
CHAPTER-II

LABOUR REMUNERATION

(Theoretical Background)

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I) Introduction (Wage and Salary Administration) :

Wage and salary administration refers to the establishment and implementation of sound policies and practices of employee compensation. It includes such areas as job evaluation, development and maintenance of wage structures, wage surveys, wage incentives, profit sharing, wage changes and adjustments, supplementary payments, control of compensation costs and other related pay items.¹

The primary requirement of all the employees is an adequate wages and salaries which will commensurate with the responsibilities and duties involved. Wage constitute the income of the worker and his standard of living and social status depend upon the wages he earns on the other hand, the wage constitute the cost of production to the management.

II) Definitions and concept :

As brought out clearly in this chapter the wage and salary administration is difficult and important task before

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the management. These are probably the most vital factors in deciding the conditions of the employment. Wages and salaries are not merely important determination of standard of living and the per capita income of the workers, but master key to achieve higher productivity and higher moral. Amongst all the problems, the workers face, wages is the most pressing and persistent one. The efficiency of the workers and the standard of his living, the economic well being of the workers. The cost of wages as an item of cost of production and the competitive strength of the industry, are all related to the problems of wages.

The term 'wages' has different connotations to the worker, the union leader and the management. While the worker is concerned with his 'take-home pay' and its purchasing power, the union leader is apt to think of wages as "that which can be bargained about with the employer", implying principally the schedule of rates of pay for different jobs in the plant. To the management, wages are a major item of cost which, in turn, depends on the amount produced by workers in the plant as well as how much they are paid. Again in a restricted sense wages are defined "as a sum of money paid under contract by an employer to a worker for services rendered". Wages, thus, constitute a contract income, fixed or settled, as between employers and employees. From a broader new point, as the state is committed to the enlargement of the productive capacity of the community to increase

national dividend from which all parties draw their sustenance and the state too its capacity for strength and social services, wages refer to that distributive share in the value produced by all economic activities that is allocated to payment for personal services, more particularly those of the group commonly considered as labour. Thus, wages are paralleled, in the economic process of distribution, by other shares known as rent and interest, allocated by the same mechanism to the owners of land and capital.

Definition of Wage :

The wage is the remuneration paid by the employer to his the former. According to laissez fair policy, wage is the price paid to the worker for the services he has sold to the employer. It could be the contract income setted, between the employers and the employees. But the commodity theory of labour is no more in reactice and so wage can not be treated as mere price for the service sold to the employee. It is a compensation paid to the worker in return for the contribution he makes for the achievement of the corporate objectives. At the same time wages do not include the pre-requisites like travelling allowances, employers contribution to provident fund, value of housing, accommodation, welfare amenities provided for the worker, gratuity payable on discharge, over time payments, family allowance etc. Wages are usually paid in terms of money soon after the completion of certain amount of

service like, one day, one week, two week, and one month (monthly wages are called salary). The earnings may be expressed in terms of money called nominal wages or in terms of goods and services purchasable with money called Real Wages.⁴

Wages in the widest sense mean any economic compensation paid by the employer under some contract to his workers for the services rendered by them. Wages, therefore, include family allowance, relief pay, financial support and other benefits. But, in the narrower sense, wages are the price paid for the services of labour in the process of production and include only the performance wages or wages proper. They are composed of two parts the basic wage and other allowance. The basic wage is the remuneration, by way of basic salary and allowances, which is paid or payable to an employee in terms of his contract of employment for the work done by him. Allowances, on the other hand, are paid in addition to the basic wage to maintain the value of basic wages over a period of time. Such allowances include holiday pay, over-time pay, bonus and social security benefits. These are usually not included in the definition of wages.³

Salary :

A salary is a compensation to an employees for the personal services rendered on weekly, monthly, or annual basis. Salary is usually associated with office employees, supervisors, managers and professional as well as technical staff etc.⁵

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4 & 5. Personnel Management by C.B.Mamoria.

III) Principles and Fundamental Characteristics of Wage and Salary Administration :

The management can offer as compensation depends upon factors that are inherent in the type of business it operates. The production of labour cost in the total cost of an end product, and market factors influencing sales necessarily limit the amount of compensation that can be offered. The nature of the work that is required will influence the choice of compensation system such as time, piece wage or added incentive payment. The cost of administration of wage system may be decisive factor in the management choice. The competitive standing of business, the seasonal or permanent nature of its operations, its plans, for the future, competition for labour, the available supply of labour, compensation practices prevailing in the place of an enterprise.

