UNIT 9 : WAGE AND SALARY ADMINISTRATION

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9.1 LEARNING OBJECTIVES

After going through this unit, you will be able to :

- explain the concept of wages
- discuss the theories of wages
- describe the wage determination process
- describe wage payment procedure
- discuss the types of wages
- explain wage differentials.

9.2 INTRODUCTION

This unit starts with the discussion on the concepts of wages. Then the different theories of wage payments and wage determination process are described elaborately.

Wage payment procedures and types of wage are two important issues

which are discussed in detail in this unit. In the last part of this unit, we will discuss on wage differentials.

9.3 CONCEPT OF WAGES

'Wage and Salary Administration' refers to the establishment and implementation of sound policies and practices of employee compensation. The basic purpose of wage and salary administration is to establish and maintain an equitable wage and salary structure. Wages and salaries are often one of the largest components of cost of production and such have serious implications for growth and profitability of the company. On the other hand, they are the only source of workers' income.

After the independence and particularly after 1948, some new terms relating to wages began to be used. These are:

1. Statutory Minimum Wages
2. Basic Minimum Wages
3. Minimum Wages
4. Fair Wages
5. Living Wages
6. Need Based Wages

1. Statutory Minimum Wages: By it we mean the minimum amount of wages which should essentially be given to the workers as per provisions of the Minimum Wages Act, 1948.

2. Basic Minimum Wages: This minimum wage is fixed through judicial pronouncement, awards, industrial tribunals and labour. The employers are essentially to give this minimum wage to the workers.

3. Minimum Wages: The concept of minimum wages has developed due to different standards in different countries. In Indian context, minimum wage means the minimum amount which an employer thinks necessary for the sustenance of life and preservation of the efficiency of the worker. According to Fair Wage Committee, the minimum wages must also provide for some measures of education-

medical requirements and amenities.

4. **Fair Wages:** In order to bring about improved relations between labour and management an effort has been made in modern times that the labour gets a fair deal at the hands of owners and managers of industries. Various proposals were undertaken at the Industries Conference in 1947 and a resolution known as the Industrial Truce Resolution was passed. It is provided for the payment of fair wages to labour. The government of India appointed a Fair Wages committee in 1948 to determine the principles on which fair wages should be based and to suggest the lines on which those principles should be applied. According to the report on this Committee, Fair Wages is that wages which the labourer gets for his work just near to minimum wages and living wages. Generally, the current rate of wages being paid in the enterprise are known as fair wages.



Diminution —

The act of decreasing or reducing something

5. **Living Wages:** According to Fair Wage Committee Report, "The living wage should enable the male earner to provide for himself and his family not merely the bare essentials of food, clothing and shelter, but also a measure of frugal comfort including education for children, protection against ill health, requirements of essential social needs and a measure of insurance against the more important misfortunes including old age." According to the Committee on Fair Wages, the living wages represent the highest level of the wages and include all amenities which a citizen living in a modern civilized society is to expect when the economy of the country is sufficiently advanced and the employer is able to meet the expanding aspirations of his workers. The Living Wage should be fixed keeping in view the National income and the capacity of the industry to pay.

6. **Need Based Wages:** The Indian Labour Conference at its 15th session held at New Delhi in July, 1957 suggested that minimum wage fixation should be need based. Following are the important points of the Resolution of the Conference.

a) The standard working class family should include three consumption units for the one earner.

b) Calculation of minimum food requirements should be made on the basis of the recommendation of Dr. Aykoroyed i.e. 27000 calories for an average Indian adult.

c) Calculation of cloth should be made @ 18 yards annually for one member. As such, a family consisting of four members will require 72 yards of cloth.

d) The workers should get minimum rent as per guidelines fixed by the government in the industrial housing policy.

e) Expenses for fuel, light and so on should be equal to 20% of the entire minimum wages.



Frugel —

Avoiding waste

9.4 THEORIES OF WAGES

1. **Subsistence Theory:** This theory was propounded by David Richardo. Richardo states that "The labourers are paid to enable them to subsist and perpetuate the race without increase or diminution." This theory is also known as "Iron Law of Wages". According to this theory, if the wages fall below the subsistence level, the number of workers would decrease as many of them would die of hunger, disease, malnutrition etc.. This would make the wage rates go up as labour will become scarce. However, if the workers are paid more than the subsistence wages, they would marry and procreate. This would increase their number and bring down the rate of wages.

2. **Wage Fund Theory:** This was propounded by Adam Smith. He assumed that wealthy persons have funds of surplus wealth, as a result of their savings wages are paid out of these funds. This fund could be utilised for employing labourers for work. If the fund was large, wages would be high if it was small, wages would be low, just enough for the subsistence. Thus, the size of the fund determined the demand for labour and the wages that could be paid.

