

C H A P T E R - 2

THEORETICAL FRAMEWORK OF WAGE AND SALARY ADMINISTRATION

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2.1 Nature, Purpose and Definition :

The basic purpose of wage and salary administration is to establish and maintain an equitable wage and salary structure. The wage and salary administration is concerned with the financial aspects of needs, motivation and rewards. Managers, therefore, analyse and interpret the needs of their employees so that reward can be individually designed to satisfy these needs. The reward may be money or motivation, but more likely it will be some pay off a smile, acceptance by a peer, receipt information, a kind word of recognition.

A sound wage policy is an essential part of personnel management. The employees working in any unit should get sufficient wage or salary to meet out their needs. If the rates are not sufficient and consistent, dissatisfaction is prevalent and grievances over wages are common. It is the important task in the concern to keep the employees happy and content. A sound wage and salary administration is one of the important means to attain it.

A sound wage and salary administration tries to achieve these objectives. It is very much important for successful operation of the business unit. It is also significant from the point of view of the employee, employer and the government.

To Employee :

The remuneration primarily determines his standard of living because it is a means of purchasing power representing

its effective demand. In a monetary economy, he can enter the circle of exchange (market) to satisfy his wants according to certain general standards. In the absence of adequate social services and social security, wage problem is of vital significance and that is why most of labour disputes centre around the problem of wages, dearness allowances and bonuses.

To Employer :

Wage and salary constitute one of the major elements in the cost of production and cost of distribution. The employer is interested in controlling and reducing labour cost per unit of output or per unit of service. Then again labour efficiency is mainly determined by the level of wages and salaries in the organisation.

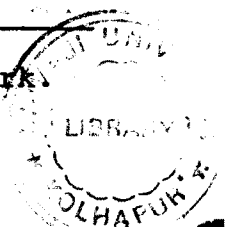
To the Government :

The government is also interested in the determination of national wage policy because it can ensure social justice for all sections of the community. Welfare measures providing better working and living conditions can not 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 relations and for the economic prosperity of the country.

According to Beach, wage and salary programme of administration have four major purposes.¹

- (1) to recruit persons for a firm

1. Beach D.S. Personnel. The Management of People at Work.



- (2) to control pay roll costs,
- (3) to satisfy people, to reduce the incidence of quitting, grievances and frictions over pay; and
- (4) to motivate people to perform better.

Definition :

Various authorities in personnel management have defined wage and salary administration programme differently. They have defined it either explaining its significance with its objectives or the content areas of wage and salary administration.

Dale Yoder has defined wage and salary administration programme as "Wage and salary administration involves the selection, development and direction of programme designed to implement compensation or incentive policy through financial rewards in wage and salary administration. Manager translates selection policy into a wide range of compensation programmes, from simplest hourly wage or monthly salary to much more complex incentive wage plans and combination of wages, employee benefits and services .¹

1. Dale Yoder. Personnel Management. 1985.

2.2 Factors affecting Wages and Salaries :

There are several factors which affect wages and salaries and they are as follows :

(1) Demand and supply of labour :

The labour market conditions namely supply and demand forces operate at the local, regional and national levels and determine the wage structure. If demand for certain skill is high as compared to its supply, the result is a rise in the wage rate. In reverse case, the wage rate will be low.

(2) Ability to pay :

The organisational ability is measured on the basis of profits and prosperity. Profits of the concern is based on its sales and efficiency. The company which has high profits and good prospects can pay higher wages than those which are earning less profits and incurring losses.

(3) Prevailing market rate :

It is also known as the going wage or comparable wage and is the most widely used criteria. It is based on the principle of equal pay for equal work. The wages in the concern are influenced by the wages paid in other concerns. The wage rate should not be less than the wage rates in other concerns in order to attract and retain labour.

(4) Labour Union :

The labour union and their bargaining capacity becomes another influencing factor in determination ^{of} wage and salary.

It has become very much significant after industrial revolution when labour, mainly the industrial labour was organised. Wages are determined on the basis of relative bargaining power of labour unions and the employers. If the labour union is strong the wage will be determined at a higher level.