*Principles of Wage and Salary Administration :

The generally accepted principles governing the fixation of Wages and Salary are :

- i) There should be a definite plan to ensure that differences in pay for jobs are based upon variations in job requirements, such as skill efforts, responsibility or job or working conditions, and mental and physical requirements.
- ii) The general level of wages and salaries should be reasonably in line with that prevailing in the labour market. The labour market criterion is most commonly used.

- iii) The plan should carefully distinguish between jobs and employees.
- iv) Equal pay for equal work, i.e. if two jobs have equal difficulty, requirements, the pay should be the same regardless of who fills them.
- v) An equitable practice should be adopted for the recognition of individual differences in ability and contribution.
- vi) There should be a clearly established procedure for hearing and adjusting wage complaints. This may be integrated with the regular grievance procedure, if it exists.
- vii) The employees and the trade union, if there is one should be informed about the procedure used to establish wage rates.
- viii) The wage should be sufficient to ensure for the worker and his family a reasonable standard of living.
- ix) The wage and salary structure should be flexible so that changing conditions can be easily met.

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

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

- ii) Base wage for each job classification or skill should be related to each other in terms of job requirements due consideration being given to such factors as skills, length of time required in learning, versatility required and working conditions, wage levels in different communities may vary but different skilled jobs tend to bear the same general relationships to the common labour in each community.
- iii) Within a given classification or skills, wages for different workers should be primarily in terms of output, motion and time study techniques should be used in establishing standards that may reasonably be expected.
- iv) The wage plan should facilitate the comparison of efficiencies of various departments of operating units.
- v) The wage should be easily related to cost controls and the operating labour budget.
- vi) The wage plan should be simple and easy to understand by the workers.
- vii) The wage plan should make adequate provision for learners.
- viii) The wage plan should be flexible in order to meet changing conditions.
- ix) The wage plan should involve excessive clerical costs.
- x) The wage plan increase better and efficient work.

* Personnel Management - By C.B.Mamoria - Page No.396.

