

TOPIC NO. II

WAGE AND SALARY ADMINISTRATION

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I. INTRODUCTION :

Wage and salary Administration refers to the establishment and implementation of sound policies and practices of employee compensation. It includes such areas as job evaluation, development and maintenance of wage structures wage surveys, wage incentives, profit sharing, wage changes and adjustments, supplementary payments, control of compensation costs and other related pay items.

II. DEFINITIONS AND CONCEPT

As brought out clearly in this chapter 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 the employment. Wages and Salaries are not merely important determination 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 and the standard of his 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 problems of wages.

Thus, in the primitive stage, when men'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 insurmountable problem of formulating sound wage policy or wage and salary administration, we are in era of the management by specialisation in which per se tripartite. System of wage determination is coming into 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.

DEFINITION OF WAGE :

The wage is the remuneration paid by the employer to his the former. According to Laisser, Fair policy, wage is the price paid to the worker for the services he has sold to the employer. If could be the contract income settled, between the employers and the employees. But the commodity theory of labour is no more in reactice and so wage cannot be treated as mere price for the service 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 prerequisites like travelling allowances, employers contribution to provident fund, value of housing accomodation, welfare amenities provided for the worker, gratuity payable on discharge, over time payments, family allowance etc. wages are usually paid in terms of money soon after the completion of certain amount of

service like, one day, one week, two week, and one month (Monthly wages are 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.⁴

Salary

A salary is a compensation to an employees 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 etc.⁵

III. PRINCIPLES AND FUNDAMENTAL CHARACTERISTIC OF WAGE AND SALARY ADMINISTRATION :

The Management can offer as compensation depends upon factors that are inherent in the type of business it operates. The production 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 or added incentive payment. The cost of administration of wage system may be decisive factor in the managements choice. The competitive standing of business, the seasonal or permanent nature of its operations, its plans, for the future, competition for labour, the available supply of labour, compensation practices prevailing in the place of an enterprise.

PRINCIPLES OF WAGE AND SALARY ADMINISTRATION :

✓ The generally accepted principles governing the fixation of wage & salary are :-

- (i) There should be a definite plan to ensure that differences in pay for jobs are based upon variations in job requirements, such as skill, effort, responsibility or job or working conditions, and mental and physical requirements.
- (ii) The general level of wages and salaries should be reasonably in line with that prevailing in the labour market.
- (iii) The plan should carefully distinguish between jobs and employees.
- (iv) Equal pay for equal work, i.e. if two jobs have equal difficulty, requirements, the pay should be the same, regardless of who fills them.
- (vi) An equitable practice should be adopted for the recognition of individual differences in ability and contribution.
- ✓ (vi) There should be clearly established procedure for hearing and adjusting wage complaints . This may be integrated with the regular grievance procedure, if it exists.
- (vii) The employees and the trade union, if there is one, should be informed about the procedure used to establish wage rates.

- (viii) The wage should be sufficient to ensure for the worker and his family and reasonable standard of living.
- (xi) The wage and salary structure should be flexible so that changing conditions can be easily met.

In 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 and working conditions. Wage levels in different communities may vary but in 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 should be easily related to cost controls and the operating labour budget.

- 6) The wage plan should be simple and easy to understand by the workers .
- 7) The wage plan should make adequate provision for learners.
- 8) The wage plan should be flexible in order to meet changing conditions.
- 9) The wage plan should involve excessive clerical costs.

