
CHAPTER - III

"WAGE AND SALARY ADMINISTRATION -
-THEORETICAL BACKGROUND".



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CONTENTS

- 3.0 Introduction.
 - 3.1 Meaning of Wages.
 - 3.2 Concepts of Wages.
 - 3.3 Wage Variations.
 - 3.4 Essentials of Sound Wage Plan.
 - 3.5 Advantages of Sound Wage Plan.
 - 3.6 Factors affecting Wage rates.
 - 3.7 The Wage Determination Process.
 - 3.8 Theories of Wages.
 - 3.9 Components of Wages.
 - 3.10 Systems of Wage Payment.
 - 3.11 Wage Plan Package.
 - 3.12 Administration of Wage and Salaries.
 - 3.13 Importance of Wage Policy.
 - 3.14 Wage Policy in India.
 - 3.15 Wage Boards.
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3.0 Introduction :-

Wage and Salary administration is one of the most important vital areas of personnel Management. Wage and Salary represent a substantial part of total cost in most of the organisations. "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, surveys of wage and salaries, relevant organisational problems, development and maintenance of wage structure, establishing rules for administering wages, wage payments, incentives, profit sharing, wage changes and adjustments, supplementary payments, control of compensation costs and other related items".¹

The basic purpose of wage and salary administration is to establish and maintain an equitable wage and salary structure. It's secondary objective is the establishment and maintenance of an equitable labour cost structure. The wage and salary administration is concerned with the financial aspects of needs, motivation and rewards. Man does work for his breed though he does not live by bread alone. It is stated by author Mason Haire "money is our main spring of motivation in the firm".² Employees are interested in their 'take home pay'. Wages may be treated as an incentive to work. The reward may be money or promotion, but more

likely it will be some pay off - 'a smile, acceptance by a peer, receipt of information, a kind word of recognition etc.

Wage and Salary is the most important factor in maintaining and developing good employer - employee relations. Of all the problems encountered by the employees, the most pressing and persistent problem is that of remuneration in the form of wage / salary. It is evident from the fact that a majority conflicts and disputes relate to the question of wage and salaries. A well motivated and satisfied employee is an asset of the organisation. Employee is the most important input in any sector be it large or small. In this respect wage and salary administration play the most important role. Determining of base compensation is equally important for the employee because it determines the status of employee in the society.

3.1 Meaning of Wages :-

'Wages' are the payments made to the employees as compensation for the services rendered by them to the organisation.

Remuneration paid to workers, engaged by the day, week, fortnight or month, is usually referred to as wages. The term wages includes any non-pecuniary benefits attached to money payment.

In other words, the share of the total cost of production which can be attributed to labour may be known as wages from employees point of view.

In other words of P. M. STOTHANK "wages is that labours remuneration which creates utility".

According to Dale Yoder and Heneman, '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'.

Wages include salaries also.

Wages and Salaries distinguished :-

Although wages include salaries yet there is a slight difference in wages and salaries.

A 'wage' (or pay) is the remuneration paid, for the services of labour in production, periodically to an employee/workers. "Wages" usually refer to the hourly rate paid to such groups as production and maintenance employees ("blue - collar workers"). On the other hand 'salary' normally refer to the weekly or monthly rates paid to clerical, administrative and professional employees ('White-collors workers').

Payment to labour engaged directly in production is called wages. In other words wages have direct relation with the production. Salaries on the other hand, are the remuneration for the quantum of services

rendered by persons whose output is difficult to be measured such as remuneration paid to clerical or managerial or supervisory staff. It is paid on time basis, generally on monthly basis.

Why wage determination ?

Determination of the basic wage levels in an organisation, is an important question from all points of view - economic, social, political and moral. Wage is the centre point for all labour problems.

The wage levels represent the money an average workers makes in a geographic area on in his organisation. It is only an average, specific markets and individual wages can vary widely from the average.

Wages determination is important from the organisation and the employee point of view that wages claim the largest share of total cost of production. Several other problems important for the organisation such as production capacity, efficiency of labour, sale price of the commodity, profits organisational relation depend upon this single factor. From employees point of view, it is the question of their bread though they do not live by bread alone. Motivation comes after a worker is satisfied with basic wages.

The management should consider the problem of wages determination very carefully and peacefully by analysing the various factors scientifically and psychologically and with human approach, because

Employee is not a mere factor of production but also living assets of the organisation.

3.2 Three concepts of Wages :-

Three concepts of wages are commonly used in discussion on wage-policy, and the same concepts were explained by the Fair-wages Committee viz (1) Minimum wage (2) Fair wage (3) Living wage. "These are broadly based on the needs of the workers and the capacity of employers to pay, as also on the general economic conditions prevailing in a country".³

1) Concept of Minimum Wages :- Minimum wage is the wage determined according to the procedure prescribed by the relevant provisions of the Minimum Wages, Act 1948.

A minimum wage 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. Thus minimum wage should ensure a reasonable standard of living taking in view the health, efficiency and well-being of the worker. The main advantage of fixing a minimum wage is that it prevent the exploitation of sweated and unorganised labour by providing reasonable standard of living. In fixing a minimum wage both the need of the workers and capacity of the organisation to pay are taken into account. If a business is unable to pay minimum wage, it has no right to exist in industry.

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. Moreover, since the cost of living varies with the price-level, it follows that this index should be periodically reviewed and modified.

In most countries, we have Minimum Wage Legislation to fix the minimum wage for each type of occupation in the various industries. In India, the State Governments are given powers under, 'Minimum Wages Act 1948', to fix the minimum rate of wages payable to employees in scheduled employment. They may be fixed on time basis or work basis for different classes of work for children, adults, adolescents, apprentices and also for different localities. For fixing or revising the minimum wages, the State Government appoint committees or sub-committees as deemed necessary but such committees are only advisory bodies and the Governments are not bound to accept their recommendations.

2. Concept of fair wage :- Fair wage is another concept used in connection with wage policy.

In a narrower sense, 'Fair wage' is the rate of compensation current for similar workers in the same area or industry.

In a wider sense, 'Fair wage' is the predominant rate available for similar jobs and occupations throughout the country or in all countries.

According to the committee on fair Wages "It is the wage which is above the minimum wage but below the living wage".⁴ 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 -

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

But in actual calculation of wage the committee observed that it was not possible to assign a definite weight to these factors. The wages fixing machinery should relate a fair wage to a fair load of a work and the needs of a standard family consisting of three consumption units inclusive of the earners. Capacity of a particular industry in a specific region should be taken into account by taking a fair class section of the industry in that region.

The committee recognised that the concept laid-down by it could be viewed in any static sense. They would vary from time to time depending upon the economic and social development in the country. The principle that luxuries of today necessities of tomorrow was implicit in the recognition.

3) Concept of living wage :- Living wage is a step higher than fair wages. Justice Higgins of the Australian common wealth court of conciliation aptly defined the living wage as "One appropriate for the normal needs of the average employee regarded as human being living in a civilised community".⁵ Thus according to him, living wages includes provision for the following

- i) absolute essentials such as food, clothing and shelter.
- ii) a condition of frugal comfort according to the current human standard.
- iii) evil days, and
- iv) the special skill of an artisan, if he has any.

Article 43 of the constitution of India has adopted as one of the directives of the principles of state policy that the state shall endeavour to secure by suitable legislation or economic organisation or in any other way to all workers, a living wage, conditions

of work ensuring a decent standard of life and full enjoyment of pleasure and social and cultural opportunities. The living wage must provide not only for absolute essentials such as food, cloths and shelter, but also for conditions of frugal comfort estimated by current human standards sufficient to ensure the food, clothing, shelter, frugal comfort, provision for evils days etc., as well as regard for the special skill of an artisan if he is one.

The fair wage committee Report defines the living wage as "one which 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 measure of insurance against the more important misfortunes including old age".

Thus components of living wages are - 1) Bare necessities, (2) Insurance cover against ill health, disability, old age etc. (3) Reasonable expenditure on childrens education, (4) Some margine for self-development and recreation , (5) Saving for the rainy day.

Living wage obviously implied a high level of living. The concept of living wage to be realistic,

should be linked. with economic conditions and the size of the family. While determining expenditure under various heads, attention should be paid to the changes in the cost of living as prices fluctuate from time to time.

