CHAPTER V

RE Munerating the Employees

5.1 : Introduction
5.2 : Remunerating and Compensating the Employees.
5.3 : Determinants of Employee Compensation Decisions.
5.4 : Essentials of a Good Remuneration System.
5.1: Introduction:

Right mix and adequate remuneration and compensation to the employees is of critical significance in all organisations - large or small. Wages and salaries of employees decide the income of the employees, cost to the employer and potential tax revenue to the government. The purchasing power of an individual is generally dependent upon the wages and salaries earned which, in turn, decides the level of economic activity quite significantly. So all organisations, irrespective of their size and activities, have to have reasonable and satisfying remuneration and compensation package for its employees.

Large organisations are generally found paying higher remuneration and as such termed as into “islands of prosperity”. Small organisations describe as “Oceans of distress” are known for generally paying low remuneration. What is important here is the adequacy and satisfying element in remuneration and compensation package which makes them perform as per needs of the organisation.
Sound remuneration policy and practice is one of important, essential not only to attract talented employees but also to motivation and to retain them. Unfortunately small sector units are generally characterised by adhocism in regard to this. It is not uncommon to find individuals working in such organisation for differing payments though the nature and quantum of the work they do is the same. It appears that there is no well-established norm and principle governing the remuneration policy in these units. It is more a matter of bargaining between the employer and individual employee, which in no way can be termed as a sound policy and practice. The term, remuneration and compensation should not be mis-construed to refer to the mere wages and salaries. In addition it includes all benefits and facilities like premium, bonus, overtime payment, rest intervals and lot many payments for welfare activities. To quote Milkovich Boudreau- “Remuneration and Compensation refers to all the forms of financial returns, tangible services and benefits received as part of an employment relationship”.

5.2: Remunerating and Compensating the Employees:

Employees join at organisation to render their services with their own personal expectation and aspiration. They rightly expect equitable and satisfying reward for what they do in the organisation. As such a systematic, sound, rational and satisfying remuneration and compensation packages
must be offered to them. If it is not done so, poor performance or migration to another organisation will have to be witnessed very frequently. There are number of ways suggested for remunerating the employees. They are:

i) **Straight Piece Rate**: Straight piece rate is a fixed sum per unit produced, that is given to the workers irrespective of the time taken. Calculation is very simple. Units produced by a worker multiplied by the Straight Rate per unit is the amount the worker gets for the work he does. This system does not guarantee any minimum wage payment.

ii) **Consolidated Monthly Payment**: Here in this system the basis of payment is time spent for the work in the organisation. The payment under this scheme may be made on monthly, fortnightly, weekly or even daily basis. In this scheme the employee is assured a fixed or consolidated amount as remuneration.

iii) **Bonus and Commission**: This is a scheme to motivate the employees to perform better. Under this scheme employees are paid something more than what they would have received normally under or above two schemes. Since this payment is based on better results given by the employees it has generally been found to be working well. In addition there are number of incentives payment plans such as:-
a) **Piece Rate with Guaranteed Day Rate**: Which ensures a minimum payment to the worker even when the payment due to him as calculated on the basis of Piece Rate is lesser than the guaranteed amount. So he gets either the guaranteed minimum amount or the amount calculated based on Piece Rate whichever is more.

b) **Differential Piece Rate**: Which provides different piece rate depending upon the output given by the workers as compared to the standard decided by the management.

There are number of plans available under this system say:

i) Tailor's Differential Piece Rate,

ii) Emmerson's Efficiency system,

iii) Merrick's Differential Piece Rate and,

iv) Gant Task and Bonus System.