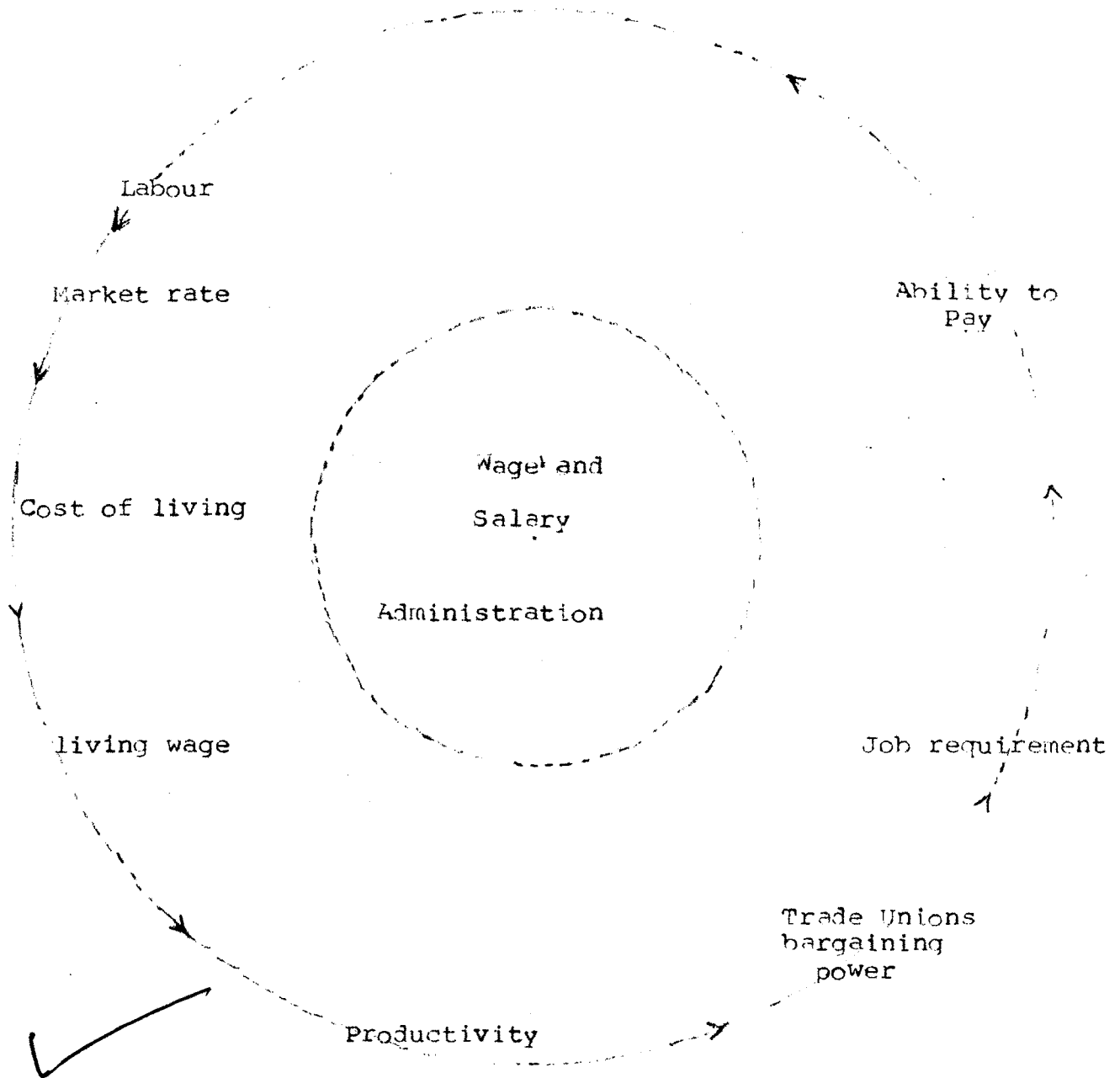
IV. FACTORS AFFECTING OR INFLUENCING WAGE AND SALARY
STRUCTURE AND ADMINISTRATION :

The wage policies of different organisations vary somewhat. 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 labour legislation and recruit managerial labour. At the other extreme, some units pay well above the going 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 worker in the industry. This greater production per employee means greater output per man hour. Hence, labour costs may turn out to be lower than those existing in firms using marginal labour. Some units pay high wages because of a combination of favourable product 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 going rate in the labour market for the various

classes of labour they employ. Most units give greater weight to two 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 wage and salary Administration are :-

- (1) The ability to pay,
- (2) Supply and demand of labour,
- (3) The prevailing market rate,
- (4) The cost of living,
- (5) Living wage,
- (6) Productivity,
- (7) A trade unions bargaining power,
- (8) Job requirements,
- (9) Psychological and sociological factors.