3.3 Wage - variations :-

Wage determination is purely an economic problem but it gives birth to so many social, political, ethical, behavioural and economic problems.

Wages, practically, are not fixed by theories but several other economic and human aspects are to be considered such as personal qualities of the worker or the labour market condition etc.

"The relative difference in wage levels is called wage variations". The following are various types of variations in wage rates :-

1) Time variations :- Wages may vary from time to time according to the economic conditions of the country. Price and wage indices are sometimes prepared for the two periods to measure the variations in prices and wages and adjusted accordingly.

2) Regional variations :- There are different wage rates in different regions for the same work in the some industry .

Regional wage variations may be conceived in two senses. In the first sense, they are merely a part of inter-industry differentials in a particular region. The industry mix varies one area to another, and for this reason alone, the general average of wages would be expected to vary. In the second sense, they may represent real geographical differentials, resulting in the payment of different rates for the same type of work. In both cases, regional variations affect the supply of manpower for various plants in different regions.

Cotton textile mills in Uttar-pradesh pay lower wages to their workers in comparison to the wages paid in cotton textile mills in Maharashtra or Gujarat. This may be because of several reasons such as economic development of the region, demand and supply of the workers, cost of living index and standard of living etc.

In some cases, regional variations are also used to encourage planned mobility of labour.

3. Industrial Variations :- Wage rates may differ from industry to industry. One industry may pay more to its workers in the same region for similar work.

Various factors such as demand and supply of skilled labour, nature of work and working conditions

in the industry, place of industry in the national economy etc., influence the wage rates.

Other factors influencing inter-industry variations are the extent of unionisation the structure of product markets, the ability to pay, labour capital ratio and the stage of development of an industry.

4) Personal wage-variations :- These arise because of differences in the personal characteristics (age or sex) of workers who work in the same plant and the same occupation.

"Equal pay for equal work" has been recommended by the 'International Labour Organisation Convention (Number 100)', as also by "Industrial courts, Labour Tribunals, the 'minimum wages committee' and the 'fair wages committee'. But in practice this principle has not been fully implemented because in occupations which involve strenuous muscular work, women workers, if employed, are paid less than men workers. Lack of organisation among women employees, less mobility among them, their lower subsistence and their weak constitution are other reasons which bring them lower wages than their male counterparts receive.

3.4 Essentials of Sound wage plan :-

The generally accepted essentials governing the fixation of wages and salary are -

1) Equitable to all :- The government must secure the willing acceptance and wholehearted support of labour and management for the proposed wage policy or plan. On the one side, it must ensure on the spot the norm of a need based minimum in wage revision claims and in the long run, sooner or later the target of achievement of living wage for labour. On the other side, the wage plan must be within the capacity of industry-ability to pay wages set by the plan.

2) Fair and Adequate compensation :- "The wage plan must recognise the principle of equal pay for equal work".⁶ There should be proper wage variations, based on job evaluation, skill, training and other job requirements.

3) Simplicity, Certainty and Felxibility :- The wage plan should be simple so that it is easily understandable to average employee and can be administered smoothly. It should have reasonable certainty and stability. The wage plan should be flexible enough to meet the changing conditions without involving much administrative cost.

4) Incentive System :- The satisfactory wage plan must include an incentive system of wage payment to individual, the efficient worker to produce more and to increase the efficiency of the low efficient worker.

- 5) Merit rating :- Sound merit rating policy based on ability and competence will ensure higher employee morale and better industrial relations.

- 6) Gurantee of Minimum wage :- The wage plan must gurantee the minimum wage to protect the interest of workers against conditions over which they have no control. It should take care of the minimum essential needs of the workers in a given enviornment to maintain his working efficiency. Minimum or base wage rate for each job is fixed on the basis of job evaluation studies. This will give security of income to incentive workers.

- 7) Easy collective Bargaining :- The wage plan should simplify collective bargaining process between the Management and Labour Union.

- 8) Wage Control :- The wage plan should help wage cost determination, control and payroll of administration as well as budgeting. Modern management under competitive conditions is vitally interested in unit cost of labour.

- 9) Standing Grievance Mechanism :- Under a sound wage plan, management must provide particularly under incentive plan, effective grievance procedure for listening and adjusting wage disparities and complaints which are almost certain to arise - a part of regular machinery for handling of grievances.

10) Current Going Rate :- Actual wages and salaries under any plan must be at least in line with the going or prevailing pay level in the labour market or in Industry.

11) Link with productivity :- The wage plan must be linked with the productivity of the worker in some way or other. Otherwise it will not be fair either to the management or the workers or both.

12) Good Industrial Relations :- Wage is the centre point of all disputes. It should be fair so that good industrial relations should be maintained and improved.

13) Similar to other firms :- The wage plan should consider the wages being paid in other firms in the same locality and of the same industry. It will reduce the labour turnover.

14) Good selection and placement of workers :-
A wage plan should attract good persons to the organisations. It will reduce the recruitment, training and development cost. Therefore introduction of performance appraisal studies as a regular feature will help the management in transfers, promotions etc.

15) Additional payments and Allowances :- The wage plan should also establish supplementary compensation or fringe benefits, e.g., overtime rates, shift differen-

tials, paid vacations, sick leave, insurance, pension or provident fund benefits etc.

Fringe benefits include paid vacation, profit and bonus, social security payments, welfare cess, employer's contribution under voluntary schemes.

16) Revision of wages :- For revision of wages, a wage committee should always be preferred to the individual judgement, however unbiased, or a manager.

17) Variety of human needs :- The wage and salary payment must fulfill a wide variety of human needs, including the need for self-actualisation. It has been recognised that "Money is the only form of incentive which is wholly negotiable, appealing to the widest possible range of seekers Monetary payments often act as motivators and satisfiers interdependently of other job factors".⁷

18) Hedge against Inflation :- Since 1940, all over the world, inflation has become our permanent though unwanted guest.

Inflation has become a regular feature of our economy. So a sound wage plan must have a provision to prevent erosion of real wages by timing it with the cost of living index.

Workers must be paid dearness allowance for

the increased cost of living. Though it is not a permanent solution of the eroded money value yet it is necessary for the present..

3.5 Advantages of Sound Wage plan :-

The following are certain advantages of sound wage plan -

- i) No chance for favouritism in assigning of wage rates.
- ii) Elimination or reduction of inequities and premium on expertise and efficiency.
- iii) Promotion tree with integrated job sequences and lines of promotion can be clearly and firmly established, easily understandable to all.
- iv) Management can systematically plan for and control labour cost.
- v) In dealing with a trade union the management can explain the basis for wage plan as it is based upon systematic analysis of jobs and wage facts.
- vi) As wage plan is explainable and is based on facts and figures, workers know where they stand. Hence, it leads to increase in labour efficiency, productivity, morale and motivation.
- vii) Friction and grievances over wage inequities are reduced to the minimum.
- viii) It leads to the higher reputation and goodwill

of the organisation.

- ix) Adequate compensation is useful to attract qualified and satisfied labour.
- x) It creates automatic voluntary discipline.
- xi) Due to sound wage plan, it is possible to achieve maximum productivity and profit.
- xii) Smooth management and control is the significant benefit of a sound wage plan.

3.6 Factors affecting wage rates :-

The price to be paid as wage or salary for the utilisation of services of an individual worker or executive is affected by a number of factors as follows :

- A) Demand and Supply :- The wage rates are fixed by the demand and supply of the workers in the labour-market. If labour is in short supply, the workers will offer services only if they are paid well. On the other hand, if labour is plentiful, workers will ready to work even on lower wages.

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."⁸

But in recent years both management and labour

has been becoming less and dependent on this 'law' as a basic factor.

B) Ability to pay :- Wage rates are affected by the ability of the organisation to pay its workers. Those organisations which are earning huge profits may ; naturally afford much better wage rates and more facilities to its workers in comparison to those organisations which are earning only marginal profits. In the short run, the economic influence on the ability to pay is practically nil. In the long run, the ability to pay very important.