3. **Residual Claimant Theory:** This theory was propounded by Francis A Walker. According to Walker, there are four factors of production namely, land, labour, capital and organisation. Wages represent the amount of value created in the production which remains after payment of the other three factors of production namely land, capital and organisation.

4. **Surplus Value Theory of Money:** This theory was propounded by Karl Marx. According to Marx, Labour was to be treated as an article of commerce, which could be purchased on payment of subsistence price. The price of any product was determined by the labour time needed for producing it. The labourers were not paid in proportion to the time spent on job, but much less. The surplus, thus created, was utilized for paying other expenses.

5. **Marginal Productivity Theory:** This theory was propounded by Wicksteed and Clark. According to this theory wages depend upon the demand for and supply of labour. Wages are based upon the entrepreneur's estimate of the value that will probably be produced by the last or marginal worker. Workers are paid only what they are economically worth. As long as additional worker contributes more to the total value than the cost in wages, it pays the employer to continue hiring. The result is that the employer has a larger share in profits as he doesn't have to pay to non-marginal workers.

6. **Bargaining Theory of Wages:** This theory was propounded by John Davidson. According to him, wages are determined by the relative bargaining power of workers or trade unions and of employers. When a trade union is involved, monetary benefits, incentives, job differentials etc. tend to be determined by the relative strength of the organisation and the trade union.

9.5 WAGE DETERMINATION PROCESS

Wage determination is a complex process. However, wage determination process consists of the following steps:

1. **Job Analysis:** Job analysis describes the duties, responsibilities, working conditions and inter-relationships between the job as it is and the other jobs with which it is associated. It attempts to record and analyse details concerning the training, skills, required efforts, qualifications, abilities, experience, and responsibilities expected of an employee. After determining the job specifications, the actual process of grading, rating or evaluating the job occurs. A job is rated in order to determine its value relative to all the other jobs in the organization which are subject to evaluation. The next step is that of providing the job with a price. This involves converting the relative job values into specific monetary values or translating the job classes into rate ranges.

2. **Wage Survey:** In determining the wages for a specific job it is very necessary to work as to what wages are being given for the same job in other enterprises. If, on the basis of utility, the wages for a specific job are determined below the wages for the same job on other enterprises, following will be its disadvantages:

    1. Good persons and persons of merit will not be available.
    2. If such people are at all obtained for employment, they will shift to another enterprise after some time.

    It is, therefore, necessary to keep in mind the following in wage-survey:

    i) Term of survey, (weekly or monthly)

    ii) The whole wage-payment-knowledge of daily working hours or monthly payment.

    iii) Definition of jobs.

    iv) Appropriate questionnaire for collecting information.

    v) Scientific technique of collecting the data.

3. **Group Similar Jobs into Pay Grades:** After the results of job analysis and salary surveys have been received, the committee can

turn to the task of assigning pay rates to each job, but it will usually want to first group jobs into pay grades. A pay grade is comprises the jobs of approximately equal difficulty or importance as determined by job evaluation. Pay grading is essential for pay purposes because instead of having to deal with hundreds of pay rates, the committee might only have to focus on a few.

4. **Price Each Pay Grade:** The next step is to assign pay rates to pay grades. Assigning pay rates to each pay grade is usually accomplished with a wage curve. The wage curve depicts graphically the pay rates currently being paid for jobs in each pay grade, relative to the points or ranking assigned to each job or grade by the job evaluation. The purpose of wage curve is to show the relationship between (i) the value of the job as determined by one of the job evaluation methods and (ii) the current average pay rates for the grades.

5. **Fine-Tune Pay Rates:** Fine tuning involves correcting out of line rates and developing rate ranges.

   (i) **Correcting out of Line Rates:** The average current pay for a job may be too high or too low, relative to other jobs in the firm. If a rate falls well below the line, a pay rise for that job may be required. If the rate falls well above the wage line, pay cuts or a pay freeze may be required.

   (ii) **Developing Rate Ranges:** Most employers do not pay just one rate for all jobs in a particular pay grade. Instead, they develop rate ranges for each grade so that there might be different levels and corresponding pay rates within each pay grade. The rate is usually built around the wage line or curve. One alternative is to arbitrarily decide on a maximum and minimum rate for each grade. As an alternative, some employers allow the rate for each grade to become wider

for the higher pay ranges reflecting the greater demands and performance variability inherent in these more complex jobs.

6. **Wage Administration Rules:** The development of rules of wage administration has to be done in the next step. It is considered advisable in the interests of the concern and the employees that the information about average salaries and ranges in the salaries of group should be made known to the employees concerned; for secrecy in this matter may create dissatisfaction and it may also vitiate the potential motivating effects of disclosure. Finally, the employee is appraised and the wage is fixed for the grade he is found fit.