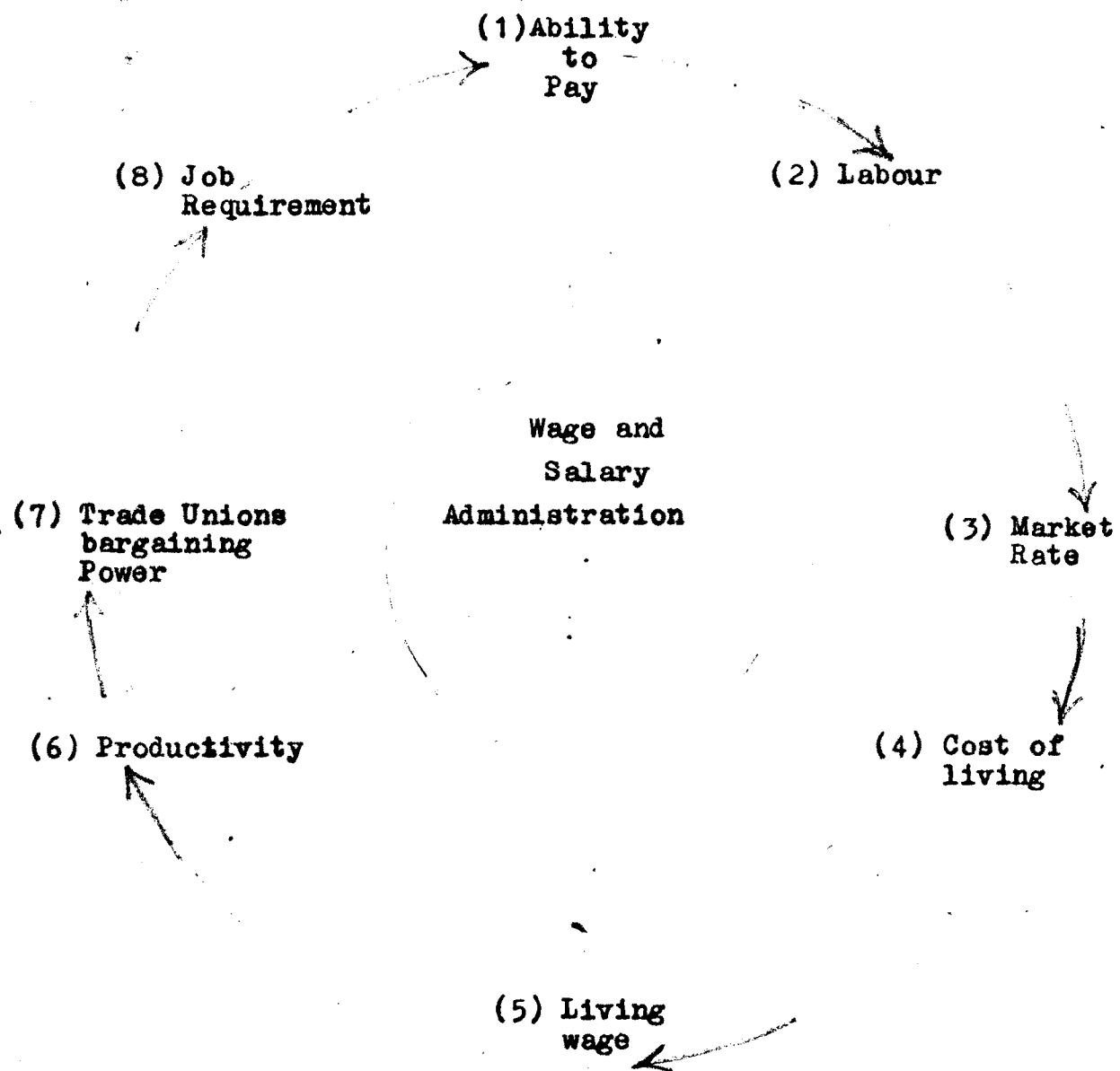
* Business Administration and Management - By S.C.Saksena, Page No.468.

IV) Factors Influencing Wage and Salary Structure and Administration :

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

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

- 1) The ability to pay;
- ii) Supply and demand of labour;
- iii) The prevailing market rate;
- iv) The cost of living;
- v) Living wage;
- vi) Productivity;
- vii) A trade union's bargaining power;
- viii) Job requirements; and
- ix) Psychological and sociological factors.



1) Ability to Pay : Wage increases should be given by those organisations which can offered them. Companies that have good set and, therefore, high profits and to pay higher wages than those which are running at loss or earning low profits because of the high cost of production or low sales, In the short run, the economic influence on the ability to pay is practically nil. All employers, irrespective of their profits or losses, must pay no less than their competitors and need pay no more if they wish to attract and keep workers. In the long run, the ability to pay is very important. During times of prosperity, employers pay high wages to carry on profitable operations and because of their increased ability to pay. But during the period of depression, wages are cut because funds are not available. Marginal firms and non-profit organisations (like hospital and educational institutions) pay relatively low wages because of low or no profits.

ii) Supply and Demand of Labour : Wages and salaries are affected by the market conditions of supply and demand. If the supply of particular labour skills is scarce, employers may offer higher wages. If the supply is excessive, lower wages are usually given. Similarly, if there is a great demand of labour expertise, wages rise; but if the demand for a man power skill is minimal, the wages will be relatively low. Mescon says : "The supply and demand compensation criterion is very closely related to the prevailing pay, comparable wage and on-going wage concepts since, in essence, all of these

remuneration standards are determined by immediate market forces and factors."

iii) Prevailing market Rate : This is also known as the comparable wage or going wage rate, and is the most widely used criterion. An organisations compensation policies generally tend to confirm to the wage rates payable by the industry and the community. This is done for several reasons. First, Competition demands that competitors adhere to the same relative wage level; Second, various government laws and judicial decisions make the adoption of uniform wage rates an attractive proposition; Third, trade union encourage this practice so that their members can have equal pay for equal work and geographical differences may be eliminated. Fourth, functionally related firms in the same industry require essentially the same quality of employees, with the same skills and experience. This results in a considerable uniformity in wage and salary rates; Finally, if the same or about the same general rates of wages are not paid to the employees as are paid by the organisation's competitors, it will not be able to attract and maintain a sufficient quantity and quality of manpower. Belcher and Atchison observe : "Some companies pay on the high side of the market in order to obtain good-will or to insure an adequate supply of labour, while other organisations pay lower wages because economically they have to, or because by lowering hiring requirements they can keep jobs adequately manned."