(5) The cost of living :

It is also known as an automatic minimum pay criterion. This criterion calls for adjustments based on increases or decreases in an acceptable cost of living index. When the cost of living increases, workers and trade unions demand more wages. The employers take the notices of cost of living of the workers and try to fix such rates as would ensure a decent living wage to the workers during inflation.

(6) The living wage :

This criterion suggests that wages paid should be adequate to enable an employee to maintain himself and his family at a reasonable level of existence. However employers do not generally favour using this concept to wage determination. Because they prefer to base the wages of an employee on his contribution rather than on his need.

(7) Productivity :

It is another criterion and is measured in terms of output per man hour. If output per man hour is more wage rate fixed may be more and in reverse case it will be less. It means increase in productivity of labour leads to increase in

wage level. Productivity is the key factor in the operation of the company. High wages and low costs are possible only when there is increase in productivity of the concern.

(8) Job requirements :

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

(9) Legislation and Government Policy :

Government legislation and government wage policy will have its impact on determination of wage and salary structure of the organisation. Similarly, the social and public policies of the government will influence the determination of wage and salary.

(10) Psychological and social factors :¹

Psychologically person perceives ^{the} level of wages as a measure of success in life. People may feel insecure have an inferiority complex. seem inadequate. They may or may not take pride in their work or in the wages they get. Therefore, these factors should not be over looked by the management in establishing wage rates.

Socialologically, and ethically people feel that equal

1 C.B.Memoria, Personnel Management, 1985 p. 495

work should carry equal wages, that wages should be commensurate with their efforts, that they are not exploited and that no distinction is made on the basis of caste and creed, sex and colour, religion and faith. To satisfy the conditions of equity, fairness and justice, a management should take these factors into considerations.

2.3 Methods of Wage Fixation in Modern Times :

In modern economies there are some methods based on which wages are fixed. They are as follows :

(1) Individual bargaining :

Each individual worker bargains separately with his employer. It may be stated that most workers who bargain as individuals will receive a wage less than the value of the Marginal net product of their production. It is due to his weak power of bargaining. It is the something as well explained by the Marginal Productivity theory of Wage. But it is in use in case of unorganised labour.

(2) Collective bargaining :

A distinct feature of modern industrial era is Collective bargaining. It is in use where labour is organised. Through collective bargaining, collective agreement is reached and it includes wage clause, rate of pay, hours of work and other clauses of working conditions.

(3) Voluntary conciliation :

It is also called as arbitration. It is adopted when

collective bargaining fails. Under arbitration the wage rates are fixed by the arbitrator. The arbitrator takes into account various factors while fixing the wage. These are cost of living, the ability of employer, productivity of worker, prevailing wages etc. This method is also called as adjudication.

(4) State Regulation :

Wages may also be fixed by the government through legislation. For example the Govt. of India have passed two Acts, namely, the Payment of Wage Act, 1936, and the Minimum Wage Act, 1948. The 1948 Act, empowers the government to fix minimum rates of wages and to prevent malpractices in regard to payment of wages. The 1936 Act, prohibits unnecessary delay in payment of wages and salaries.

(5) Job evaluation and merit rating :

They are in very much use in systematic fixation of wage and salary. They are the methods of appraising the value of each job and employee skill in relation to other job and employee skill in the organisation. They establish the relative degree of skill of each job and translate this data into a pay structure with grades and rates of pay. These studies help to determine wage and salary scale and place meritorious employee at higher scale. It gives an incentives to the efficient workers.

2.4 Essentials of a Sound Wage System :

Wage system selected by the concern should be sound one. It should be such as to enable the worker to earn adequate wage. Similarly, it should be economical to the employer. A good wage system should fulfil the following conditions :

- i) It should be fair to both the parties.
- ii) It should be easy to calculate.
- iii) It should be related to efficiency.
- iv) It should guarantee the minimum wage.
- v) It should be incentive oriented.
- vi) It should be quality improvement oriented.
- vii) It should be flexible but not change frequently.