In essence, they are one and same in motivating the employees to increase the production.

c) **Monthly Salary**: It is a pay system with scales of pay which provides a scale of pay one is assure to get with the starting basic pay, annual increments and allowances till he reaches the maximum of the scale of pay. This has definitely positive impact on the employees for the simple reason that with the lapse every year after the date of joining he gets higher payment increased by the rate of increment.
**d) Halsey plan**: It is a plan which provides for bonus payment based on the time saved in doing the work by the worker. Obviously there is a standard time laid for each job process or operation. The bonus due to the worker under this scheme is equal to 50% of the time saved multiplied by time rate. As such his total earning of the period is equal to time taken multiplied (X) by time rate (+) plus 50% of the time save multiplied by the time rate. The incentive scheme which has higher payment naturally makes the worker work with the extra paid and produce more.

There are a few more such incentive schemes say

(i) Rowan Incentive Scheme and

(ii) Halsey weir premium plan, etc. with the only different in the method of bonus Calculation.

**So far as the units under study are concerned, Remuneration and Compensation package doesnot appear to be backed by a well-conceive and sound system.** The simple piece rate system has been found commonly used for payment to the labours and workers whereas employees like salesman and supervisors are paid a consolidated salary every month subject to the regularly attending to their duties. The payment of bonus and commission has been found to be a rare practice in these units.
As depicted in the Table No. 5.1 out of the 218 employees 165 are getting payment on the basis of simple piece rate. This accounts for 75.69% of the total population under study. Only a few of the employees i.e. 53 (24.31%) are getting consolidated salary.

So far as commission and Bonus are concern a total number of 5 (five) employees out of 218 are enjoying such benefits which is highly negligible.
Table 5.1
PAYMENT OF WAGES/SALARY AS RESPONSE FROM 218 EMPLOYEES IN THE 106 SAMPLE SSI UNITS

<table>
<thead>
<tr>
<th>SL. NO.</th>
<th>BASIS OF PAYMENT</th>
<th>TYPES OF EMPLOYEES</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>MANAGERS</td>
<td>SUPERVISORS/ MOHORIES</td>
</tr>
<tr>
<td>1.</td>
<td>ON WAGES: STRAIGHT PIECE RATE</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>2.</td>
<td>ON WAGES: DIFFERENTIAL PIECE RATE &amp; BONUS SCHEMES</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>3.</td>
<td>SALARY: CONSOLIDATED MONTHLY PAID</td>
<td>26</td>
<td>9</td>
</tr>
<tr>
<td>4.</td>
<td>ON COMMISION</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>5.</td>
<td>OTHERS: ALLOWANCES WITH BASIC SCALE OF PAY</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>26</td>
<td>11</td>
</tr>
</tbody>
</table>

SOURCE: PERSONAL SURVEY.
NOTE: FIGURES IN BRACKETS ARE PERCENTAGES TO TOTAL.
*: Indicates the doubling numbers, which are included in above cases, and are not counted for percentage rating.
With regard to adequacy of compensation package the emerging picture from **Table No. 5.2** is not very encouraging one. 41.75% (91 Nos) of the total sample employees are getting emoluments in the range of Rs. 1501 - 2000 per month whereas 22.48% (49 nos) are in the range of Rs. 2001-2500 per month. Hardly 20.18% (44 Nos) are enjoying a payment of rupees 2501 and above. There are a few, of course a negligible number, who have been paid somewhere between rupees 500 to 1000. Such payment packages in today’s context when the cost of living has gone so high can in no way be considered as adequate.

It is evident from the above findings that there is no systematic and sound scheme of rewarding and remunerating the employees. It goes without saying that wages, salaries and other rewards are a few of the most important factors in making the people work to their best of capacity and skill. Absence of a satisfying reward deal raises serious apprehension about the motivation and commitment of the employees.