iv) Cost of Living : The cost of living pay criterion is usually regarded as an automatic minimum equity pay criterion. This criterion calls for pay adjustments based on increases or decreases in an acceptable cost of living index. In recognition of the influence of the cost of living, "escalator clauses" are written into labour contracts. When the cost of living increases, workers and trade unions demand adjusted wages to offset the erosion of real wages. However, when living costs are stable or decline, the management does not resort to this argument as a reason for wage reductions.

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

vi) Productivity : Productivity is another criterion, and is measured in terms of output per man-hour. It is not due to labour efforts alone. Technological improvements, better organisation and management, the development of better methods of production by labour and management, greater ingenuity and skill by labour are all responsible for the increase in productivity. Actually, 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, industry or national economic level. Thus, although theoretically it is a sound compensation criterion, operationally many problems and complications arise because of definitional measurement and conceptual issues.

vii) Union Bargaining Power : Trade unions do affect the rate of wages. Generally, the stronger and more powerful the trade union, the higher the wages. A trade union's bargaining power is often measured in terms of its membership, its financial strength and the nature of its leadership. A strike or a threat of a strike is the most powerful weapon used by it. Sometimes trade unions force wages up faster than increases in productivity would allow and become responsible for unemployment or higher prices and inflation. However, for those remaining on the pay roll, a real gain is often achieved as a consequence of a trade union's stronger bargaining power.

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

ix) Managerial Attitude : These have a decisive influence on the wage structure and wage level since judgement is exercised in many areas of wage and salary administration, including whether the firm should pay below average or above average rates, what job factors should be used to reflect job worth, the weight to be given for performance or length of service and so forth, both the structure and level of wages are bound to be affected accordingly. These matter require the approval of the top executives.

x) Psychological and Social Factors : These determine in a significant measure how hard a person will work for the compensation received or what pressures he will exert to get his compensation increased psychologically, persons perceive the level of wages as a measure of success in life; people may feel secure, have an inferiority complex, seem inadequate or feel the reverse of all these. They may or may not take pride in their work, or in the wages they get. Therefore, these things should not be overlooked by the management in establishing wage rates. Sociologically and ethically, people feel that, "equal work should carry equal wages" that "wages should be commensurate with their efforts," that "they are not exploited", and that no distinction is made on the basis of caste, colour, sex or religion. To satisfy the conditions of equity fairness and justice a management should take these factors into consideration.

V) Control of Wage and Salary Administration :

Wage and Salary administration should be controlled by some proper agency. This responsibility may be entrusted to the personnel department or the general company organisation, or to some job executive. Since the problem of wages and salary is very delicate and complicated, it is usually entrusted to a committee composed of high-ranking executives representing major line organisations. The major functions of such a Committee are :

- i) Approval of and/or recommendation to management on job evaluation methods and findings;
- ii) Review and recommendation of basic wage and salary structures;
- iii) Help in the formulation of wage policies;
- iv) Co-ordination and review of relative departmental rates to ensure conformity; and
- v) Review of budget estimates for wage and salary adjustments and increases.

This Committee should be supported by the advise 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, producers and policies.

VI) TYPES OF WAGES :

1) Minimum Wage : Minimum wage, and fair wage and living wage are the terms used by the Report of the Committee on fair wages, set up by the Government in 1948 to determine the principles on which fair wages should be based and to suggest how these principles should be applied.

According to this Committee, the minimum wage should represent the lower limit of a fair wage. The next higher level is the fair wage, and the highest level of the fair wage is the living wage.

A minimum wage has been defined by the Committee as "the wage which must provide not 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." In other words, a minimum wage should provide for the sustenance of the workers' family, for his efficiency, for the education of his family, for their medical care and for some amenities.

