demand No. 4 :

Compensation for Death of Bullocks, Breakdown of Carts :

Present practice may continue.

Demand No. 5 :

Appointment of Veterinary Doctors for Bullocks :

Present practice may continue.

Demand No. 6 :

Free medical treatment to harvesting and contracting labours :

Existing practice should continue.

Demand No. 7 :

Repairs and Maintenance of damaged roads :

The Government should give more grants to the factories for construction and maintenance of roads in their area.

Demand No. 8 :

School facilities for cartmen's children :

Not granted.

Demand No. 9 :

Non-detention of loaded carts :

The factories should see that there is no room for such complaints.

Demand No. 10 :

Compensation for factory closure :

This will be as per the provisions of applicable laws prevailing from time to time.

Demand No. 11 :

Compensation for fatal accidents :

This will be as per the provisions of applicable laws prevailing from time to time.

Demand No. 12 :

Loan to cartmen through Banks :

Not granted.

Demand No. 13 :

Extension of Benefits available to sugar factory labours to be made available to contract labour working in the sugar house etc. :

Not granted.

Demand No. 14 :

Sugar at concessional rate to Harvesting Labour and Cartmen :

Not granted.