CHECK YOUR PROGRESS

Q.1 State true or false for the following statement.

(i) Subsistence theory is known as “Iron Law of Wages”. (True / false)

(ii) Wage fund theory is propounded by F.A. Walker. (True / false)

(iii) Wage survey is a part of wage determination process.(True/false)

9.6 WAGE PAYMENT PROCEDURE

Normally wages are always to be paid in cash. However there may be a system of paying a worker in kind as well as in cash. Moreover as per the Act of wage payment, the salary of a person has to be paid either daily,

weekly, fortnightly or monthly. Besides there should be proper records of payment of wages and no deduction except what is permissible is to be allowed against payment of wages.

9.7 TYPES OF WAGES

Determination of reasonable wages is a difficult task for the management and so they should give adequate attention to this area. However, different types of wage payment can be divided into three parts:

1. Time wage
2. Piece wage
3. Wage incentive plan

1. **Time wage:** In this type the worker is given remuneration according to time. This type of remuneration may be per hour, per day or per month or per year. There exists no relationship between the quantum of work and the wage. This type is in operation in all industries in India. This plan is very simple to understand. The worker works after due thinking and with convenience. However it encourages the tendency of prolonging or delaying the work unnecessarily. Moreover, it is very difficult to measure the productivity of the workers under this type of plan.

2. **Piece Rate System:** In this type of plan, a worker gets remuneration according to his output irrespective of the time he takes in finishing his job. Here, the payment of remuneration is related to work and not to time. Under this type, the workers are encouraged to earn more and more. The more the output is, the more the remuneration is. The workers are also at liberty for their job with interest and they need not be supervised. However, this type of wage payment is not suitable for commodities of artistic taste. Moreover, the quality of goods goes down.

3. **Wage incentive Plan:** This type of wage payment is the combination of two types the above referred. Efforts have been made here to obtain the advantages of both these types while avoiding their disadvantages. This includes:

a) **Halsey Premium Scheme:** Under this scheme if a worker gives an output more than the fixed standard job, he is given about 33% to 50% of the remuneration for that job as bonus. Here a standard of output is fixed and a standard of time is also fixed for the completion of that job before hand. If the job of fixed standard is completed with the standard time fixed for the purpose, the worker gets his fixed wages. But, if he completes the job before the fixed standard time and, thereby, saves some time, he gets a fixed percentage of his wages for the time so saved as bonus.

b) **Rowan Premium Scheme:** This plan is an improvement upon Halsey Plan. Under this plan, premium is that proportion of the wages for the time taken which the time saved bears to the standard time. The credit of this incentive premium method goes to Rowan of Scotland. The worker is paid wages at normal rates for the duration he has worked and is paid extra money in the form of premium on the basis of the time he has saved. Under this scheme, the standard work and the standard time both are fixed. The wages for the time saved will increase in the same percentage that is equal to the proportion the time saved bears to standard time. The premium for the time saved cannot be more than the total standard wages. Thus, a worker cannot get cleverly wages more than needed.

c) **Taylor's Plan:** Taylor plan is based on wages per unit. In other words, a worker is paid wages in accordance with his output. Higher price rate is fixed for the workers who give production over and above the standard workload fixed. The lower rate is fixed for the workers who give production below the standard workload fixed.

d) **Merrick Plan:** This plan is somewhat a modified form of

Taylor's plan. This plan offers three grade piece rates than the two offered in the Taylor's plan.

I. First limit is for new workers and is very low.

II. Second limit is for workers with average efficiency.

III. Third limit is for very efficient workers.

e) **Gantt Plan:** This is also a modified form of Taylor plan. In it, wages are fixed on the basis of time. On the other hand, the efficient workers are given wages per unit. Thus, the workers who give more output get their wages at enhanced rates.

f) **Emerson Plan:** This plan is a combination of Taylor, Merrick and Gantt plans. However, a slight modification in these plans has been made and different rates of bonus have been fixed under this plan. The amount of bonus increases with the increase in efficiency. These percentages are as under:



Anomalies —

Deviation from the normal rule.

1% bonus on 67.5 efficiency.

10% bonus on 90% efficiency.

20% bonus on 100% efficiency.

20% + 30% extra on bonus on efficiency more than 100%.

g) **Profit-Sharing Scheme:** Under this scheme, workers are given a certain percentage of profits as bonus. But it suffers from one defect. Suppose, there is no profit in a particular year. Workers will also not be given the bonus for that very year. The workers think that they have been deceived by the employers and therefore, clash with them on this very issue. This assumes the form of worker-management unrest and has its bad effect on the production. This scheme is undoubtedly a new and better scheme. But, the trade unions misuse the scheme.

h) **Scalan Plan:** Under this scheme, the workers are paid bonus equal to the percentage of profits earned more than the profits earned last year by the organisation. 15% of the bonus is deducted and this deduction is deposited in the fund which is distributed among the workers in the year to come.