1.1 Criteria for Wage Fixation

(1) Ability to Pay :

Wage increases should be given by those organisations which can afford them companies that have good sales and 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 economic influence on the ability to pay is practically nil. All employers irrespective of their profits or losses, must pay no less than their competitors and need pay no more if they wish to attract and keep workers. In the long run, the ability to pay is very important. During times 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 hospital and educational institutions) pay relatively low wages because of low or no profits .

(2) Supply and Demand of Labour :

Wages and salaries are affected by the market conditions of supply and demand. If the supply of particular labour skill is scarce, employers may offer higher wages. If the supply is excessive, lower wages are usually given. Similarly, if there is a great demand for labour expertise, wages rise, but if the demand for a manpower skill is minimal, the wages will be relatively low. Mescon says, " The supply

and demand compensation criterion is very closely related to the prevailing pay comparable wage and on going wage concepts since, in essence, all of these remuneration standards are determined by immediate market forces and factors."

(3) The Prevailing Market Rate :

This is also known as the comparable wage or going wage rate, and is the most widely used criterion. An organisations compensation policies generally tend to conform to the wage rates payable by the industry and the community. This done for several reasons. First, competition demands that competitors adhere to the same relative wage level. Second, various government laws and judicial decisions make the adoption of uniform wage rates an attractive proposition. Third, trade unions encourage this practice so that their members can have equal pay for equal work and geographical differences may be eliminated. Fourth, 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. Finally, 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 the manpower.

Belcher and Atchison observed :

" Some companies pay on the high side of the market in order to obtain goodwill or to insure an adequate supply of labour, while other organisations pay lower wages because

economically they have to or because by lowering hiring requirements they can keep jobs adequately manned"

(4) Cost of Living :

The cost of living pay criterion is usually regarded as automatic minimum equity pay criterion. This criterion calls for pay adjustments based on increases or decreases in an acceptable cost of living index. In recognition of the influence of the cost of living "escalator clauses" are written into labour contracts. 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 paid should be 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 developments of better methods of production by labour and management greater ingenuity and skill labour are all responsible for the increase in productivity. Actually, productivity measures the contribution of all the resource factors - Men, Machines, Methods, Material and Management. Tayoler Called these are 5 M' factors. 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 national 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) Union Bargaining Power :

Trade Unions do affect the rate of wages. Generally, the stronger and more powerful the trade union, the higher 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 inflations. However, for those remaining on the pay roll, a real gain is often achieved as a consequence of a trade union's stronger bargaining power.

(8) Managerial Attitude :

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 matter require the approval of the top executives.

(9) Job Requirement :

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.

(10) Psychological and Social Factors :

These determine in a significant measure how hard a person will work for the compensation received or what pressures he will exert to get his compensation increased. Psychologically, persons perceive the level of wages as a measure of success in life; people may feel secure, 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. Sociologically and ethically, people feel that, "equal work should carry equal wages " that " wages should be commensurate with their efforts ", that " they are not exploited ", and that no distinction is made on the basis of caste, colour, sex or religion. To satisfy the conditions of equity fairness and justice a management should take these factors into consideration.

V CONTROL OF WAGE AND SALARY
 STRUCTURE AND ADMINISTRATION

Wage and salary administration should be controlled by some proper agency. This responsibility may be entrusted to the personnel department or the general company organisation or to some job executive. Since the problem of wages and salary is very delicate and complicated, it is usually

entrusted to a committee composed of high ranking executives representing major line organisations. The major functions of such a committee are as :-

- (a) Approval of and / or recommendation to management on job evaluation methods and findings.
- (b) Review and recommendation of basic wage and salary structures.
- (c) Help in the formulation of wage policies.
- (d) Co-ordination and review of relative department rates to ensure conformity and
- (e) Review of budget estimates for wage and salary adjustments and increases.

This committee should be supported by the advice of the technical staff. Such staff committees may be for job evaluation, job description, merit rating, wage and salary survey in an industry and for a review of present wage rates, procedures and policies.

VI TYPES OF WAGES :

i) MINIMUM WAGES :

Minimum wage, 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. Minimum wage has been defined by the committee as " the wage which must provide not merely for the bare sustenance of life, but for the preservation of the efficiency of the worker. For this purpose the minimum wage must provide for some measure of education, medical requirements and amenities'.

