

CHAPTER - III

THEORETICAL BACKGROUND

## THEORETICAL BACKGROUND

### I) INTRODUCTION

Wage and Salary administration is a typical system of pay. Whether according to Haire-Gehisalli and Porter " Pay in one form or another is certainly one of the mainsprings of motivation in our Society. Pay is the most important single motivator used in our organised society. As a motivator, it becomes part of general psychological problems."

Wages are essential to run the day today life of the workers. The Personnel Manager is responsible to build the salary and wage administration.

Wage is a unavoidable part. In India, various Wage Boards and Committees paying attention and playing important role of fixing the wage and salary systems for the various industries.

### II) DEFINITION OF WAGE

The wage is the remuneration paid by the employer to his employees. According to Laisser, fair policy wage is the price paid to the worker for the services he has sold to the employer.

" Wages are usually paid in terms of money -soon after the completion of certain amount of service like, one day, one week, two weeks and one month. 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 " \*\*

According to Dale Yoder and Haneman,

" Wages are the compensation of wage earner the numerous employees who use the tools and equipments of their employers to produce goods and services that are sold by their employers ".

While Salary means the remuneration in exchange of services rendered by workers whose work is difficult to be measured. Salary is paid on monthly basis.

"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 professionals as well as technical Staff etc." \*\*\*

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\*\* Personnel Management by C.B.Memoria.

\*\*\* Personal Management by C.B.Memoria.

III) PRINCIPLES OF WAGE AND SALARY ADMINISTRATION : \*\*

- 1) 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, physical requirements.
- 2) The general level of wages and salaries should be reasonably in line with that prevailing in the labour market.
- 3) The plan should carefully distinguish between jobs and employees.
- 4) 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.
- 5) An equitable practice should be adopted for the recognition of individual differences in ability and contribution.
- 6) There should be clearly established procedure for hearing and adjusting wage complaints. This may be integrated with the regular grievance procedure, if it exists.
- 7) The employees and the trade union, if there is one, should be informed about the procedure used to establish wage rates.

- \*\* 8) The wage should be sufficient to ensure the worker and his family and reasonable standard of living.
- \*\* 9) The wage and salary structure should be flexible so that, changing conditions can be easily met.

IV) CHARACTERISTICS OF THE WAGE PLAN

- 1) The worker should be given a guaranteed minimum wage.
- 2) Wages for different workers should be primarily in terms of output.
- 3) The wage plan should facilitate the comparison of efficiencies of various departments of operating units.
- 4) The wage should be easily related to cost controls and the operating labour budget.
- 5) Base wage for each job classification or skill should be related to each other in terms of job requirements.
- 6) The wage plan should be simple and easy to understand.

- 7) The wage plan should make adequate provision for learner.
- 8) The wage plan should be flexible in tune of changing conditions.
- 9) The wage plan should involve excessive clerical costs.

V) FACTORS AFFECTING WAGE AND SALARY ADMINISTRATION \*\*\*

- 1) The ability to pay
- 2) Government policies
- 3) Supply and demand of labour
- 4) Standard of living
- 5) Productivity
- 6) Bargaining power
- 7) Psychological and sociological factors
- 8) Market rate.

(1) Ability to pay

Marginal and non profit organisations pay low wages in tune of the organisations having good sales. The ability to pay the higher wages is depending upon the size of the organisation, sale output, cost of production, market situation of the product etc.

(2) Government policies

Government policies also affecting the wage and salary structure and administration e.g. the principles for determining minimum wages were evaluated by the Government and have been incorporated in the minimum wages act, 1945 . The Act was made for the unorganised sectors of occupations.

(3) Supply and Demand of labour

In modern world, the supply of experienced technical personnel is rare and so that employers may offer higher wages to these personnels. There is always demand for the scarce personnel.

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(4) Standard of living

There is a great importance for standard cost of living while doing wage agreements with labour unions. The wages are given on the acceptable cost of living index. Variable index is used to give the dearness allowances to the workers e.g. sugar units in India., the Government of India, publishing index from time to time.

(5) Productivity

It is measured to the total output per man hour. Productivity can be progressed with the help of technological improvements, cost control, man power planning etc. In other words, Higher productivity= Higher wage payments.

(6) Bargaining power

Wages depends upon a relative bargaining power of the labour unions and the employers. Where labour unions are strong, wages will be determined at a higher level.

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(7) Psychological and sociological factor

Generally people feel that, "equal work should carry equal wages ". Some workers feels that, " Wage are better than the work allotted to them ". Caste, colour, sex, religion are the another sociological affecting factors on salary and wage administration.

(8) Market rate

The wage levels will be influenced by the degree of competitions prevailing in the market for the product of the industry. Wages should be determined according to the competition, demand, Government laws, employee's skill, experience.



According to Belcher and Atchison,

\*\*\* " 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 " .

VI) CONTROL OF SALARY AND WAGE ADMINISTRATION

Salary and wage administration may be controlled by the Personnel Department/ General Company Organisation or a Committee.