The question of determining the minimum wage is a very difficult one for more than one reason, conditions vary from place to place, industry to industry and from worker to worker. The standard of living cannot be determined accurately. What, then, should be the quantum of the minimum wage? What is the size of the family it should support? Who should decide these questions? These issues are vary difficult to decide.

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

However, the principles for determining minimum wages were evolved by the Government and have been incorporated in the minimum wages Act, 1948; the important principles being that minimum wages should provide not only for the bare sustenance of life but also for the preservation of the efficiency of the worker by way of education, medical care and other amenities.

So when the minimum wages Act was passed in 1948, it was really a land mark on the path to the realization of social justice in the country. The Act is meant for the unorganised sector occupations like cottage industries and handicrafts, tanneries, stone breaking and stone crushing carpet wearing, etc.

ii) The Living Wage : This wage was recommended by the Committee as a fair wage and as the ultimate goal in wage policy. A "Living Wage" was defined 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 a measure of insurance against the more important misfortunes, including old age". In other words, a

living wage was to provide for a standard of living that would ensure good health for the worker and his family as well as a measure of decency, comfort, education for his children, and protection against misfortunes. This obviously implied a high level of living.

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

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

- i) The first stage, the wage to be paid to the entire working class was to be established and stabilised.
- ii) In the Second stage, fair wage were to be established in the Community-cum-industry.
- iii) In the third stage, the working class was to be paid the living wage.

The living wage may be somewhere between the lowest level of the minimum wage and the highest limit of the living wage, depending upon the bargaining power of labour, the capacity of the industry to pay, the level of the national income, the general effect of the wage rise on neighbouring industries, the productivity of labour, the place of industry in the economy

b) The minimum food requirements should be calculated on the basis of the net intake of 2,700 calories, as recommended by Dr. Akroyd, for an average Indian adult of moderate activity;

c) The clothing requirements should be estimated at a per capita consumption of 18 yards per annum, which would mean, for an average workers family of four, a total of 72 yards;

d) In respect of housing, the norms should be the minimum rent charged by the Government in any area for houses provided under the subsidised Housing Scheme for low-income groups; and

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

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

Both the first and second pay Commissions appointed by the Government of India refused to accept this formulation as the need-based minimum wage for the Central Government employees. The third pay Commission, however, attempted to convert the various criterion contained in the 15th labour Conference recommendation into monetary terms on the basis of the average prices prevailing in the Metro Politancities of Bombay, Calcutta, Delhi, Madras for the 12 months ending 31st

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VII) Systems/Methods of Wage Payment :

There is no single system of wage payment which can be considered to be applicable universally since every business and industrial unit has its own peculiarities and problems to solve. A system has to meet the requirements of the establishment concerned. Even in a given establishment, it may be required to have varying systems of wage payment for different categories of workers working at different plants.

The compensation that an employee can expected for his work based either on the production capacity of the worker. The first method is called as day work because the rate of pay is fixed most usually by the day. The second is usually called piece work because compensation is paid by the piece or job.

(1) Time Wage System :

Here the employees are paid wages on the basis of time worked. The Unit of time taken for the purpose may be an hour, a day, a week, month or any other period. As in ancient days, payment was fixed generally for the day, the system is often called as the day wage system. The system is as old as humanity and even today is the most prevalent one, especially as the basis of remunerating indirect labour like foremen, supervisors cleaners, etc., whose nature of work, is such that time alone can be taken as the criterion for the purpose. Besides, the system is essential in certain industries where work cannot be standardised or classified into suitable grades for piece-rating.

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In this method the production capacity of a worker is not taken into consideration in fixing the wages he is paid at the settled rate, as soon as the time contracted for is spent. According to section 4 of the payment of wages Act, 1936; the payment of the wage may be made at the end of the day the work, the fortnight of the month, as it is mutually agreed, provided that more than one month must elapse between the two wage periods.

Merits of Time Wage System :

a) It is simple, for the amount earned by a worker can be easily calculated.

b) As there is no time limit for the execution of a job, workmen are not in a hurry to finish it and this may mean that they will pay attention to the quality of their work.

c) As all the workmen employed for doing a particular kind of work receive the same wages, ill-will and jealousy among them are avoided.

d) Due to the slow and steady pace of the worker, there is no rough handling of machinery, which is a distinct advantage for the employer.

e) It is the only system that can be used only profitably where the output of an individual workman or groups of employees cannot be readily measured.

f) The day or time wage provides a regular and stable income to the worker and he can, therefore, adjust his budget accordingly.

g) This system is favoured by organised labour, for it makes for solidarity among the workers of a particular class.