9.8 WAGE DIFFERENTIALS

Wage differentials mean differences or disparities in wages. Wages differ in different employments or occupations, industries and localities and also between persons in the same employment or grade. One, therefore comes across such terms as occupational wage differentials, inter-industry, inter-firm, inter-area or geographical differentials and personal differentials. In other words, wage differentials may be as follows:

i) **Occupational Differentials:** The reasons for occupational wage differentials can be varying requirements of skill, knowledge, demand supply situation, degree of responsibilities etc. In countries adopting a course of planned economic development, skill differentials play an important role in manpower and employment programmes, for they considerably help in bringing about an adequate supply of labour with skills corresponding to the requirements of product plans.

ii) **Inter-firm Differentials:** Inter-firm differentials reflect the relative wage levels of workers in different plants in the same area and occupation. Differences in technological advancement, managerial efficiency, financial capability, age and size of them, relative advantages and disadvantages of supply of raw materials, power and availability of transport facilities- those are also accounted for considerable disparities in inter-firm wage rates. Lack of co-ordination among adjudication authorities, too, are responsible for such anomalies.

iii) **Inter-area or Regional Differentials:** Such differentials arise when

workers in the same industry and the same occupational group, but living in different geographical areas, are paid different wages. Regional wage differentials may be conceived in two senses. In the first sense, they are merely a part of inter-industry differentials in a particular region. In the second sense, they may represent real geographical differentials, resulting in the payment of different rates for the same type of work. In both cases, regional differentials affect the supply of manpower for various plants in different regions.

iv) **Inter-industry Differentials:** These differentials arise when workers in the same occupation and the same area but in different industries are paid different wages. Inter-industry differentials reflect skill differentials. The industries paying higher wages have mostly been industries with a large number of skilled workers, while those paying less have been industries with a large proportion of unskilled and semi-skilled workers. Other factors influencing inter-industry differentials are the extent of unionisation, the structure of product markets, the ability to pay, labour-capital ratio, and the stage of development of an industry.

v) **Inter-personal Wage Differentials:** These differentials are between workers in the same plant and the same occupation. These may be due to differentials in sex, skills, age, knowledge or experience.



CHECK YOUR PROGRESS

Q.1. In which year was the Minimum Wages Act was passed?

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Q.2. Who has provided the subsistence theory of wage?

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Q.3. In which year the Payment of Wages Act was passed?

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Q.4. What is fair wage?

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Q.5. What is minimum wage?

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9.9 LET US SUM UP

In this unit we have discussed the following aspects–

- It may be noted that in India, the term 'wage' is applied in relation to blue collar (factory workers) and 'salary' in relation to white collar employees.
- The main objective of wage and salary administration is to establish and maintain an equitable wage and salary system to obtain, retain, and motivate people of required skill in an organisation.
- Theories of wages include wage fund theory, subsistence theory, surplus value theory, residual claimant theory, marginal productivity theory etc.
- Wage determination process includes job analysis, conduct of salary survey, group similar jobs into pay grades, price each pay grade, fine-tune pay rates and wage administration rules.
- Types of wage payment include time wage, piece wage and wage incentive plan.
- Wage differentials are the result of occupational differences, inter-firm differentials, regional differentials, inter-industrial differentials and personal differentials.

7. In order to protect the interest of workers, the legislations enacted by the Government of India are Payment of Wages Act, 1936; Minimum Wages Act, 1948; Payment of Bonus Act, 1965.



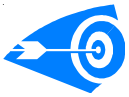
9.10 FURTHER READINGS

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9.11 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1

(i) True (ii) False (iii) True

Ans. to Q. No. 2

1. 1936.

Ans. to Q. No. 3

David Richardo.

Ans. to Q. No. 4

1948

Ans. to Q. No. 5

Fair wage is that wage which is above the minimum wage but below the living wage. It can be fixed only by comparison with an accepted standard wage. Such a standard can be determined with reference to those industries where labour is well organized and has been able to bargain well with the employer.

Ans. to Q. No. 6

Minimum wage is that wage which must be paid whether the company earns any profit or not. This wage provides not merely for bare sustenance of life, but also for the preservation of the efficiency of the worker. Minimum wage may be fixed by an agreement between the management and the workers but is usually determined through legislation.



9.12 POSSIBLE QUESTIONS

Q.1. What is living wage?

Q.2. What is wage differentials?

Q.3. What is time wage?

Q.4. Write short note on piece wage.

Q.5. Explain the theories of wage payments in detail.

Q.6. Discuss in detail the wage determination process.

Q.7. Explain the various wage incentive plans.

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