2.5 Methods of Wage and Salary Payment :

Monetary reward for labour is known as wage. It is calculated by adoption of various types of wage payments. Mainly they can be divided into following three categories :

- (1) Time Wage - Wages based on the time kept.
- (2) Piece Wage - Wages payment by results.
- (3) Incentive wage plan.

2.5.1 Time Wage :

The time wages are paid on the basis of time a workman has worked. It is not related to output. It may be paid on hourly, daily, weekly or monthly basis. Wage is measured on the basis of unit of time i.e. a hour, a day, a week or a month.

Merits : The advantages of Time wage are :

- (1) Simple to understand and calculate.
- (2) It guarantees minimum wage to workers.
- (3) Labour unions favour it because it does not distinguish workers into efficient and inefficient.
- (4) It is suitable to learners and beginners.
- (5) It gives importance to quality of output.

Demerits : Its disadvantages are :

- (1) It does not give incentive to efficient worker.
- (2) Workers develop tendency to work slow.
- (3) Increase of overhead expenses per unit of output.
- (4) Inefficient workers are not penalised for their inefficiency.

Suitability : Time wage system is suitable under following conditions :

- (1) Quality of work is important than the volume.
- (2) Measurement of work is not possible.
- (3) Production involves often delay and interruption.
- (4) Where work demands high degree of skill.

2.5.2 Piece wage system :

Under this system wages are fixed at a specific rate per unit of output produced by a worker. Thus wages are linked to output and not to time. The rates are fixed by systematic work study, motion study, time study and job evaluation. This is also known as straight piece wage system.

Formula of Piece wage system :

Wage of worker = $N \times R$

Where N = number of units produced.

R = the wage rate per unit.

Merits : The merits of Piece rate wage are :

- (1) It gives encouragement for higher production.
- (2) It increases productivity and decreases cost of production per unit.
- (3) It is an incentive to efficient worker to produce more and earn more.
- (4) Idle time is not paid.
- (5) It is easy and simple to understand and calculate.

Demerits : The demerits of Piece wage system are :

- (1) The quality of produce is likely to go down.
- (2) Continuous and increased working may cause fatigue, ill-health and accidents.
- (3) It is unsuitable for learners and beginners.
- (4) It leads to more wear and tear of machineries.
- (5) It is opposed by labour unions.
- (6) It may create feeling of enmity among efficient and inefficient workers.

Suitability : Piece wage system is suitable under the following conditions :

- (1) Where production of work can be measured in standard units.
- (2) Where strict supervision is not necessary.
- (3) Where quality of work is not important.
- (4) Where labour offers full co-operation.



2.5.3 Incentive wage plans :

It is said that Piece rate affects quality but increases production, where as time rate improves quality but affects production.

A system of wage payment which would maintain both quality and quantity is called Incentive wage plan. It is a judicious combination of both Time and Piece wage systems.

Objectives of Incentive Plans :

A wage incentive plan is usually adopted to realise the following objectives :

- (1) Increase in productivity.
- (2) Reduction in labour cost.
- (3) Improvement in efficiency.
- (4) Rise in employees' earnings.
- (5) Higher employee morale.
- (6) Better labour management relation.

Need for Incentive wage plans :

Incentive wage plans induce the workers to produce more and earn more. In a country like India, where there is a constant problem to stabilize the prices and to curb inflation increase in production is the only answer and so incentive wage plans are needed in our country.

The following are some important Incentive plans of wage payments.

(1) The Halsey premium plan :

It is introduced by F.A.Halsey. The plan calls for the payment of time wages to workers and gives the option to work on a premium basis. For the purpose of premium, a standard time is set for each job. When a worker can complete his job before the standard time, he is entitled to the premium. Worker gets premium at 50% of time saved at hourly rate. In addition, he has the option to work in another job during his period. Following is the formula for calculating earning of a worker.

Earning of a worker = Time taken x Rate per hour + 50% (Time saved x Rate per hour).

Merits of Halsey plan :

- (1) It is easy and simple.
- (2) It guarantees of time wage.
- (3) Its benefits are shared equally by employer and employee.

