

CONTENT

Evolution and development of wage policy in India, statutory minimum wages, wage criteria, wage machinery, objectives of a wage policy, dearness allowances, fringe benefits, wage differentials, wage administration, bonus, managerial pay trends.

Definition:

The establishment of an implementation of sound policies and practices of employee compensation. It includes such areas as job evaluation, development and maintenance of wage structures, wage changes, wage surveys and related issues.

Wages:

Payment made usually at the end of the day's work. The term further denotes payment made to workers doing physical work.

Salary:

Payment made to employees at the end of every month usually it refers to payment made to those who are doing white-collar job.

Compensation of wages:

- i. **Basic pay-** for the skill
- ii. **Increment-** for continued learning of the skill year after year.
- iii. **Incentive-** for efficiency
- iv. **Dearness allowances-** for cost of living.
- v. **Overtime-** for clearing extra workload which cannot be done during normal hours.
- vi. **H.R.A. -** allowance for rent.
- vii. **C.C.A. -** to meet additional cost of living in metros.
- viii. **Social Security Schemes-** like ESI and PF and pension.
- ix. **Welfare-fringe benefits-perquisites** (all other allowances and loan) like transport, medical facilities, housing, schooling, etc. - not related to efficiency or skill. These are given to enhance quality of work life-also called QWL.
- x. **Bonus:** sharing the profit.

Important Principles of Wage and Salary Administration:

- ◆ The jobs that call for equal effort/skill/knowledge should be classified into one cadre.
- ◆ Find out the total no. of jobs and total positions as per MPP.
- ◆ The financial worth of each and every job should be ascertained based on job evaluation. After the financial worth of all the jobs is ascertained it should be fitted into the cadres. This is the starting point of pay scales.

- ◆ Fix the actual pay scales.
- ◆ Fix the increments, should the incremental slab be 15 or 10.
- ◆ Should there be fixed increments or flexible increments. Should there be an efficiency bar what should be the actual quantum of the increment?
- ◆ What should be the pay differentials (means the gap between two cadres or gap between one pay scale and the other?)
- ◆ For each job the highest point in career should be fixed- what is the highest cadre for each job? For example, a medical officer of a manufacturing organization cannot become the CEO, whatever is his salary.
- ◆ There should be a balance between reporting relationships and pay as far as possible-means the bosses generally should get more pay than the subordinates.
- ◆ The pay scale should be adequate in number to provide for promotional avenues.
- ◆ Any policy on compensation should be in tune with the overall company policies and the HR policies.
- ◆ The organization should have a clear policy on overtime and incentives.

Guiding principles of wages:

- ◆ Payment of remuneration determined in accordance of each job.
- ◆ The pay policy of the organization shall protect the interest of both the employer and the employee.
- ◆ The wages rate for similar job in similar organization shall be taken into consideration.
- ◆ The pay policy of the organization shall recognize individual differences, those employees contributing more.
- ◆ The employees and their union shall be informed of the procedure adopted to determine the wages raise.
- ◆ The pay structure shall be made flexible. So that any adjustment required can be made easily.
- ◆ There shall be a prompt payment of the amount due to the employees.
- ◆ The pay given to the employee shall assure him and his family a reasonable standard of living.
- ◆ There shall exist a forum too redress employees' grievances over pay inequalities.
- ◆ Wage policy of the organization shall be reviewed periodically in true with changing needs.

Factors in determining wage and salary structure of workers:

1. The Organization's Ability to Pay

Organization decisions on job and wage structures represent a -balancing of the aforementioned forces. But the strength of these forces varies by organization type and within organizations by job clusters.

Banks, insurance companies, department stores, and restaurants are organizations with primarily market-oriented wage structures. Professionals are groups of employees whose jobs have been designed largely by the educational process they have been through. This makes for a commonality between organizations in the design of professional jobs.

Organizations having many specialized jobs, dealing in labor markets too disorganized to provide adequate grading and pricing, and lacking unionization have primarily internally determined wage structures. Product markets may influence such wage structures, but only if labor cost is high relative to total cost. Internally determined wage structures result from

management decisions and may range from highly rational structures flowing from job evaluation to a system of personal rates.

Organizations in small towns, isolated locations, or nonunion communities provide examples, as do unique organizations in larger communities, and government employment. Most large, unionized organizations have what might be called union-and-product-oriented wage structures. In these organizations, wage structures represent management decisions shaped and restrained by technology, unions, and cost-price relationships, and the product market. Technology provides some uniformity in job structures in organizations engaged in common lines of production. Unions, through their insistence on traditional relationships, establish some key jobs and job clusters and provide an upward thrust to the entire structure.