C) Bargaining Capacity :- Trade unions do affect rate of wages. A Trade union's bargaining power is often measured in terms of its membership, its financial strength and the nature of its leadership. Collective bargaining can be a useful method if pursued rationally by both the management and unions. It means wages also depend to a considerable extent on the unions and the employers. Where labour unions are strong enough to force the hand of employers, the wages will be determined at a higher level in comparison to the units where unions are weak.

D) Cost of living :- Progressive employers do not leave the wages to be determined by the blind forces of demand and supply. They take due notice of the cost

of living for the workers at that place and try to fix the wages as to ensure a decent living wage, to the workers. Cost of living varies under inflationary and deflationary pressures. Where employers do not show enough awareness, labour unions, if strong, come out with a demand of wage adjustment according to the cost of living index number.

E) State of Competition :- The wage level is also affected by the degree of competition in the market for the products of an industry. In a state of perfect competition (which is hardly ever present) the level of wages may be at par with the value of net addition made by the workers to the total output. If there is imperfect competition in the product market, the wages are not likely to reach this level.

F) Going wages :- This is also known as the 'prevailing market rate' or 'comparative wages', and is the most widely used criterion. Wages paid by other organisations in the same market for similar work also influence the wage levels. 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.

G) Productivity :- Productivity is considered to be

the main basis of wage determination. Productivity 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 productivity 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, although theoretically it is a sound compensation criterion, operationally many problems and complications arise because of definitional measurement and conceptual issues.

H) Job requirements :- A worker is compensated according to the job requirements. Generally, the more difficult a job the higher are the wages. If a job requires higher skill, greater responsibility and risk, the worker placed on that job will naturally get higher wages in comparison to other jobs which do not require the same degree of skill, responsibility or risk.

I) State Regulation :- It was found that the bargaining power of the workers was not strong enough to ensure fair wages. Consequently, the state found it necessary

to step in. To ensure the payment of a minimum wage in certain specified industries and occupation the 'Minimum Wages Act' was passed in 1948. Payment of bonus was made compulsory under the 'Payment of Bonus Act, 1965', and fringe benefits given under the 'Employees State Insurance Act, 1948', and 'Provident Fund Act, 1952' and so on. It means Government has to interfere in regulating wage rates to guarantee minimum wage rates in order to cover essentials of decent living.

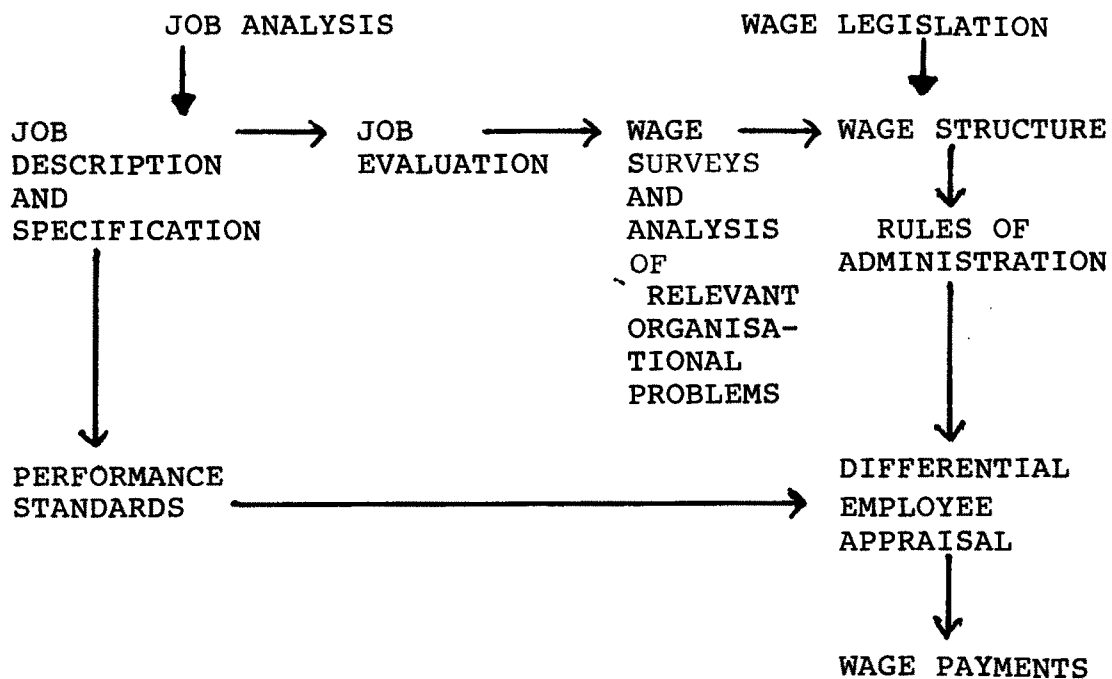
J) Psychological and Social Factors :- Psychologically, persons perceive the level of wages as a measure of success in life, people may feel secure, have an inferiority complex, seen inadequate or feel the reverse of all these. They may or may not take pride in their work, or in the wages they get. Therefore, 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 related 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 condition of equity, fairness and justice, a management should take these factors into consideration while determination of wage rates.

K) Goodwill of the organisation :- Goodwill is an intangible assets. It is the value of reputation.

A few employers want to establish themselves as good employer in the society and fix higher wages for their workers. It attracts skilled and qualified employees.

3.7 The Wage Determination Process :-

The steps involved in determining wage rates are : performing job analysis, wage surveys, analysis of relevant organisational problems forming wage structure framing rules of wage administration, explaining these to employees, assigning grades and price to each job and paying the guaranteed wage.



Steps Involved in Determination of Wage Rate

The process of Job Analysis :- This process results in job descriptions which lead to job specifications. A job analysis describes the duties, responsibilities, working conditions and inter-relationships between the job as it is and the other jobs with which it is associated. It attempts to record and analyse details concerning the training, skills, required efforts, qualification, abilities, experience and responsibilities expected of an employee.

After determining the job specifications, the actual process of grading, rating the job occurs. A job is rated in order to determine its value relative to all other jobs in the organisation which are subject to evaluation.

The next step is that of providing the job with a price. This involves converting the relative job values into specific monetary values or translating the job classes into rate ranges.

Wage Surveys :- Once the relative worth of jobs has been determined by job evaluation, the actual amounts to be paid must be determined. This is done by making wage or salary surveys in the area concerned.

Such surveys seek to answer questions like, what are other firms paying ? What are they doing by way of social insurance ? what is the level of pay

offered by other firms for similar occupations ? etc., by gathering information about 'benchmark jobs', which are usually known as good indicators.

There are various ways to make such a survey. Most firms either use the results of "Packaged Surveys" available from the research bodies, employer's association Government Labour Bureaus etc., or they participate in wage surveys and receive copies of results, or else they conduct their own.

These surveys may be carried out by mailed questionnaire, telephone, or personal interviews with other managers and personnel agencies.

Such wage Surveys provide many kinds of useful information about differences in wage levels for particular kinds of occupation. This can have a great influence of an organisation's compensation policy.

Relevant Organisational Problems :- In addition to the results of job analysis and wage surveys, several other variables have to be given due consideration in establishing wage structure.

For example, where there exists well established and well accepted relationships among certain jobs which can upset job evaluation, whether the organisation would recruit new employees after revised wage structure,

are the prevailing rates in industry or community inconsistent with the results of job evaluation ? What will be the result of paying lower or higher compensation, and what should be the relationship between the wage structure, and the fringe benefit structure ? Such variables can affect levels of compensation and the wage structure.

Preparation of wage structure.

The next step is to determine the wage structure. For this several decisions need be taken, such as -

a) Whether the organisation wishes, or is able, to pay amounts above, below, or equal to the averages in the community or industry.

b) Whether wage ranges should provide for merit increases or whether there should be single rates.

c) The number and width of the 'pay grades' and the extent of overlap.

d) Which jobs are to be placed in each of the pay grades.

e) The actual money value to be assigned to various pay grades.

f) Differentials between pay plans.

g) What to do with salaries that are out of line.

once these decisions have been made.

But there are no hard and fast rules for making such decisions.

Livernash described that, "Broad groups may be illustrated withing manufacturing as : (1) Managerial-executive, administrative, professional and supervisory, (2) Clerical, and (3) Factory, with each broad group, narrower groups are obvious. Within the factory group are maintenance, inspection, transportation and production. Within production are certain smaller groups, varying with the nature of the industry".