Demerits of Halsey plan :

- (1) Fixation of standard is difficult.
- (2) At higher level of efficiency, the earning reduces.
- (3) A significant share of the bonus goes to employer, so workers object to this.



(2) The Rowan premium plan :

It is introduced by James Rowan. It is a modified application of the Halsey plan. It adopts a standard time for the performance of each job, guarantees fixed time wage and allows a premium for the completion of jobs before standard time. The premium is equal to that proportion of wages earned which the time saved bears to the standard time. Workers earning is calculated as follows :

Earning = Time taken x Rate per hour + Rate per hour

$$\left(\text{Time taken} \times \frac{\text{Time saved}}{\text{Standard time}} \right)$$

Rowan system is more liberal than Halsey plan in the initial stages. But after a certain point the Rowan plan aims at scaling down the wages unlike that of Halsey plan.

(3) The Taylor Differential piece rate plan :

F.W.Taylor, the father of scientific management introduced this plan. It is based on his time, motion and fatigue studies. He thought to improve the efficiency of workers by suggesting two rates of payment of wages. (1) a higher rate to the workers who produce equal to or more than the standard fixed for production and (2) a lower rate to the workers who do not achieve the standard.

The standard of work is determined on scientific basis. But it should not be unduly high and should be within the reach of average worker. The success of this plan depends on the proper fixing of the standard of work.

In practice, this plan is seldom used now.

(4) The Merrick's Differential piece rate :

It is also called as multiple piece rate system. It provides a basic piece rate upto 83% efficiency. Further rise in efficiency is rewarded by increased percentage on basic rate. For 83% to 100% efficiency, 110% of basic rate is paid. And above 100% efficiency, wage rate will be 120% of basic rate.

This plan tries to reduce the severity of Taylor's plan of wage payment.

(5) The Gantt Task and Wage plan :

H.L.Gantt, an associate of Taylor, devised this scheme. This system combines time rate, bonus scheme and piece rate. The day wage under this scheme is guaranteed. Output standards and time standards are established for each job. A standard or high task is set for production.

Under this plan there are three stages of payment of wages.

- (1) Guaranteed time wage to those below the standard.
- (2) Time wage + 20% to those who are at the standard, and

- (3) High piece rate to those who are above the standard.

This system is most profitable for efficient workers. It also guarantees basic time wage.

- (6) The Emerson's Efficiency plan :

In this method the standard of efficiency is set at $66\frac{2}{3}\%$. A worker gets the guaranteed day rate for efficiency upto the standard. The workers who show higher efficiency, get the bonus at a rate given in the premium table. It increases gradually between $66\frac{2}{3}\%$ to 100% efficiency. At 100% efficiency bonus will be 20% of basic rate. Beyond this bonus will increase at 1% of basic rate for every 1% rise in the efficiency.

This system acts as a greater incentives to slow workers to improve their efficiency. Since bonus starts at early stage, it is helpful to learners and beginners. But incentive in the form of bonus after 100% efficiency is not powerful and the workers may be satisfied within the range upto 100% of efficiency.

- (7) Bedaux or Point plan :

The main features of this system are as under.

- (1) It is based on time study, a 'standard minute' of work is determined. This is known as 'B'.
- (2) Every work is expressed in terms of B's only.
- (3) Efficiency is determined by comparing actual minutes (B's) taken for doing a work with standard B's set for it and B's saved are found out.

- (4) If actual B's (minutes) are more than the standard B's worker is paid on hourly basis. If he saves B's he gets hourly wage plus a bonus of 75% of B's saved. Wages on remaining 25% of B's are paid to supervisors.

Earning = Hours worked x Rate per hour + $\frac{3}{4}$ (B's saved x Rate per B).

2.5.4 Supplementary Wage Incentive plans :

Some important plans under this group may be stated as follows.

(1) Collective or Group Bonus :

Under this scheme each shop or department is offered a separate fixed bonus per hour or per unit if the standard time is saved or if the production reaches or exceeds a determined quantity. Such bonus is divided between foremen and the operative workers. A fixed standard of performance is established, and the bonus is given for the progress made over the standard performance.