The main functions of such Committee are as under:

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

VII) TYPES OF WAGES

There are three types of wages,

- A) Minimum Wage
- B) Living Wage
- C) Fair wage

These terms used by the Committee on Fair Wages set up by the Government in 1948. The Committee defined the minimum wages as under :

- A) " The wage which must provide not only 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".

The Government was passed the Minimum Wages Act in 1948 in view of a social justice. It is beneficial for handicraft, fanneries, stone crushing, carpet wearing industries.

- B) According to the Justice Higgivs ,  
" Living wage is a wage sufficient to ensure who women food, shelter, clothing, frugal comfort, provision for evil days etc., as regard for the skill of an artisan if he is one ".

The Living wage defined by the Fair Wages Committee, 1948 as under:

- " 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 ".

The living wage means the provision for the bare necessities plus amenities in terms of social status.

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.

c) FAIR WAGE

According to the Committee on Fair Wages,  
" Fair wage is the wage which is above the minimum

wage but below the living wage". To determine the fair wages, the factors like payment by other units, ability to pay are to be considered.

The actual wages should depend upon the factors as,

- 1) The productivity of labour.
- 2) The prevailing rate of wages in the same or neighbouring localities.
- 3) The level of the national income and its distribution.
- 4) The place of industry in the economy of the country.

There are another two types of wages.

- (D) The need based minimum wages.
- (E) Saving wage.

(D) THE NEED BASED MINIMUM WAGE

The third pay commission took into consideration the planning Commission formulae that, minimum desirable consumption standard on the basis prices as in act 1973 would be about Rs.40/-per capita. The theme of minimum wage fixation on need base is suggested by the Indian Labour Conference at the 15th Session held in July,1957.

The Conference accepted the following norms.

- a) The standard working class family should be taken to consist of 3 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 capital consumption of 18 yards per annum, which would mean for an average workers family of four a total of 72 yards.
- d) In respect of housing the norms should be the minimum rent charged by the Government in any area for houses provided under the subsidised housing scheme for low income groups.
- e) Fuel, lighting and other miscellaneous items of expenditure should constitute 20% of the total minimum wage.

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\*\* Personnel Management by C.B.Mamoria, 1984.

The IInd pay commission 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, Madras for the 12 months ending 31st October, 1972 taking into consideration that, minimum desirable consumption standard on the basis prices as in October, 1973 would be about Rs.40/-per capita. It also argued that, the lowest paid Government 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.

(E) SAVING WAGE

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According to Shri Vishwanath Dubey of United Trade Union Congress, the saving wage means, the worker should be paid such a wage as would enable him to save something for a rainy day.

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\* Personnel Management by C.B.Mamoria ,1984.

## METHODS OF WAGE PAYMENTS

There are two methods of wage payments.

- \*\* 1) Time basis/Time wage system
- 2) Piece Wage system.

### (1) Time basis or Time Wage System

Under this method, employee is paid according to the time worked i.e. hourly, weekly, monthly etc.,

#### Advantages

- 1) The cost of operating time wage scheme is negligible.
- 2) Worker has no hurry in completing the job, hence, quality of work is maintained.
- 3) Where the production is not standardised, the productivity of worker can not be measured accurately.
- 4) In Modern factories, jobs are linked to one another. In such circumstances, time wage system is useful.
- 5) Time wage system promotes industrial peace.

#### Demerits

- 1) The system does not compare between efficient and inefficient worker and between honest and shriker worker.
- 2) There is no chance to improve the efficiency of the worker.

- 3) It represses the superior men.
- \*\* 4) It requires strict supervision.
- 5) It creates difficulties in the calculation of the labour cost.

\*\*\* (2) Piece Wage System

Under this system, a fix rate for producing a unit of output is paid.

Merits

- 1) It is easy system.
- 2) It creates workers productivity.
- 3) It ensures fairness to all.
- 4) Working arrangements and methods of production may be improved by workers themselves.

Demerits

- 1) It creates huge gap between workmen and management.
- 2) It lays too much stress on quantity of production on the cost of quality of the product.
- 3) This system weakens the labour unions and workers get no time for union activities.
- 4) Production, Planning and Control prevents the workers to earn more.
- 5) The system involves a great deal of time and effort to develop, install and maintain so it is costly.



(3) BALANCE OR DEBT METHOD \*\*

In this system, the worker is guaranteed an hourly or a day rate with an alternative piece rate. The excess piece rate earnings over the time rate earnings. The worker has paid on the time base rate, but the excess which he is paid is carried forward as debt against him to be recovered from any future balance of piece work earnings, overtime work earnings.

(4) INCENTIVE PLANS OF WAGE PAYMENTS :

In incentive plans of wage systems, the interests of workers and employees might be protected. The main view to prepare incentive plans is to produce more. The additional work may be exchanged in incentive wages.

There are two types of incentive plans,

- a) Personal Incentive plans
- b) Group Incentive plans.

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In personal incentive plans, time based or production based principle is adopted. Whether in group incentive plans, each member of the work group is rewarded on the basis of performance of his group.