This indicates the need for having several pay ranges for each organisation. While determining pay ranges the following consideration should be attended to :

- 1) It is important to keep in mind there is an adequate differential between superiors and subordinates.
- 2) When the pay range of one group is changed equal attention must be given to the pay-level of the other.
- 3) Because of continuous rise in wage and salary levels, a rise resulting from a variety of enviornmental pressures, considerable attention

must be given to handling upward changes in wage structure. The sound thing is to make general adjustments in wage structure according to the price index number.

- 4) The existing pay structure should be regularly reviewed and revised.
- 5) Regional differences in wages should invariably be maintained.

Wage Administration Rules :- The development of rules of wage administration has to be done, after the rate ranges have been determined. Rules have to be developed to determine to what degree advancement will be based on length of service rather than merit, with what frequency pay increases will be awarded, how control over wage and salary costs can be maintained, what rules will govern promotion from one pay grade to another etc.

At the next stage, the employees are to be informed of the details of wage and salary programme. It is considered advisable, in the interest of the concern and the employees, that the information about average salaries and ranges in the salaries of group should be made known to the employees concerned, for secrecy in this matter may create dissatisfaction and it may also vitiate the potential motivating effects of disclosure.

Finally, the employee is appraised and the wage fixed for the grade he is found fit.

3.8 Theories of Wages :-

wages are fixed mainly as a result of individual bargaining, collective bargaining or by public or state regulation. There are various theories, which have been given by economists for the determination of general wages. These theories may be summed up as follows -

i) Subsistence Theory :- This theory, also known as 'Iron Law of Wages' was propounded by David Ricardo (1772 - 1823) . This theory (1817) states that "The labourers are paid to enable them to subsist and perpetuate the race without increase or diminution.

According to this theory wages tend to settle at a level just sufficient to maintain the worker and his family at minimum subsistence. The supply of labour, increases and the wages come down to the subsistence level. If the supply of labour is decreased and the wages again raise to the subsistence level. This prevails backward countries.

The theory is based on the assumption that labour is in fact a commodity which can be brought and sold like other commodities.

ii) Residual claimant Theory :- This theory has been

advanced by the American Economists Francis A Walker (1840-1897) . According to him, there were four factors of production / business activity namely, land, labour, capital and entrepreneurship. Wages represent the amount of value created in the production which remains after payment has been made for all these factors of production. In other words labour is the residual claimant.

But this theory also has been rejected by most of economists.

iii) Wages Fund Theory :- This theory was developed by Adam Smith. His basic assumption was that wages are paid out of a pre-determined fund of wealth which lay surplus with wealthy persons - as a result of savings.

This fund could be utilised for employing labourers for the work. If the fund was large, wages would be high, if it was small, wages would be reduced to the subsistence level. The demand for labour and the wages that could be paid them were determined by the size of the fund.

iv) The Surplus Value Theory of Wages :- This theory owes its development to Karl Marx (1849-1883). According to this theory, the labour was an article of commerce, which could be purchased on payment of 'Subsistence price'.

The price of any product was determined by the labour time needed for producing it. The labourer was not paid in proportion to the time-spent on work, but much less, and the surplus went to the owner, to be utilised for paying other expenses.

v) Marginal Productivity Theory :- This theory was developed by Phillips Henry Wicksteed (England) and John Bates Clark (USA). According to this theory, wages are based upon an entrepreneur's estimate of the value that will probably be produced by the last or marginal worker.

This theory also known as the general theory of distribution. Since it is applicable to the all factors. According to this theory the wage rate is determined by the marginal productivity of the worker. In the production the main objective of producer is to maximise profits. In this connection utilises that factor for which price is low as he increases this factor after a stage the marginal productivity decreases. At one state it is equal to the price of it. Then he stops using this factor and substitutes other cheaper factor, when the profits are maximum, when the marginal productivity of all the factors is equal to the respective prices.

vi) The bargaining Theory of Wages :- John Davidson propounded this theory. Under this theory, wages are

determined by the relative bargaining power of workers or trade unions and of employers. When a trade union is involved, basic wages, fringe benefits, job differentials and individual differences tend to be determined by the relative strength of the organisation and the trade union.

vii) Behavioural Theories :- Many behavioural scientists notably industrial psychologist and sociologists like Marsh and Simon, Robert Dubin, Eliot Jacques have presented their view on wages and salaries, on the basis of research studies and action programme conducted by them. Briefly such theories are -

The employee's Acceptance of a Wage Level :- This type of thinking takes into consideration the factors which may induce an employee to stay on with a company. The size and prestige of the company, the power of union, the wages and benefits that the employee receives in proportion to the contribution made by him all have their impact.

Wage and Salary motivators :- Money often is looked upon as means of fulfilling the most basic needs of man. Food, clothing, shelter, transportation, insurance, pension plans, education and other physical maintenance and security factors are made available through the purchasing power provided by monetary income-wages and salaries. Merit increases, bonuses based on performan-

ce, and other forms of monetary recognition for achievement are genuine motivators. However, basic pay, cost of living increases, and other wage increases unrelated to an individual's own productivity typically may fall into maintenance category.

3.9 Components of Wages :-

Conceptually there is no difference between Salary and Wages. Both are compensation for work done or services rendered, though ordinarily salary is paid in connection with services of non-manual type of work, while wages is paid in connection with manual service. Therefore, remuneration received by an individual / employee is termed as salary or wages.

The term salary or wages includes the following items -

- i) Basic pay.
- ii) Any annuity or pension.
- iii) Any gratuity.
- iv) Fees, Commission.
- v) Bonus.
- vi) Any advance of salary.
- vii) Any arrears of salary,.
- viii) Any payment received by an employee in respect of any period of leave and not availed by him.
- ix) Dearness Allowance, city compensatory Allowance,

Education Allowance, Medical Allowance, Wardner-ship Allowance, Project Allowance etc.

- x) Entertainment Allowance.
- xi) Taxable portion of House Rent Allowance.
- xii) Taxable portion of Conveyance Allowance.
- xiii) Employers contribution to Recognised Provident Fund over 10% of Salary of an employee.
- xiv) Interest on accumulated balance or Recognised Provident Fund over 12% rate.
- xv) Transferred balance in a Recognised Provident Fund from Unrecognised Provident fund fund to the extent of employers share therein and interest thereon.
- xvi) Compensation on termination or dismissal.
- xvii) Value of rent free accommodation or at concessional rate.
- xviii) Annuity contribution or insurance premium or any other obligation of employee paid by employer on behalf of an employee.
- xix) Employer's share in the accumulated balance of Unrecognised Provident Fund and interest thereon (when received by the employee).
- xx) Education expenses on employee's family members paid or reimbursed by the employer.
- xxi) Valuation of motor car provided by employer.
- xxii) Value of gas, electricity, water provide free of cost or reimbursement of expenses.

- xxiii) Value or Education facilities provided to the family members of employee, in case the education institution is run by employer.
- xxiv) Value of free lunch supplied by the employer.
- xxv) Wages of sweeper, watchman, gardner paid by the employer to the prescribed limits.
- xxvi) Discount on shares issued at discount by the employer company to the employee.
- xxvii) Interest on interest free loan / advance given by the employer to the employee.
- xxviii) Overtime payments.

These items of salary or wages are described below.

Basic Pay :- Wages may be paid at hourly, daily or monthly rate. The basic wages is computed by multiplication of hours attended with the rate per hour or if the rate is presdcribed per day, then by multiplying the number of days attended in month or week with rate.

Pension :- "Pensiion is a periodical payment received by an employee after his retirement and is taxed as salary".⁹ A similar rule is applicable in the case of pension paid by foreign Government to its employed serving in India. While pension earned and received abroad but later on remitted to India is exempt from tax in the case of a non resident and a resident but

not ordinarily resident, it is chargeable to tax if the pensioner is resident and ordinarily resident.

Annuity :- Any annuity received by an employee is chargeable to tax under the head 'Salaries' only when they are paid by the employer either voluntarily or out of contractual obligations.

An annuity received from an ex-employer is taxed as profit in lieu of salary.