Group bonus enhances productivity of the group, develops co-operation and team spirit among members. Efficient worker may train less efficient workers.

But there are certain drawbacks of this system. There is no direct incentive to efficient workers. And inefficient worker gets share in bonus, though he does not deserve. This may further encourage laziness among the workers.

(2) Sliding scale :

It is also known as Accelerated Premium system. The premium is paid at varying rate for increasing efficiency. The efficiency may be determined in terms of saving in time or increasing output beyond standard limit. As efficiency improves the earnings increase in greater proportion because there is application of higher rate of premium.

But the system involves more calculation and workers do not understand it easily.

(3) Cost Bonus plan :

Under this scheme, if the actual cost is less than the standard cost of production, bonus is allowed to the employees to the extent of savings effected in the cost of production. It inculcates cost consciousness among the workers to check the spoilage of materials, waste of time etc. Thus payment of bonus is dependent on the economy effected in material and overheads.

But workers are denied the fruits of their efficiency if cost could not be reduced on account of factors beyond their control.

(4) Profit sharing :

"Profit sharing" is an agreement between employer and employees, where by the employees receive a share in company's profits in addition to their normal wages. The percentage of share is decided in advance in profit sharing agreements.

Advantages :

The advantages of profit sharing are given as below.

- (1) Improved employer - employee relations.
- (2) Increased motivation among workers.
- (3) Increased productivity and efficiency in the concern.
- (4) Reduction in labour turnover.
- (5) It can attain industrial peace.

Drawbacks :

Profit sharing scheme suffers from following drawbacks.

- (1) There may be uncertainty of profits despite strenuous efforts of the employees.
- (2) Lack of incentive on the part of workers. Its delay and uncertainty affect workers interest in day today jobs.
- (3) Hostile attitude of labour unions.
- (4) Unsatisfactory results obtained by the company from the plan.

(5) Overtime Premium :

When a worker works for more than the normal hours, the excess time is known as "overtime". It is generally paid at double the normal rates. The excess paid over usual normal rates is called as overtime premium. Workers are very much interested to get overtime work, but it should not be a regular feature in the undertaking and should be adopted only under exceptional cases. Because it has following drawbacks.

- (1) Higher rates of overtime reduces the profit.
- (2) Quality suffers because workers are tired.

- (3) There is scope for favouritism in choosing workers for overtime.
- (4) It increases overhead costs.
- (5) Workers start slow going in doing regular work in order to secure overtime work.

2.5.5 Executive Compensation plans :

In addition to the wage plan for workers, there should be a proper plan of salary to the executives. The salary of the executives depends on the size of the company and the managerial skill of the executive. They also depend on government regulations. Therefore, salaries in private sector are more than the salaries in the public sector. Besides, the salaries of executives are determined by mutual agreement, cost of production and profits of the undertaking.

The executives are paid bonus and other perquisites such as medical care, counsel and accountants to assist in legal, tax and financial problems, facilities for entertaining customers, scholarship for their children, allowances for books and magazines, free wellfurnished houses, servants etc.

2.6 Incentives and Fringe Benefits :

2.6.1 Incentives :

An incentive can be anything that attracts a worker's attention and stimulates him to work more. Burack and Smith have defined incentives as "An incentive scheme is a plan or programme to motivate individual or group performance. An incentive programme is most frequently built on monetary rewards (incentive pay or a monetary bonus), but may also include a variety of non-monetary rewards or prizes".

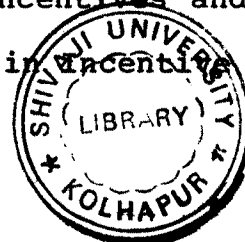
Characteristic features of Incentives :

Incentives are important motivators. They are based on several factors and differ from person to person. They bear following characteristics.

- (1) Incentives are based on both monetary and non-monetary factors.
- (2) Incentives, whether they are monetary or non-monetary, tend to increase the level of motivation in a person.
- (3) Financial incentives relate more effectively with basic motivation or deficiency needs.
- (4) The higher the position of a person in an organisation, the greater is his attachment towards non-financial incentives.