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\*\* Personnel Management by C.B.Mamoria 1984.

\*\*\* Personnel Management & Industrial Relations by Dr.Varma and Agarwal

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Essential characteristics for a good incentive plan

- 1) Good management- worker relations are necessary.
- 2) Management must inform the particulars of the goals of the plan.
- 3) The incentive plan should be simple to understand.
- 4) The incentive plan must be just and equitable to employers and employees.
- 5) Before setting the work standards, organisation and methods analysis of each operation should be conducted.
- 6) Time and motion studies, work sampling, standard data are taken into consideration.
- 7) The employee should be assured of a minimum base wage.
- 8) The Management should have an grievance cell to deal with the complaints.
- 9) The standards and rates once fixed under an incentive plan should not be frequently changed.
- 10) The incentive plan should be made with a provision to keep the workers health and welfare.

The labour oppose such incentive plans because of,

- 1) Opposition from indirect labour.
- 2) Arbitrary standards

- 3) Inefficient workers
- 4) Change of Circumstances
- 5) For reasons beyond their control.

Following are some of the individual incentive Plans.

A) HALSEY PREMIUM PLAN \*\*\*

Under this system, a time wage is guaranteed. If a worker fails to complete the standard work, he is paid minimum wages. 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  $33 \frac{1}{3}$  % of the time saved.

In Halsey Weir Premium plan, the equation is fixed as under :

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

B) ROWAN PREMIUM PLAN \*\*\*\*

It is similar to Halsey Plan, except the system of calculating the premium. 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 equation of calculating the bonus

under this method is,

$$\text{Bonus} = \frac{\text{Time taken}}{\text{Standard time}} \times \text{Hourly rate} \times \text{Time saved.}$$

In this plan, a worker cannot get the bonus more than 25% of the standard time.

C) TAYLOR'S DIFFERENTIAL PIECE RATE SYSTEM : \*\*\*\*

F.W. Taylor evolved this system of wage payment. In this system, there is no guarantee of minimum wages, standard time and standard work is determined on the basis of time study. Those who fail in attaining the standard are paid at the lower rate and those exceeding the standard, get higher rate.

This system is scientific and helps to eliminate the quite inefficient workers. In this system, there is no minimum wage and it creates insecurity in the minds of workers.

D) MARRICK MULTIPLE PIECE RATE PLAN : \*\*\*\*

Under this system, three rates instead of two in Taylor's Plan are prescribed.

- 1) Upto 83% of the standard output a piece rate (+) 10% of time rate as bonus.

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\*\*\* (Previous page) Personnel Management by C.B. Manoria, 1984

\*\*\*\* Personnel Management and Industrial Relations..by

Dr. Varma & Agarwal.

- 2) Above 83% and upto 100% of standard output same piece rate (+) 20% of time rate.
- 3) Above 100% of standard output same piece rate ,but no bonus.

E) GNATT'S TASK SYSTEM :

Under this system, wages on time basis are guaranteed. A standard of performance is also ascertained. The rate of bonus usually is 20% of the time taken on the job.

F) EMERSON'S EFFICIENCY PLAN : \*\*

In this system, a minimum wage is guaranteed. A worker attaining efficiency at 66.2/3 % is not entitled for any bonus. At 90% efficiency, he will get 10% bonus at 100% efficiency bonus will be paid at 20% and beyond 100% efficiency, 30% bonus will be paid.

(5) NON FINANCIAL INCENTIVES :

These incentives are like medals, for goodwork, promotion, the provision of canteen, medical aids, child welfare schemes, prizes for good work and productivity, provision for technical training etc.,

6) FRINGE BENEFITS :

Several benefits and services provided by the employer to promote the attitude of employees favourably towards the work environment are known as fringe benefits. These benefits are,

- a) Bonus
- b) Travel expenses
- c) Awards
- d) Medical leave with pay
- e) Overtime
- f) Trade courses
- g) Pension scheme
- h) Insurance schemes

7) DEARNESS ALLOWANCE

In India, system of dearness allowance is implemented in the cotton textile industry in Bombay and Ahmedabad. Usually, the dearness allowance is fixed on the basis of basic pay. The simple framework of a model pay system is Basic pay (+) Dearness Allowances (+) Other allowances.

8) BONUS

Bonus is an incentive fixed by the Management for the workers. Bonus is generally based on the rate of production throughout the year. In 1976, the Government has fixed the minimum rate of Bonus is 8.33% . Bonus is a kind of payment in addition to wages. Bonus declaration is a policy decision of the Management. Now a days, in Government Undertakings, the worker who gets above Rs.2500/- per month, is not eligible for getting the bonus.

9) PROFIT SHARING

According to Prof. Seager " Profit sharing is a arrangement by which employees receive a share fixed in advance of the profits".

In this system, proportion of the profits to be distributed amongst the workers. The profit sharing system may be fixed with dual consultation between the employer and employees.

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". (\*)

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\* Personnel Management by..Shri C.B.Mamoria