Gratuity :- Gratuity is either paid to an employee on his retirement or on his becoming incapacitated or on termination of his employment, or to his family members on his death. While paying gratuity, the employer takes into consideration the length of service of the employee. Longer the services, more is likely to be the amount of gratuity to be paid to the employee or his family members. If the gratuity is paid to an employee while he continues to remain in service of the same employer it is not exempt from tax.

Fees and Commission :- If the terms and conditions of service are such that commission is paid as bounty benefit but is paid as part and parcel of the remuneration for services rendered by the employee, such payment would be in the nature of salary rather than a benefit or perquisite. For example, if an employee is appointed on a fixed monthly remuneration plus a commission of

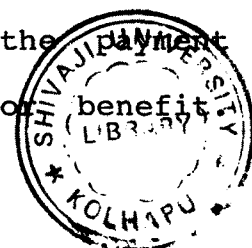
2% on sales, the commission being part of his remuneration.

If however, on the terms and conditions of service either there is no obligation on the employer to pay the commission or it is matter purely at the discretion of the employer, such payment would be treated as a benefit by way of addition to salary rather than in lieu of salary. In short, fees and commission are taxable as salary irrespective of the fact that they are paid in addition to or in lieu of salary.

Bonus :- The payment of bonus will be treated as salary and not as a benefit or perquisite in the following type of cases :

- a) Payment of bonus made under a service agreement between the employer and the employee.
- b) Bonus paid under the payment of Bonus Act, 1965.
- c) Bonus paid in accordance with the decision of a trade association which is binding on its members.
- d) Bonus paid as an award by a Labour Tribunal where the award is binding on the employer and the employees.

If the bonus is paid gratuitously without there being any legal or contractual obligation, the payment will be in the nature of a perquisite or benefit.



Advance Salary :- Advance salary is taxable on receipt basis in the assessment year relevant to the previous year in which it is received.

Arrear Salary :- It is taxable on receipts basis, if the same has not been subjected to tax earlier on due basis.

Leave Salary :- If an employee does not avail his earned leave and receives payment in respect of any period of leave not availed of by him, while he continues to remain in service, it is taxable. However, if he receives such payment on retirement or resignation it will be exempted as provided in section 10 (10 AA) of the Indian Income Tax Act, 1961.

Dearness Allowance and Dearness Pay :- As is clear by its name, this allowance is paid to compensate the employees against the rise in price level in the economy. Dearness allowance is generally linked with price index numbers. Dearness allowance may of course be paid in other ways, such as at a flat rate or as a percentage of the basic pay.

When a part of Dearness allowance is converted into Dearness pay it becomes a part of basic salary for grant of retirement benefits etc, and is assumed to be given under the terms of employment.

City Compensatory Allowance :- This allowance is paid to such employees who are posted in big cities. The idea is to neutralize, the high cost of living in cities like Delhi, Calcutta, Madras, Bombay, Pune etc.

However, city compensatory allowance is fully taxable.

Children Education Allowance :- Such allowance granted to an employee to meet the education expenses of his children.

Maximum amount exempt from such allowance is Rs. 50/- per month per child up to a maximum of 2 children.

Medical Allowance, Wardnership Allowance, Project Allowance :- The employee may receive from his employer medical allowance, wardnership allowance, project allowance which are fully taxable.

Entertainment Allowance :- This allowance is ordinarily, paid to senior officers to enable them to entertain the visitors coming for official purposes.

House-Rent Allowance :- "Most of the government and private employees, who are not provided with housing accommodation are in receipt of house rent allowance. The amount of this allowance differs from place to place. Such allowance is exempt from tax upto certain

limit only, the rest, if any, is taxable".¹⁰

Conveyance Allowance :- Any allowance granted to meet the expenditure incurred on conveyance in the performance of duties of an office or employment of profit, at that time it is necessary to deduct actual expenditure from such allowance, and only taxable portion is included in the term 'salary'.

Recognised Provident Fund :- It means a fund which has been continued to be recognised by the commissioner of Income Tax. The funds which are instituted under the 'Employees Provident Fund Act, 1952.' are also included under this category.

Following are the important provisions -

- I) Employee's contribution is included in the salary income.
- II) Employer's contribution upto 10% of the salary is not included in the salary income. Excess over 10% is to be included in the salary income.
- III) Interest on the accumulated balance of the fund is not included in the salary income, if the rate of interest does not exceed 12%. Any excess over this rate is included in the salary income.
- IV) Employee's contribution qualifies for tax rebate u/s of 88 of the Income Tax Act.

Unrecognised Provident Fund :- Any fund which is neither a statutory provident fund nor a provident fund recognised by the chief commissioner or commissioner of Income Tax, is known as unrecognised provident fund. Such a fund is normally maintained by the private employers.

The balance transferred from an unrecognised provident fund to a recognised provident fund when the former is recognised by the chief commissioner or commissioner of Income Tax.

Compensation for loss of Employment :- If the job of an employee is terminated (retirement, break in service, resignation or death) and as a result of this the employer pays him some compensation for loss of employment, the amount so received by the employee becomes taxable in his hand. In fact, such amount should be treated as a capital receipt but the Act treats it as a profit in lieu of salary. It is immaterial whether such compensation is received from the present or from the former employer, or whether it is received for loss of employment or due to some change in the terms and conditions of service.

Value of Rent free accommodation :- Perquisites may be provided in cash or in kind.

A) Unfurnished accommodation :-

i) Government employees :- The value will be taken

equal to rent which would have been determined as payable by the concerned employee in accordance with Government rules.

ii) Semi-Government Employees :- The value will be taken at 10% of the salary, irrespective of fair rent of the accommodation.

However, where the employee pays rent equal to 10% of his salary, value is nil and pays less than 10% the difference between 10% and actual payment is treated as value.

iii) Private Sector employees :- Value of free accommodation is taken at 10% of salary or fair rent whichever is less so long as fair rent does not exceed 50% of salary. If fair rent exceeds 50% of salary, the valuation is

| | Rs. |
|---|---|
| 10% of salary | --- |
| Add : Excess of fair rent over 50% of salary | --- |
| = Value of free accommodation | <hr style="width: 100%;"/> <hr style="width: 100%;"/> |

(In the cities of Mumbai, Calcutta, Delhi and Madras instead of 50% Excess of fair rent over 60% is to be considered).

a) Fair rent :- Rent for which the house is likely to be let out or Municipal valuation whichever more. In it add salary of a gardner if any, expenses of

maintenance of garden.

b) Meaning of salary :- For this purpose, salary includes basic pay, all taxable allowances, commission, fees, income tax, professional tax, electricity, gas water bills etc. paid by the employer.

However salary does not include Dearness allowance if it does not enter into computation of superannuation or retirement benefits of the employee, Employers contribution to provident fund, allowances which are exempt from tax, Entertainment allowance to the extent of exemption limit, value of free use of motor car etc.

B) Value of furnished Accommodation :-

- i) First value of house as if unfurnished and then,
- ii) Add 10% of the cost of furniture television, other appliances etc, supplied by the employer.

Valuation of Accommodation at concessional rent :-

If the accommodation provided to the employee is not rent free but is subject to payment of a lower rent than the fair rent value, the valuation will first of all, be made on the lines as if the accommodation were rent free. After determining the value in this manner the rent paid by the employee will be deducted therefrom and the balance will be added to his salary income as the value of concession.

Annuity Contribution :- Any sum payable by the employer, whether directly or through a fund, other than a recognised provident fund or an approved superannuation fund to effect an assurance on the life of the employee or to effect a contract for an annuity, is included in the salary of an employee.

Obligation of the Employer :- Any sum paid by the employer in respect of any obligation which, otherwise would have been payable by the employee, is included in the salary of an employee.

Payment from an Unrecognised provident fund :- Any payment received by the employee from an unrecognised provident fund is also taxable to the extent of employers contribution and interest thereon. The accumulated balance of a provident fund consists of the employee's own contribution plus interest thereon and the employers contribution plus interest thereon.

In the case of an unrecognised provident fund, employee's contribution is taxed from year to year but the employers contribution and interest thereon and interest on the employee's contribution remain untaxed during the time the fund remains in operation. So when the accumulated balance of a such a fund is paid to the employee either on retirement or on termination of service, the untaxed portion i.e., the employer's

contribution and interest thereon is taxed as 'profit in lieu of salary'. The interest on employee's contribution is taxed as 'Income from other sources'.