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

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

Demerits of Time Wage System : The main drawbacks of this system are :

a) It does not take into account the fact that men are of different abilities and that if all the persons are paid equally, better workmen will have no incentive to work harder and better.

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

c) It leads to employer-employee trouble.

d) It destroys the moral of workers and efficient workers are either driven out or pulled down the level of inefficient workers.

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

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



(2) Piece Wage System :

Under this method, workers are paid according to the amount of work done or the number of units completed, the rate of each unit being fixed in advance, irrespective of the time taken to do the work. This is also known as payment by result method. It is considered as an improvement over time wage method. Under this method a worker is paid a fixed rate per unit of work produced. Thus the remuneration of the workers depends upon his output and not upon working time.

This system is adopted generally in jobs of a repetitive nature, where tasks can be readily measured, inspected and counted. It is particularly suitable for standardised processes, and it appeals to skilled and efficient workers who can increase their earnings by working to their full capacity.

The wage payable to a worker under this plan is calculated by multiplying the number of products by piece-rate e.g. if a worker is paid Rs.2/- per unit, his wages for 10 units would be equal to Rs. $2 \times 10 = \text{Rs.}20/-$.

Total Wages = $N \times R$

N = Number of units produced.

R = Rate per Unit.

Merits (Advantages) :

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

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

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

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

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

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

g) Not only the output and wages are increased but methods of production are improved as the workers demand materials free from defects and machinery in perfect condition.

Demerits/Disadvantages :

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

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

- c) To much emphasis on the quantity of production may lower the quality of products.
- d) Keeping of individual production records and the making of pay rolls involve time and cost.
- e) Trade unions are often antagonistic to piece, rates as this form of wage payment, encourages rivalry among workers and labour unions.
- f) Excessive speeding of work may result in frequent wear and tear of plant and machinery and frequent replacement.
- g) Faculty production planning and control, intermittent order and absence of other production facilities prevent the workers from making high wages and consequently workers may adopt a hostile attitude of the management.

(3) Balance or Debt Method :

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 the 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 as a debt against him to be recovered from

any future balance of piece work earnings over time work earnings. This system presupposes the fixation of time and piece rates on a scientific basis.

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

VIII) Incentive Plans of Wage Payments :

The relative advantages of time and speed as basis of wage payment suggest a compromise between them, which may combine the good points of each. Systems which attempt to do this, are generally known as 'Incentive Plans'. They are also called as 'Premium or Bonus methods'.

Incentives may be monetary or non-monetary. In monetary incentives all included time allowance systems, piece work systems, group bonus system and such other systems as the Rowan Premium Bonus System. In other words monetary incentives include, besides wages, allowances, profits, bonus, overtime earnings, and other payments which may be made to a worker in recognition of his increased productivity. On the other hand Non-monetary incentives include job security, Training schemes, Sympathetic attitude of the Supervisors, Welfare schemes,

recreational and social facilities, sound and intelligent promotion schemes, canteen facilities and educational opportunities. All these motivate workers to raise their productivity.

Premium or Bonus systems have been devised so as to combine within themselves all the following advantages :

a) It stimulates production by encouraging workers to earn more than average wage.

b) The tendency of cutting down of rates by combining the workmen's bonus with some benefits in the savings of wages to the employers;

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

d) The unity the conflicting interests of the employers and the employees so as to promote and sustain increased and smooth working.

The all premium or bonus systems consist of -

a) The setting of a standard time for completion of a definite output or piece of work for a fix wages; and

b) the fixing of a rate of percentage by which bonus would be earned by the worker over and above the set wages, if the standard time is saved or the standard output is exceeded. The incentive plans results in higher wages lower labour turnover and better industrial relations and moral. Following are the some important wage incentive plans are :

The chief incentive plans are :

1. Halsey Premium plan;
2. Halsey-Weir Premium plan;
3. Rowan Premium Plan;
4. The 100 percent premium plan;
5. The Bedeaux Point plan;
6. Taylor's Differential Piece rate plan;
7. Merric Multiple Piece Rate Plan;
8. Gnatt Task Plan;
9. Emerson Efficiency Plan;
10. Co-partnership System;
11. Profit sharing.