In other words, a minimum wage should provide for the sustenance of the worker's family, for his efficiency, for the education of his 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 the quantum of the minimum wage? What is the size of the family it should support? Who should decide these questions? These issues are very 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 were evolved 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 bare sustenance 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 land mark 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.

ii) THE LIVING WAGE :

This wage was recommended by the fair wages committee 1948 as the ultimate goal in the wage policy. It defined as 'A Living wage should enable the earner to provide for himself and his family not only 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 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 of the payment of a living wage on the basis of the standards prevalent in more advanced countries.

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

- (a) The wage to be paid to the entire working class was to be established and stabilised.
- (b) Fair wage were to be established in the community cum-industry,
- (c) The working class was to be paid the living wage.

The living wage may be some where 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 industry in the economy of the country and the prevailing rates of wages in the same or similar occupations in neighbouring localities.

✓ iii) FAIR WAGE :

According to the committee on Fair Wages, " 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 ". Between these two limits the actual wages should depend on considerations of such factors as :-

✓ (a) The productivity of labour , (b) The prevailing rates of wages in the same or neighbouring localities. (c) The level of the national income and its distribution and (d) The place of industry in the economy of the country.

✓ iv) THE NEED BASED MINIMUM WAGE :

The Indian Labour Conference, at its 15th session held in July , 1957 suggested that minimum wage fixation should need based and should meet the minimum needs of an industrial worker. For the calculation of the minimum wage, the conference accepted the following norms and recommended that they should guide all wage - fixing authorities, including the Minimum Wage Committee, Wage - Boards and adjudicators :-

- (a) The standard working class family should be taken to consist of three consumption units for the earner the earnings of women, children and adolescents should be disregarded.
- (b) Minimum Food requirements should be calculated on the basis of the net intake of 2,700 calories as recommended by Dr. Akroyd For an average Indian adult of moderate activity.
- (c) The clothing requirements should be estimated at a per capita consumption of 18 yards per annum, which would mean, for an average worker's Family of Four, a total of 72 Yards.
- (d) In respect of housing the norms should be the minimum rent charged by the Govt. in any area for houses provided under the subsidised Housing Scheme for low income groups ; and
- (e) Fuel, lighting and other miscellaneous items of expenditure should constitute 20 per cent of the total minimum wage.

Ever since the I.L.C. made its recommendations on the need based minimum wage, attempts were made by several Govt. and private agencies and trade union organisations to work out its monetary equivalent. These estimates have varied considerably.

Both the first and second pay commissions appointed by the Govt. 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 Metro Politancities of Bombay, Calcutta, Delhi, Madras for the 12 months ending 31st, Oct., 1972. Having done that the commission took into consideration the planning commission formula that minimum desirable consumption standard on the basis prices as in Oct., 1973 would be about Rs.40/- per capita. Also the per capital national income was taken into account. It also argued that the lowest paid Govt. employees 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.

iv) 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.

VII SYSTEMS / METHODS OF WAGE PAYMENT -

The compensation that an employee can expected for his work based either on the production capacity of the worker. The First method is called 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.

1) Time Wage System :

✓ It is the oldest system of remunerating labour. Under this day work system of wages, the employer buy's 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 work, the fortnight or the month, as it is mutually agreed, provided that more than one month must elapse between the two wage periods.

✓ Merits of Time Wage System :

- 1) This method is simple, for the amount earned by a worker can be easily calculated.
- 2) As there is no time limit for the execution of a job, workmen are not in a hurry to finish it and this may mean that they will pay attention to the quality of their work.
- 3) As all the workmen employed for doing a particular kind of work receive the same wages, ill-will and jealousy among them are avoided.
- 4) Due to the slow and steady pace of the worker, there is no rough handling of machinery, which is a distinct advantage for the employer.

- 5) It is the only system that can be used profitably where the output of an individual workman or groups of employees cannot be readily measured.
- 6) The time wage provides a regular and stable income to the worker and he can, therefore, adjust his budget accordingly.
- 7) This system is favoured by organised labour, for it makes for solidarity among the workers of a particular class.
- 8) It requires less administrative attention than others because the very basis of the time wage contract is good faith and mutual confidence between the parties.