Education expenses on employee's family members :- Amount paid by the employer to the education institute for the education of family members of an employer, or re-imburement of such expenses is taxable in all cases.

But amount spent for providing education facilities to, and training of the employee is not taxable.

Value of use of Motor Car :- When the car is provided by the employer

i) If the car is provided by the employer exclusively for the personal use of the employee and its running and maintenance expenses are met by the employer, then the depreciation on such car and the entire expenses borne by the employer will be the taxable perquisite in the hands of 'specified employees' only.

ii) If the car is provided by the employer exclusively for official use, there will be no taxable perquisite in the hands of the employee.

iii) If a small or medium sized car not exceeding 16 H.P. rating is provided by the employer partly for private use and partly for official use of the employee and the entire expenses of running and maintenance

of the car are met by the employer, the value of taxable perquisite will be taken at Rs. 300 per month. In the case of a car exceeding 16 H.P. rating the value of perquisite will be Rs. 400 per month.

iv) Where the car is provided by the employer but the entire expenses of running and maintenance of the car relating to the private use are met by the employee himself the value of perquisite will be Rs. 100 per month (car not exceeding 16 H.P. rating) and Rs. 150 per month (car exceeding 16 H.P. rating) respectively.

The following table will clear the picture.

| Sr.No. | Particulars | H.P. Not exceeding 16 | H.P. exceeding 16 |
|--------|---|-----------------------|-------------------|
| 1. | When all expenses are paid by the employer. | Rs.300p.m. | Rs.400 p.m. |
| 2. | When all the expenses are paid by employee. | Rs.100p.m. | Rs.150 p.m. |

If a car driver is also provided and his salary is paid by the employer, the value determined as above is to be increased by Rs.150 per month. It is, therefore, to be noted here that the salary paid by employer to a car driver may be quite high but the taxable perquisite in the hands of the employee is a fixed amount of Rs.150 per month.

Free supply of Gas, Electricity and Water :- The value of these amenities is taxable in the hands of 'Specified employees', if connection is taken in the name of the employer.

i) If the employer pays the bill for supply of gas, electricity and water to the employee the amount paid by the employer is to be taken as the value of these items.

ii) If the employee uses these items for office duty also, the value to be taken will be the amount paid by the employer to the supplying agency or 6.25% of basic salary of the employee, whichever is less.

iii) If the supply of these items is made by the employer from his own sources without purchasing from any outside agency, the value is taken as NIL.

Education facilities provided to the members of the employee's family :- If the educational institution is run and maintained by the employer for the benefit to the members of the employee's family, the value of perquisite will be determined on the basis of reasonable cost of such education in similar institution in or near the same locality. But this perquisite will be taxable in the hands of 'Specified employees' only.

Free Lunch :- Such perquisite taxable in the hands of 'Specified Employees'. The value of subsidized lunch or dinner provided during working hours, is to be included in the salary.

Sweeper, Watchman, Gardner provided by the employer:-

If the employer provides the services of sweeper, watchman, gardner to the employee, the value of taxable perquisite will be determined as follows.

i) In the case of sweeper :- 75% of actual wages of the sweepr paid by the employer or Rs.60 per month, whichever is less (taxable in the case of 'Specified employee's only).

ii) In the case of watchman :- 50% of actual wages paid by the employer or Rs. 60 per month, whichever is less (taxable in the case of 'Specified employee's' only).

These rates are applicable where the accommodation provided to the employee is rent free and is owned by the employer and the sweeper and watchman are provided for proper upkeep of the accommodation. However, if no accommodation is provided by the employer or the accommodation provided is a hired one, then the value of perquisite will be the amount actually paid by the employer for the wages of sweepr or watchman.

iii) Gardner :- (a) Where the gardner is provided for the proper upkeep of a house which is owned by the employee, the whole salary of the gardner paid by the employer will be taxable perquisite in the case of all categories of employee.

b) Where the employer has hired a house for his employee and also provides a gardner for its proper upkeep, the entire salary of the gardner paid by the employer will be a taxable perquisite in the case of 'Specified assessees' only.

c) Where the house provided to the employee is rent free, and is owned by the employer and a gardner is provided for the proper upkeep of the house, the salary paid to the gardner by the employer will be included in the fair rent of the house for the purpose of valuation of the taxable perquisite in respect of rent free accommodation.

Shares Issued at a concessional price : "Where shares are issued by the employer at a price lower than the market price, the difference between the market price, the and the price charged from the employee is a taxable perquisite in the hands of 'Specified employees' only."¹¹

Interest on interst free loan :- If the employer provides interest free loan to the employee, and interest on such loan is borne by the employer, the amount of such

interest is to be included in the term salary of an employee.

Overtime payments :- For extra hours worked beyond normal working hours, the employee is entitled for a compensation at a rate bigger than his basic hourly rate. It is usually double rate (Double of the hours basic rate and dearness allowance). The total amount of money is obtained by multiplying total overtime hours by the enhanced hourly rate.

Deductions :-

i) Income Tax :- Income tax due from an employee for the earned by him is deducted from his wages at source, by the employer for remittance to the income tax department.

ii) Contribution to provident fund :- If the employee comes with in purview of employees provident fund scheme an amount-at prescribed rate shall be deducted from his wages and deposited in the provident fund account.

iii) Life Insurance Premium :- Under pay roll deduction scheme, if it is in operation in the organisation, the amount of premium can be deducted from the wages of an employee under his instruction and remitted to the concerned Life Insurance Corporation Office.

iv) Employee's State Insurance :- If an employee becomes member under the scheme, an amount of 2½ percent of his wages (Basic + D.A.) will be deducted and remitted to the 'employee's state insurance organisation'.

v) House Rent :- Rent at stipulated rate for the house occupied by the employee in the organisations quarters may be deducted from his wages periodically.

vi) Repayment of Advance and Loans :- The advance paid to the employee is deducted from the subsequent wages. Loans taken from the provident fund or Bankers will be deducted from the wages through instalments.

vii) Tax on employment :- Any sum payable by an employee on account of the tax on employment (i.e. Professional tax) which is levied by a State Government, can be deducted from the wages of an employee, by the employer for remittance to the State Government.

3.10 Systems of wages payment :-

1. Time wage system :- This is the oldest and the most common method of fixing wages. Under this system, workers are paid according to the work done during a certain period of time, at the rate of so much per hour, per day, per week, per fortnight or per month or any other fixed period of time. Time wage is also called 'day work system'.

The essential point is that the production 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.

The payment of the wage may be made at the end of the day, the week, the fortnight or the month, according as is mutually agreed, provided that not more than one month must elapse between two wage periods (Section 4 Payment of Wages Act 1936).

Chief Features of Time Wage :-

- i) It is more widely used and it is very simple.
- ii) It facilitates payroll function.
- iii) Computation of earnings is quite easy.
- iv) It provides guaranteed and secured income.
- v) It is very suitable for pioneering work.

Advantages of Time Wage :-

- i) Greater care and attention on quality and workmanship can be ensured.
- ii) Worker know exactly the amount he is to get..
- iii) Sense of security of income - regular and stable.
- iv) Conducive to harmony and better labour-management relations.
- v) It requires less administrative attention.
- vi) The system is favoured by organised labour.
- vii) Simplicity is the greatest merit of time wage

system.

- viii) As all the workmen employed for doing a particular kind of work receive the same wages, ill-will and jealousy among them are avoided.
- ix) It is the only system that can be used profitably where the output of an individual workman or groups cannot be readily measured.

Conditions Favouring Time Wage System :- Time wage is preferable and it is always a practical proposition under the following condition :-

- i) The amount of output cannot be accurately measured counted and standardised.
- ii) Volume of work is not always within the control of labour.
- iii) If speed of work is risky and we want to minimise risks of accidents.
- iv) When workers are new and learning the job or trade.
- v) When it is difficult to fix the unit of output, e.g. clerical work.
- vi) When quality of work assumes special importance.
- vii) When competitive conditions and cost control do not require precise advance knowledge of labour cost per unit of output.
- viii) When employees have little control over the quantity of output e.g., automation or computer controlled industry.

- ix) When supervision is good and supervisors know what constitutes 'a fair day's work'.