1. Halsey Premium Plan : This plan was devised by F.A. Halsey. This is a time-saved bonus plan which is ordinarily used when accurate performance standards have not been established. Under this plan, it is optional for a workmen to work on the premium plan or not. His day's wage is assured to him whether he earns a premium or not, provided that he is not so incompetent as to be useless. A standard output within a standard time is fixed on the basis of previous experience. The bonus is based on the amount of time saved by the worker. He is entitled to a bonus calculated on the basis of $33\frac{1}{3}$ per cent of the time saved. He thus gets wages on the time rate basis. If he does not complete the standard output within the stipulated time, he is paid on the basis of a time wage. The

plan is a combination of the day wage and the piece wage in a modified form.

Merits : The merits of this plan are :-

- a) It guarantees a fixed time wage to slow workers and at the same time, offers extra pay to efficient workers.
- b) The cost of labour is reduced because of the percentage premium system; the piece rate of pay gradually decreases with increased production.
- c) The plan is simple in design and easy to introduce.
- d) As the wages are guaranteed, it does not create any heart burning among such workers as are unable to reach the standard.

Demerits : The disadvantages of the plan are :-

- a) It depends upon past performance instead of making new standards.
- b) The workers can beat the game by spurring on certain jobs to capture a premium and soldiering on other jobs to rest under the protection of the guarantee of day wages.
- c) From the point of view of the administration, the policy is one of drift, for, in this plan, the worker is left alone to decide whether or not to produce more after the standards has been reached.

2. Halsey-Weir Premium Plan :

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

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

3. Rowan Premium Plan : This plan differs from the Halsey plan only in regard to the determination of the bonus.

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

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

4. The 100 Per Cent Premium Plan :

Under this plan, task standards are set by time study or work sampling, and rates are expressed in time rates rather than in money. A definite hourly rate is paid for each task-hour of work performed. The plan is identical with the straight piece rate plan except for its higher guaranteed hourly rate and the use of task time as a unit of payment instead of a price per piece. The worker is paid the full value of the time saved. If he completes the task of 10 hours in 8 hours and if the

hourly rate is Rs.0.50, his total earning will be -

$$\begin{aligned} & \text{Rs. } 8 \times 0.50 + (10-8) \times 0.50 \\ & = \text{Rs. } 4.00 + 1.00 \\ & = \text{Rs. } 5.00. \end{aligned}$$

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

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

6. Taylor's Differential Piece Rate Plan : This system was introduced by Taylor with two objects :

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

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

This system is designed to encourage the specially efficient worker with a higher rate of payment and to penalise the inefficient by a lower rate of payment. In practice, this plan is seldom used now.

7. Merric's Multiple Piece Rate System : This system is based on the principle of a low piece rate for a slow worker and a higher piece rate for higher production, but the plan differs from Taylor's plan in that it offers three graded piece rates instead of two :

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

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

8. Gnatt Task and Bonus Plan : This plan has been devised by H.L.Gnatt and is the only one that pays a bonus percentage multiplied by the value of standard time. Under this system, fixed time rates are guaranteed. Output standards and time standards are established for the performance of each job. Workers completing the job within the standard time or in less time plus a bonus which ranges from 20% to 50% of the time allowed and not time saved. When a worker fails to turn out the required quantity of a product, he simply gets his time rate without any bonus.

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

comes to 20% of the guaranteed wage. At 120% efficiency, a worker receives a bonus of 40% and at 140% of efficiency, the bonus is 60% of the day wage.

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

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

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

11. Profit Sharing : Prof. Seager observes "Profit sharing is an arrangement by which employees receive a share, fixed in advance of the profits". The International Co-operative Congress held in Paris in 1889 considered the issue and defined profit sharing as "an agreement freely entered into, by which an employee receives a share fixed in advance of the profits".

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

* Personnel Management - By C.B. Mamoria, Ed. 1980
Page No. 425 to 432.