Cost-price relationships and the product market compel the organization to resist this upward push and to make changes in jobs and job relationships in line with such resistance. Low ratios of labor cost to total cost and inelastic product demand, however, reduce competitive pressures on organizations.

Professional employees (such as engineers) have salary structures that combine market orientation and internal determination, regardless of the major activity of the organization. Managerial salary structures are primarily internally determined except in very tight labor markets, without regard to organization type.

2. Supply and Demand of Labor

The labor market conditions or supply and demand forces operate at the national, regional and local levels, and determine organizational wage structure and level. If the demand for certain skills is high and the supply is low, the result is a rise in the price to be paid for these skills. When prolonged and acute, these labor-market pressures probably force most organizations to "reclassify hard-to-fill jobs at a higher level" than that suggested by the job evaluation. The other alternative is to pay higher wages if the labor supply is scarce; and lower wages when it is excessive. Similarly, if there is great demand for labor expertise, wages rise; but if the demand for manpower skill is minimal, the wages will be relatively low. "The supply and demand compensation criterion is very closely related to the prevailing pay, comparable wage and on-going wage concepts since, in essence, all of these remuneration standards are determined by immediate market forces and factors."

3. Prevailing Market Rate

This is also known as the '**comparable wage**' or '**gain wage rate**', and is the most widely used criterion. An organization's compensation policies generally tend to conform 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 unions encourage this practice so that their members can have equal pay, 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 organization's competitors, it will not be able to attract and maintain a sufficient quantity and quality of manpower.

4. The Cost of Living

The cost-of living pay criterion is usually regarded as an Auto **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 labor contracts. When the cost of living increases, workers and trade unions demand adjusted wages to offset the erosion of real wages. However, when living costs are stable or decline the management does not resort to this argument as a reason for wage reductions.

5. The Living Wage

This criterion states 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 favor using the concept of a living wage as a guide to wage determination because they prefer to base the wages of an employee on his contribution rather than on his need. Also, they feel that the level of living prescribed in a worker’s budget is open to argument since it is based on subjective opinion.

6. Productivity

It is a criterion, and is measured in terms of output per man hour. It is not due to labor efforts alone. Technological improvements, better organization and management, the development of better methods of production by labor and management, greater ingenuity and skill by labor 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.

7. Trade Union’s Bargaining Power

Trade unions do affect 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. Unions affect wage structure, but the differential effects of craft and industrial unionism and the type of bargaining relationship are considerable. Craft unions tend to determine craft rates as well as the design of craft jobs for all organizations employing members of the craft.

Other unions, most of them craft unions, seek to preserve customary relationships and job security, resist changes in job content and structure, and are uninterested in the employer’s problems of maintaining economic efficiency. Still other unions seem totally uninterested in job designs and the wage structure of the organization and they;

- **Insist on no wage cuts when job content changes,**
- **Demand wage increases for all increases in job productivity,**
- **Strongly resist job-content and other changes calculated to increase productivity, and**
- **Encourage wage-inequity grievances.**

In such cases job, and wage structures become chaotic, and correcting the irrationalities may require long and bitter strikes, which are often prolonged by political struggles within the union resulting from the wage inequities.

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 an organization is to be ascertained. Jobs are graded according to the relative skill, effort, responsibility, and job conditions required.

9. Managerial Attitudes

These have a decisive influence on the wage structure and wage level since judgment 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 matters require the approval of the top executives. Lester observes, "Top management's desire to maintain or enhance the company's prestige has been a major factor in the wage policy of a number of firms. Desires to improve or maintain morale, to attract high-caliber employees, to reduce turnover, and to provide a high living standard for employees as possible also appear to be factors in management's wage-policy decisions.

10. Psychological and Social Factors:

These determine in a significant measure how hard a person will work for the compensation received or what pressures he will exert to get his compensation increased. Psychologically, persons perceive the level of wages as a measure of success in life; people may feel care have an inferiority complex, seem inadequate or feel the reverse of all these. They may not take pride in their work, or in the wages get. Therefore, the management in establishing wage rates should not overlook these things. 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, color, sex or religion." To satisfy the conditions of equity, fairness and justice, a management should take these factors into consideration.

11. Skill Levels Available in the Market

With the rapid growth of industries, business trade, there is shortage of skilled resources. The technological development, automation has been affecting the skill levels at faster rates. Thus the wage levels of skilled employees are constantly changing and an organization has to keep its level up to suit the market needs.