Disadvantages of Time Wage System :-

- i) It does not discriminate between the efficient and inefficient worker and between the honest worker and the shriker. In other words, it offers no positive inducement to the worker to improve his performance.
- ii) As both good and bad workers are paid alike, the system "repress the superior man", for there is no incentive to hard work.
- iii) The time basis provides no basis to reward the good worker and punish the loafer. In fact the system tends to place a premium on inefficiency.
- iv) The system encourages "Soldiering".
- v) It offers too much of security to workers.
- vi) From the point of view of the employer, it creates difficulties in the calculation of the labour cost and the cost of production per unit. The output may be fluctuating for some amount of wages.
- vii) . The system permits many a man to work at a task for which he has neither taste nor ability, when he might make in some other suitable job.
- viii) Trade unions are often opposed to this system,

for it encourage rivalry among workers and endangers their solidarity in labour disputes.

2) Piece-Wage System :-

Under this system, a worker is paid for the amount of work performed rather than for the time spent on the job. The basis of pay in this system is the output or production. Piece work is one of the simplest and most commonly used of all incentive plans. Piece wage system is also called "Commission system".

The system is adopted generally in jobs of a repetitive nature. The piece may be counted in units, kilo's or dozen's. The wage payable to a worker under this system is calculated by multiplying the number of products by piece rate. In other words, the wages of a worker = $N \times R$ where 'N' is the number of units of product produced and 'R' is the wage rate per unit of product. If a worker produces 20 units when the piece rate is Rs. 3/- per unit, the total wages will be $20 \times 3 = \text{Rs. } 60/-$.

Chief features of piece wage system (With base rate):-

- i) It can offer direct connection between effort and reward.
- ii) It can ensure adequate planning and close control over labour cost, wage cost determination is easy.

- iii) It is an ideal system of wage payment, because it is beneficial to all - more wages, more profit, lower unit cost of labour etc.

Advantages of piece wage system :-

- i) It is simple and easy to understand.
- ii) Direct connection between effort and reward gives incentive to produce more.
- iii) It is fair in its rewards, since earnings are directly proportional to output.
- iv) Strict supervision is not necessary under this system.
- v) The cost can easily be calculated for the preparation of estimates, etc., because the cost of labour per unit is constant.
- vi) Specialised industry with huge capital investment expect maximum output. Piece wage system is the best method of maximise output.
- vii) Since payment is based on results of efficiency, this system recognises merit. It is therefore more equitable than the time-rate system.

Conditions Favouring Piece Wage System :-

Piece wage system is suitable under the following conditions.

- i) If the output of work can be accurately measured, standardised and counted.

- ii) If productivity is closely related to skill and effort.
- iii) If the unit costs of labour can be easily determined and controlled.
- iv) If there is no fear of unwarranted rate cutting by the management and employer realises distinct advantage of piece work.
- v) If labour offers full co-operation.

Disadvantages of piece wage system :-

- i) Danger of overtime in temptation to earn more. This leads to excessive fatigue, ill health and risk of accident.
- ii) If quality is given top performance, it is and ineffective method.
- iii) In the absence of mutual confidence, fixation of piece wage rate is difficult.
- iv) To ensure proper quality of production rigid inspection and quality control become necessary.
- v) Labour unions oppose it on ethical grounds, because it creates greed and unhealthy rivalries born out of suspicion and jealousy among the workers. Politically, too, piece rates weaken labour unions.
- vi) The setting of piece rates may itself become a controversial issue which may spoil industrial relations.

vii) It involves the maintenance of elaborate production records and pay-rolls.

3) Balance and Debt system :- This is a 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 balance, i.e. the 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 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 incentive to attain the same standard, even though the excess paid to them is later deducted from their future credit balance.

3.11 Wage Plan Package :-

- 1) Job Evaluation :- It will rate the job, establish differential base rate for jobs of varying skill and responsibility.
- 2) Incentive Plan :- wage incentive plan alone can offer higher productivity and labour efficiency. It can give premium on performance or competence.
- 3) Performance Appraisal :- Alongwith wage incentives it will rate the employee in terms of his individual performance and gives him more in the form of pay rise, promotion, merit reward etc.
- 4) Profit sharing :- It will rate the company in terms of its general economic performance and reward the workers as partners in the enterprise.

Job evaluation, wage incentive cum merit appraisal and profit sharing together constitute the best foundation of a complete wage programme.

Each can contribute something to the employee's economic reward. All are complementary because each reflects different set of incentive factors in the total economic situation.

Base wages will cost of living adjustment offer adequate security for real wages for a certain period. Merit wages through performance appraisal act as

incentives to improve certain performance factors on one's job profit sharing motivates towards team work and creative thinking and competitive position of the firm can improve.

3.12 Administration of Wages and Salaries :-

Wages and Salary administration should be controlled by some proper agency. This responsibility may be entrusted to the personnel department or the general organisation or to some job executive. Since the problem of wage 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 committee are :-

- i) Approval and or recommendation to management on job evaluation methods and findings.
- ii) Review and recommendation of basic wage and salary structure.
- iii) Help in the formulation of wage policies.
- iv) Co-ordination and review of relative departmental rates to ensure conformity.
- v) 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 surveys in an Industry and for a review of present wage rates, procedure and policies.

Alternatively, the over-all plan is first prepared by the Personnel Manager in consultation and discussions with senior members of the departments. It is then submitted for final approval of the top executive. Once he has given his approval, for the wage and salary structure and rules for administration its implementation becomes a joint effort of all heads of the departments.

The actual appraisal of the performance of subordinates is carried out by the various managers, who in turn submit their recommendations to higher authority and the latter, in turn, to the personnel department. The personnel department ordinarily review recommendations to ensure compliance with established rules of administration. In unusual cases of serious disagreement, the president makes the final-decision.

3.13 Importance of Wage Policy :-

The question of wages is a considerable importance not only as part of the problem of raising the standard of living and the per capita income but also by itself as a tool to achieve increased production, other problems like production cost, productivity, sales price of goods, profit and industrial relations etc., depend

on this. As a matter of fact wages from the pivot round, which most of the Labour Problems solve.

A sound and rational wage policy is essential for a country both on social and economic grounds. In the absence of such a policy, the workers may be exploited and made to work at unreasonably low wage levels. This may lead to discontent among the workers which may intensify the class conflict in the society. Because of all the problems encountered by the employees, the most pressing and persistent problem is that of remuneration in the form of wage / salary.

Moreover, it will be the negation of the basic principles of social justice to keep the vast majority of the working population at sub-human levels of existence. Even from the purely economic standpoint, low wages will affect the efficiency of the workers leading to poor levels of output. It will, therefore, be worthwhile to examine the various concepts of wages with a view to determining a level of labour remuneration which will meet the ends of social justice and will also be justifiable on economic grounds.

Three concepts of wages are commonly used in discussions on wage policy : (i) Minimum wage. (ii) Fair wage, (iii) Living wage. They are broadly based on the needs of the workers and the capacity of the employers

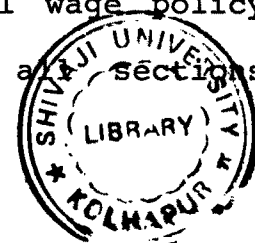
to pay, as also on the general economic conditions prevailing in a country.

The importance of wage policy may be judged from the following categories.

I) To the Employee :- The remuneration or earnings primarily determine his standard of living because it is a means of purchasing power representing his effective demand. In a monetary economy, he can enter the circle of exchange (Market) to satisfy his wants according to certain general standards. In absence of adequate social services and social security (which provide indirect benefits), wage problem is of vital significance and that is why most of the labour disputes centre round the problem of wages, dearness allowance and bonuses.

II) To the Employer :- Wages constitute one of major elements in the cost of production and or distribution. The employer is interested in controlling and reducing labour cost per unit of output (unit of product or service). Then again labour efficiency is mainly determined by the level of wages and salaries in the employment market.

III) To the Government :- "The Government is also interested in the determination of national wage policy because it can ensure social justice for all sections



of the community".¹²

Welfare measure providing better working and living conditions cannot solve the economic problem unless the guarantee of reasonable remuneration is offered to the workers and which alone can provide the sound foundation for peaceful industrial relation and for the economic prosperity of the country.