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

Demerits of Time Wage System -

The main drawbacks of this system are as :-

- (1) 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, were repressed. This system represses the superior man as there is no incentive to hard work and both good or bad workers are paid alike.
- (2) It leads to the reduced quantum of work, unless a strict supervision is arranged.
- (3) It leads to employer - employee trouble.
- (4) It destroys the morale of workers and efficient workers are either driven out or pulled down to the level of inefficient workers.

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

(6) As no record of an individual workers output is maintained, it becomes difficult for the employer to determine his relative efficiency for purpose of promotion.

(7) The labour charges for a particular job do not remain constant.

(2) Piece Wage System :-

✓ This is the second oldest method of wage payment. Under this plan worker, working in given conditions and with given machinery are exactly in production to his physical output. 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 method is that while the employee makes all the gain or loss of his own time, the employer gains by rapid performance for the fact that factory burden to be changed 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 workers earning can be calculated on the basis of the following formula :-



$$WE = NR$$

Where , WE = The workers earnings

N = Number of pieces produced

R = Rate per piece.

Merits / Advantages :

- 1) Under this system the remuneration depends upon the volume of production. There is a direct stimulus to increase production.
- 2) It encourages voluntary effort as against a ' drive ' under time rate, creating an atmosphere of willingness and zeal of work.
- 3) The cost of supervision becomes comparatively less as the workers tend to drive themselves in their own interests.
- 4) As the direct labour cost per unit of production remains fixed and constant, calculations of costs or making of tenders and estimates become easier.
- 5) The total unit cost of production comes down with larger out put because the fixed overhead burden can be distributed over a greater number of units.
- 6) The working arrangements may be improved by the workers themselves to speed up work.
- 7) 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.

Demerits / Dis-advantages -

- 1) ✓ 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 of ' nibbed ' it at frequent interval, which the workers resent, for they consider, ' cuts ' as violations of agreement.
- 2) The system creates a huge gap between men and management.
- 3) Too much emphasis on the quantity of production may lower the quality of products.
- 4) Keeping of individual production records and the making of pay rolls involve time and cost.
- 5) Trade unions are often antagonistic to piece, rates , as this form of wage payment, encourages rivalry between workers and labour unions.
- 6) Excessive speeding up of work often result in careless handling of machines and equipment that require frequent replacement.
- 7) Faculty production planning and control, inter-mittent order and absence of other production facilities prevent the workers from making high wages and consequently workers may adopt a hostile attitude of the management.
- 8) In their eagerness for increased earnings, workers may exert themselves to the point of exhaustion as the under time health and efficiency.

3) ✓ Balance or Debt Method :

This is combination of time and piece rates. The

worker is guaranteed an hourly or a day rate with an alternative piece rate. If the earnings of a worker calculated at the piece rate exceed the amount which he would have earned if paid on time basis, he gets credit for the balance i.e. excess piece rate earnings over the time rate earnings. If his piece rate earnings are equal to his time rate earnings, the question of excess payment does not arise. Where piece rate earnings are less than time rate earnings he is paid on the basis of the time rate; but the excess which he is paid is carried forward as a debt against him to be recovered from any future balance of piece work earnings over time work earnings. This system presupposes the fixation of time and piece rates on a scientific basis.

The obvious merit of this system is that an efficient worker has an opportunity to increase his wages. At the same time, workers of ordinary ability, by getting the guaranteed time wage, are given a sufficient incentives to attain the same standard, even though the excess paid to them is later deducted from their future credit balance.

VIII INCENTIVE PLANS OF WAGE PAYMENTS :

The relative advantages of time and speed as basis 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 :-

- (1) If stimulates production by encouraging workers to earn more than average wages ,
- (2) The tendency of cutting down of rates by combining the workmen's bonus with some benefits in the savings of wages to the employers,
- (3) To help towards economical production by reducing wage and production cost per unit and
- (4) To unity the conflicting interests of the employers and the employee's so as to promote and sustain increased and smooth working.