2.6.2. Classification of Incentives :

Incentives can be (a) Financial incentives and (b) Non-financial incentives. They can be shown in Incentives chart.



Incentives¹

Financial or Monetary Incentives.	Non-Financial or Non-Monetary Incentives.
1. Wages	1. Job Security
2. Salaries	2. Recognition
3. Premium	3. Participation
4. Bonus	4. Pride in the job
5. Prize	5. Delegation of responsibility
6. Return on Investment	6. Promotion
	7. Training
	8. Welfare

Financial Incentives :

They are also known as monetary incentives. Financial incentives are most original of all the incentives. The quantum and quality of work depends largely on the amount of wages a worker receives. They are available to the employees in the form of wages, salaries, premium, bonus, prizes and return on investment.

Non-Financial Incentives :

Non-financial incentives are the psychic rewards, or the rewards of enhanced position, that can be secured in the work organisation. Management may look to many non-monetary incentive forms for effective motivation of their workers. Such non-monetary incentives include, job security, recognition.

1. S.C.Saksena, Business Administration and Management, 1985

participation, pride in the job, promotion, training and welfare activities. They have the important impact on employee satisfaction and efficiency. The smooth functioning of the concern is largely depending on the provision of such measures in the organisation.

2.6.3 Fringe Benefits :

Employee benefits and services are available to all employees in the organisation. They are the extra wage and salary compensation in the form of employee benefits and services and have a significant place in the industrial economy. These are referred to as fringe benefits which are nothing but the supplements to the wage remunerations.

Definitions :

The Glossary of Current Industrial Relations and Wage Terms has defined fringe benefits as "supplements to wages received by workers at a cost to employers. The term encompasses a number of benefits - paid vacation, pension, health and insurance plans etc. - which usually add upto something more than a 'fringe' and is something applied to a practice that may constitute dubious benefits for workers".

Objectives of Fringe benefits :

A Fringe benefits programme in the organisation is designed to attain the following objectives :

- (1) to promote employee welfare,
- (2) to promote better employer - employee relations,

- (3) to meet legal requirements,
- (4) to promote high morale among the employees,
- (5) to provide better working environment,
- (6) to promote employee health and safety,
- (7) to provide economic security to the employees; and
- (8) to promote employment stabilisation.

Fringe benefits provided by the organisation are of different classes and types. Important among them are mentioned as below.

- (1) Retirement benefits like pension, gratuity, provident fund, etc.
- (2) Unemployment benefits.
- (3) Allowances like, H.R.A., city compensation, medical allowances, travelling allowances etc.
- (4) Insurance like L.I.C., accident insurance, Group Life Insurance etc.
- (5) Holiday benefits, like Dasara, Deepavali, National Holidays etc.
- (6) Medical benefits.
- (7) Canteen benefits.
- (8) Educational benefits.
- (9) Fair price shops and food subsidies.
- (10) Sport clubs and recreational benefits.
- (11) Uniforms and protective equipments.

2.6.4 Bonus :

The term 'bonus' is derived from Latin word, which means 'a good man'. The extension of the meaning to 'a good worker' and then to all workers was a natural sequence when their production resulted in profit to industrial enterprises. Bonus means a boon or a gift to the workers. It is an additional part of workers' earnings. The term bonus has multi-dimensional concepts and is used differently at different times. It is used as incentive payment, share in profit, a deferred wage and additional payment at the will of the employer and not a right to share in the profit.

Bonus was said to be^{paid} first in the year 1820 by National Fire Insurance Company of Paris and it became popular to pay bonus in other European countries. In the beginning, it was customary in India to pay a bonus to workers before an important festival like Deepavali. But later on it is demanded as a matter of right. The matter was of crucial importance and therefore, was discussed at various levels namely Labour Appellate Tribunals, Bonus Commission, as well as at Government level.