In short, the labour cannot offer willing co-operation and take the place as a partner in programmes of national economic development without the assurance of fair remuneration in the form of wages and salaries.

3.14 Wage Policy in India :-

The need for a well-conceived and effective wage policy has been felt in India for a long time in the past. With a large working force that outnumbered the demand for labour from industry, the Government naturally felt worried over the miserably low remuneration at which workers were available to industry.

In 1928 the International Labour Organisation adopted the Draft Convention on Minimum Wage Fixing Machinery. This lent further strength to the demand for minimum wages.

In 1931, the 'Royal Commission on Labour' made a reference to the low earnings of the workers in the

country. It didnot, however, favour the setting up of the minimum wage fixing machinery in organised and other industries without undertaking certain preliminary enquiries to ascertain the desirability of such a step. If, on the basis of such enquiries conditions of sweating and low wages were found prevalent in the industry the commission for the establishment of a minimum wage Fixing Machinery and to ratify the Draft Convention of the I.L.O. in this regard.

'The Royal Commission on Labour' referred to the irregularities and malpractices in regard to the payment of wages to industrial workers, and recommended the enactment of suitable legislation to combat these evils which included irregular payment of wages, unfair deductions etc. In the year 1936, 'The Payment of Wages Act' was passed, it came into force in March 1937. The act applies only to those workers whose earning are less than Rs. 400/- per month. It requires that the wages should paid not later the seventh day of month if the number of workers employed is less than 1,000 and the tenth day of every month in other cases and that the wage interval must not exceed one month. The Act prohibits and delay in or withholding of the payment of wages. No deductions except those authorised by the Act can made out of the wages.

During the Second World War, prices soared high and there was a meteoric rise in the cost of living. The Government of India appointed 'The Labour Investigation Commission in 1944' to collect statistical data about the earnings of the workers. The findings of the commission revealed the low earnings of the labour in practically all industries of India except for cotton textile industry in Ahmedabad where wages were found standardised. Recommendations advocating the fixation of minimum wages were made practically by all the important committees and bodies appointed by the Government during the inter-war and post-war periods. Notable among such committees were the 'Bihar Labour Enquiry Committee (1938-40)', 'The Rau Court of Enquiry for Railwaymen (1940)', the first 'Central Pay Commission (1946)' and the 'Uttar Pradesh Labour Enquiry Committee'.

Due to labour trouble and unrest in the country immediately after independence, the Government of India passed the 'Industrial Disputes Act of 1947', authorising all State Governments to establish Industrial Tribunals and to deal with all types of disputes including those relating to wages.

The Committee on Fair Wages :- In its first statement on Industrial Policy issued on 6th April, 1948, the national Government accepted the recommendations of the Tripartite Industrial Conference held in December

1947, regarding the need for paying fair wages to labour. In 1948, a Tripartite Committee on Fair wages was appointed. The Government the employers and workers were given representation on the committee. It examined the question of fair wages at length and adopted its draft report on the 7th June 1949. The fair wages committee recommended that the "Minimum wage should represent the lower limit of the fair wage, the upper limit being the capacity of industry to pay".¹³ Between these two limits, the committee suggested that the fair wage should depend upon (a) Productivity of labour. (b) Prevailing rates of wages in the same and similar occupations in the same neighbouring localities. (c) Level of the national income and its distribution. (d) Place of the industry concerned in the economy of the country.

The committee further recommended that the wage fixing machinery should relate a fair wage to a fair load of work, and that fair wages should be determined on an industry cum region basis. It was of the view that there should be progressive improvement in the fair wage depending on improvement in the economic-conditions in the country and of the industry concerned. The commission suggest that wage boards should be set up by the State Government concerned and that regional boards for each industry for wage regulation should also be established according to requirements. The principles evolved by the committee

accepted by all the wage fixing authorities. Non statutory Boards were appointed by the Government for various Industries.

'The Minimum Wages Act 1948' :- The Act empowers the Central and State Governments to fix minimum rates of wages and to revise such wages from time to time in respect of schedule employments. The State Government are required to appoint Advisory Boards for fixing minimum wages, and there is to be a Central Advisory Board to advice of the State Advisory Boards. All these bodies are to consist of an equal number of employer's and employee's representatives, and of independent persons not exceeding one-third of the total number of members. The Act was a positive step in the direction of guaranteeing decent wages to the exploited workers.

The acceptance of certain norms by the Indian Labour Conference for the fixation of minimum wages has also proved quite helpful in bringing about a certain deal of uniformity in wage rates over different states or different industries in the same state. The awards given by the labour courts, industrial tribunals and conciliation courts have also made a significant contribution towards this goal.

The Constitution of India, which came into force on 26th January, 1950, has given due



the question of wage policy. Article 43 lays it down as a directive principle of state policy that "the State shall endeavour to secure to all workers a living wage, conditions of work ensuring decent standard of life, full-employment, lesiure and social and cultural opportunities."¹⁴ In the year 1955, the Government of India formally ratified the I.L.O. Convention No.26 concerning Minimum Wage Fixing Machinery (Industry) 1928.

Norms for fixing wages :- As its 15th session in 1957, the Indian Labour Conference acceted and commended the following norms as a guide for all wage fixing authorities.

- i) The standard working class family should be regarded as comprising three consumption units, while calculating minimum wages.
- ii) The minimum food requirements should be calculated on the net intake of calories recommended by Dr. Aykroyd.
- iii) Clothing requirements should be calculated at the per capita consumption rate of 18 yards. (52 yards for the standard family of 4 persons).
- iv) The rent corresponding to the area provided for under the Government Industrial Housing Scheme should be taken into consideration in fixing minimum wages.

- v) Fuel, lighting and other miscellaneous items of expenditure should constitute 20% of the total minimum earnings.

Wage Policy under Five Year Plans :- The Five Year plans have been devoting the necessary attention to the problem of wage policy. In fact, the evolution of wage policy in the country has benefited considerably from the guiding principles laid-down in the three plans.

The 'first Five year' plan' recognised the workers claim to their due share in the national Income. The plan laid down that the process of standardising wages should be accelerated and recommended the establishment of permanent wage boards in each state and at the centre to collect data and review the situation about the wages from time to time.

The 'Second Five Year Plan' recognised the workers right to fair wages but regretted that it could not be achieved in the present economic-condition of the country. The plan further recommended that a wage census should be conducted to provide statistical data for the purpose of fixing fair wages for various industries.

The 'Third Five Year Plan' re-emphasised the objective of the Government to secure Fair wages to every worker. Statistical studies for the purpose of

evolving a better wage policy are proposed to be made during the plan period.

3.15 Wage Boards :-

A wage board is a tripartite body with representatives of management, and workers , presided over by a Government nominated Chairman who can act as an umpire in the event of disagreement among the parties. The Board is required to fix wages in accordance with the norms of wage fixation. The wage Boards help to resolve the disputes in a democratic manner by bringing the parties together, without compulsion on either side. It may, however, be pointed out that a wage Board can only make recommendations, as there is no legal sanction behind it. But for all practical purposes, a Boards recommendations are regarded as awards, and if unanimous, are made binding on the parties. The First Wage Board was set up in 1957 in the Cotton Textile Industry. Following this, wage Boards were set-up for working journalists, sugar, cement, jute, tea plantation, rubber and coffee, coal mining, iron and steel, road transportation and electricity undertakings.

In recent years, wage boards have come in for a good deal of criticism. The main points on which the criticism rests are :

- a) The recommendations have no legal sanction and therefore, may or may not be accepted.

- b) Generally, the recommendations of wage boards are compromises and, as such, these do not result in a consistent long range policy.
- c) In cases where the Government enacts legislation to give effect to their recommendations, it will bring back the element of compulsion which goes against the very spirit of such boards.
- d) The members of the Board are not always the true representative of the employers and workers, individual units are led to doubt the bonafides of the members.
- e) Inadequate attention is paid to the special problems of particular regions because the members try to make recommendations from an all standpoint.
- f) The time lag between the making of the recommendations and their implementation is generally very great.

Some people have suggested that wage Board should be made statutory bodies. They can probably be used as potent agency for Collective Bargaining in units which are in favour of this method of wage fixation.

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