The 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 of 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 are :-

1) Halsey Premium Plan:

This plan was devised by F.A. Halsey. This is time - saved bonus plan which is ordinarily used when accurate performance standards have not been established. Under this plan, it is optional for a workman to work on the premium or not. His day's wage is assured to him whether he earns a 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 previous 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 $33\frac{1}{3}$ per cent of the 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 a time wage. The plan is a combination of the day wage and the piece wage in a modified form.

(2) Halsey Weir Premium Plan :

This plan is similar to the Halsey Premium Plan except that 50 per cent of the time saved is given as premium to worker.

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

(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 this 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 workers 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.

$$\text{Bonus} = \frac{\text{Time save}}{\text{Time allowed}} \times \text{Time taken} \times \text{Hourly rate.}$$

(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. 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 100 hours in 8 hours and if the hourly rate is Rs. 0.50 his total earning will be $\text{Rs. } 8.00 \times 0.50 + (10 - 8) \times 0.50$

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

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

(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 basis unit of the time is the minute termed as B. Every job is expressed in terms of B, (after Bedeaux) Which means that a job should be completed in so many minutes. If a particular work is rated at B (or one B hour), the worker is allowed one hour for its completion and received a bonus of 75 percent 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 : Rs.

$$\begin{aligned} & 4.80 \times 0.01 + 3/4 (600 - 480) \times 0.01 \\ & = \text{Rs. } 4.80 + 0.90 \\ & = \text{Rs. } 5.70 \end{aligned}$$

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(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 workers with a higher rate of payment and to penalise the in-efficient workers by a lower rate of payment.

(7) Merric's Multiple Piece Rate System :

✓ This system 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) Up to, say 83 % of standard output a piece rate + 10 % of time rate as bonus.

(b) Above 83 % and up to 100 % of standard out put
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) Gantt Task and Bonus Plan :

✓ This plan has been devised by H.L. Gantt 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 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's 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 normal 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 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 advance of the Profit ". The industrial co-operative congress held in Paris in 1889 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.

IX 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 problem 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 mis-use 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, 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 industries 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 no monetary incentives. The provision of labour welfare facilities entirely changes the mental out look of the workers. Welfare amonities carried on in the factories contribute in making the service more attractive for the working class and in creating a permanently settled labour force.

What ever improves conditions of work and life for the employees whatever leads to the increasing adaptation of the worker to his task and what ever 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, whole some 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 nonfinancial incentives, are enabled to enjoy a richer and poorer life.

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

1. Job security,
2. Recognition,
3. Participation,
4. Pride in Job,
5. Delegation of responsibility ,
6. 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 a bound provision of labour welfare amenities etc.

X FRINGE BENEFITS :

Wages and Salaries 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."

Purposes :

1. To promote the better industrial relations,
2. To promote employee loyalty to the company,
3. To promote employee welfare,
4. To promote high morale of employees,
5. To meet legal requirements,
6. To promote employee health and safety,
7. To promote employment stabilisation,
8. To promote team spirit and employee identification with the company.,
9. To provide economic security to employee,
10. To provide a congenial work environment.

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

XI 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 become the subject matter of an industrial dispute in a large number of industrial units and it was several times referred for ad-judication to the machinery set up under the Defence of Indian Rules by the Government of India or by the State Government 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.

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 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 services. 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 dearness allowances are generally not proportional to the basic wages.

XII 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 in important festival. Now it is demanded as a matter of right. The labour Appellate Tribunal evolved a Formula which was latter adopted by the Bonus Commission and with some modifications, accepted by the Government .The payment :-

- 4] The extent of neutralisation,
- 5] The feasibility of linking of dearness allowance to the cost of living index number.

The purpose of 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 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 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 three months of payment of dearness allowance.

- (a) Flat rate
- (b) Rate linked to consumer price index.
- (c) Graduated Scales according to Slabs.

Merger of Dearness allowance with Basic wages :- In our country there, has been a demand that at least part of dearness allowance of Bonus Act 1955 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 during salary up to 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/- which ever 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 is the size.

In keeping with the promise contained in the party's election manifes to the Janta Government at the central 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 committee on wage and income policy which is currently at work.