The Bonus Act 1965 was passed which provided minimum bonus of 4% and maximum of 20%. In the year 1971 there was the amendment and minimum rate of bonus was raised to 8.33%. In 1975 bonus was linked to productivity as the concept of bonus was changed again to its original concept. Again it was changed when Janata Government came to power at Centre. It issued new

ordinance and restored the minimum bonus at 8.33% irrespective of profit or loss in industries covered by payment of Bonus Act. The maximum limit of bonus was fixed at 20%. The employees of banking and certain other companies who were excluded from the purview of the Bonus Law in 1976, were now eligible for payment of bonus for the accounting year 1978. The concept of bonus as a "deferred wage" was also accepted.

Thus, whether bonus is a deferred wage or not is a question not set to rest so far. The rate of bonus is also varying from time to time. It seems it will depend on which government is in power.

2.6.5 Dearness Allowance :

There is steady rise in the wage bills of any concern in the days of today. The payment of dearness allowance is materially responsible for rise in the employee remuneration. It increases when there is increase in the Price Index.

Dearness Allowance was introduced for the first time during the First World War as a device to meet the needs of employees in the light of increase in prices. Now it has become a permanent feature in the employee remuneration. The purpose of paying dearness allowance is to maintain the real wages of the employees. So neutralisation of cost of living is the main purpose of paying of dearness allowance. Increase in prices leads to affect the cost of living of people and hence the matter of dearness allowance becomes the subject matter of

industrial dispute in a large number of industrial units. Therefore, it calls for a proper scheme of dearness allowance policy.

Methods of computation of Dearness Allowance¹ :

There are four methods ^{OF} payment of dearness allowance.

- (1) Computation of dearness allowance based on changes in consumers' price index.
- (2) Computation of dearness allowance linked to pay-slabs and to consumer price index.
- (3) Payment of dearness allowance at a flat rate without linking it to the consumer price index; and
- (4) Fixing of dearness allowance in relation to graduated pay scales.

Merger of Dearness Allowance with Basic Pay :

The time has now come when appropriate part of the dearness allowance should be merged in the basic wage. The position of supervisors, managers should also be considered and not ignored merely because they are not viewed as workers. The rise in prices becomes the permanent feature in the economy is another reason for continuation of dearness allowance or its merger with the basic pay. In the past the retirement benefits used to be calculated on the basis of basic pay. But now many of the benefits are determined on the basis of basic pay plus dearness allowance.

1. R.S.Davar. Personnel Management and Industrial Relations 1982

In some cases merger of dearness allowance with basic wages has been affected to give a realistic wage structure. The merger has been effected in part in some cases. In other cases the merger is opposed on the ground that it will disturb the prevailing wage differentials. This is so because the existing rates of dearness allowance are not proportional to the basic wages.

In short, we can say that, dearness allowance forms an important part of our employee compensation, even though it involves many problems.

2.6.6 Wage Policy and its importance :

The discussion of various topics of wage and salary administration leads to the study of wage policy.

A sound and rational wage policy is essential for a country both on economic and social grounds. In absence of such a policy, the workers may be exploited and made to work at unreasonably low wage levels. This may lead to discontentment and dis-satisfaction among the workers. It may also lead to class conflict in the society. It may disturb the industrial atmosphere and the smooth functioning of industries in the economy. From economic point of view low wages will affect the efficiency of workers leading to poor levels of output. Similarly, it will be violation of the basic principles of social justice to keep the vast majority of working population below poverty lines.

2.6.7 Wage Policy in India :

In India, wage policy covers payments of dearness allowance, bonus and other fringe benefits. Bonus and fringe benefits are covered under the Employees State Insurance Act and the Employee Provident Fund Act. Wage Boards are also set up to settle wage disputes. The Fair Wage Committee was appointed. It recommended fair wage which should depend upon (a) productivity of labour, (b) prevailing rate of wages, (c) level of the national income and its distribution; and (d) place of the industry concerned in the economy of the country.

Thus, wage policy is very much important for economic development of India. It should be such as to increase production and reduce unemployment. Similarly, it is very much significant to maintain industrial peace in our country.