IX) Non-financial Incentives :

Non-financial or non-monetary incentives include all other incentives planned or unplanned, which stimulate exertion, merely cash wages can not help in solving the problem of industrial productivity. In order to infuse enthusiasm in a worker for greater and better work, non-monetary incentives have played a distinct and significant role. If to create more interest, additional cash wages are paid to a worker, it is likely that it may not add to his efficiency, because under the present socio-economic circumstances of the Indian working class, he is very likely to mis-use the additional cash vices like gambling, drinking, prostitution etc.

While monetary incentives often appear as important motivators, many factors unrelated to money can also serve as 'attention-getters' and 'encouragers of action'. The classification of such non-financial incentives tend to a smorgasbord of desirable 'things' that the potentially at the disposal of the organisation. The creation of such rewards is only limited by managers ingenuity and ability to assess 'payoffs' that individuals within the organisation find desirable and which are within the managers jurisdiction. As the old proverb goes : "one man's food is another man's poison" certainly applies to rewards. What are employee views as "something I have always wanted", another finds superfluous. Therefore, care must be taken in providing the 'right' reward for each person.

Following are some examples of non-monetary incentives :

The need-motives for affiliation, power and recognition in particular can be appealed to by such incentives, e.g.

1. A person with strong need for affiliation may respond readily to job assignments that provide with opportunities to relate to socially attractive and satisfying individuals or groups.
2. The opportunity to communicate with and rate to others is a factor many workers emphasize and seek.
3. Persons who are very status conscious, can be motivated with the availability of a paneled office, a carpeted floor

and wall paintings, a large desk and aristocratic furniture or a private bathroom, impressive job title, their own visiting cards, their own secretary and telephone or a well located parking place with their name clearly painted underneath the "Reserved" sign-all of which are status symbols.

4. An employee with high level desires for power may respond easily to opportunity whereby he can gain leadership and administrative responsibilities. He may be stimulated by participative or free rein leadership in the decision making process. The use of job enlargement provide added incentive to some employees because they feel capable of controlling wider sets of activities than they previously performed.

5. Persons interested in enhancing their reputations and receiving recognition in the eyes of others may respond to verbal 'praise' or to publicized 'awards'.

6. Persons proud of their long service may be attracted by awards recognising their seniority.

7. Workers in safety minded organisation are often attracted by competition an awards for best safety performance records.

8. Individuals proud of their past accomplishments may feel recognised and rewarded if their superiors extend opportunities for participation or more complex and more important job assignments.

In short, management may look to many non-monetary incentives for effective motivation those who are most need-conscious.

In many cases, these non-monetary incentives might stimulated even more attention than the monetary ones.

X) Fringe Benefits :

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

Purposes :

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

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

XI) Dearness Allowance :

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

1. The cost of living prevailing in the region or locality;
2. The capacity of the industry to pay;
3. The practices in similar concern. -

should be merged with basic wages. This is demanded on the ground, that the rise in prices has come to stay. In the past, benefits are determined on the basis of total wages i.e. basic wages plus dearness allowance.

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

XII) BONUS :

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

Bonus implied originally a kind of payment in addition to wages as a gesture of goodwill. It has been customary in India to pay a bonus to workers before an important festival. Now it is demanded as a matter of right. The Labour Appellate Tribunal evolved a formula which was later adopted by the Bonus Commission and with some modifications, accepted by the Government. The payment :

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

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

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

- a) Flat rate;
- b) Rate linked to Consumer price index;
- c) Graduated Scales according to slabs.

Merger of Dearness Allowance with basic wages : In our country there has been a demand that at least part of dearness allowance of Bonus Act 1965 was expected to end disputes on bonus but did not do so. It applies to establishments employing 20 or more persons. It also applies to Public Sector enterprises, which complete, even partially, with the private sector. All employees during salary upto Rs.2500/- per month are eligible for bonus, restricted to Rs.750/- of the pay.

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

In keeping with the promise contained in the parties election manifest to the Janta Government at the Central has restored the minimum bonus of 8.33% for the accounting year of 1976. An attempt has been made to induce the workers to invest the additional bonus together with the additional Dearness allowance released in National Development Bonds. Decision on bonus for 1977 will depend on the report of Committee on wage and income policy which is currently at work.

* Personnel Management - By C.B.Mamoria,
3rd Ed., 1984.