These units, as they are small might have the advantage of drawing work-force from very intimate or at least better known circles. But it is equally true that such commitments and loyalties are not sustained if not backed by a sound, just and equitable reward scheme.
### Table 5.2

**Emoluments of the 218 Employees in the 106 Sample Units**

<table>
<thead>
<tr>
<th>SL. NO.</th>
<th>Emoluments Per Month</th>
<th>Managers</th>
<th>Supervisors/Mohory</th>
<th>Mistry/Skilled Workers</th>
<th>Semi-Skilled Workers</th>
<th>General Workers</th>
<th>Sales Men</th>
<th>Chowkidars/Peon</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Below Rs. 500</td>
<td></td>
<td></td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(2.29%)</td>
</tr>
<tr>
<td>2.</td>
<td>Rs. 501 to Rs. 1000</td>
<td></td>
<td></td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(5.05)</td>
</tr>
<tr>
<td>3.</td>
<td>Rs. 1001 to Rs. 1500</td>
<td></td>
<td></td>
<td>2</td>
<td>13</td>
<td></td>
<td></td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(8.25%)</td>
</tr>
<tr>
<td>4.</td>
<td>Rs. 1501 to Rs. 2000</td>
<td></td>
<td>2</td>
<td>7</td>
<td>80</td>
<td>2</td>
<td></td>
<td></td>
<td>91</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(91.75)</td>
</tr>
<tr>
<td>5.</td>
<td>Rs. 2001 to 2500</td>
<td>12</td>
<td>6</td>
<td>12</td>
<td>14</td>
<td>5</td>
<td></td>
<td></td>
<td>49</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(22.48%)</td>
</tr>
<tr>
<td>6.</td>
<td>Rs. 2501 to Above</td>
<td>14</td>
<td>3</td>
<td>8</td>
<td>17</td>
<td>2</td>
<td></td>
<td></td>
<td>44</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(20.18)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>26</td>
<td>11</td>
<td>27</td>
<td>14</td>
<td>124</td>
<td>9</td>
<td>7</td>
<td>218</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(100%)</td>
</tr>
</tbody>
</table>

**Source**: Personal Survey.

**Note**: Figures in bracket are percentage to Total.
As stated in **Table No. 5.2** the amount of remuneration which the employees are getting in these units is far less than reasonable and sufficient in view of the present day cost of living far even a basic minimum level. Obviously good human relations, motivation and commitment in such cases will be more than a cry for moon. It seems that people working in these units have certain compelling situations to accept such appointments. Naturally, the real inner-urge for performance will be almost conspicuously deficient if not totally absent. These things in turn, may have their negative impact on morale, productivity and performance of the work force and as such the quality of human relations in these units.

The emoluments of 218 employees in the sample units are also presented in the figures, Figure No. 5.1 and Figure No. 5.2 in the form of Bar Chart. These figures classifies the different emoluments of the employees. The different types of employees are also given, classifying as managers, supervisors, skilled workers, semi-skilled workers, general workers, salesmen and peons/chowkidars.
FIGURE 5.1
Bar chart showing the Emoluments of the 218 employees in the 106 sample units, employee-wise.

Types of employees

Source: Personal Survey
FIGURE 5.2

Bar chart showing the Emoluments of the 218 employees in the 106 sample units

Source: Personal Survey
5.3: Determinants of employee compensation Decisions:

Wage and salary administration is one of the important function of any organisation whether big or small. The compensation paid to employees in return for their services is the largest expenditure of any organisation. A large sum of money is paid to the employees working in any organisation. This is a large expenditure of the organisation and a main source of income to the employees. Therefore, proper administration for the payment of compensation can have a profound effect on both management and employees. Proper administration of wages and salaries can save an organisation costs involved in the process of remunerating the employees. The employees are to be attractive, retain, motivate and productive. For proper wage and salary administration, the following determinants of compensation decisions should be known and to be properly managed. The basic determinants of compensation decisions are:-

i) The nature of the organisation/industry,

ii) Policies and Practices of the firm/industry,

iii) The organisation’s relationship with trade unions,

iv) The types of the people employed in the organisation/industry and their behaviour,

v) Pay Discrimination, and

The above determinants are very important while making decision for giving compensation to the employees. The industry / organisation itself is an important determinant of pay decisions. The nature of the firm/ industry is very important, whether the industry is a forest based, or agro based, or mineral based, or textile based, or printing and stationery based or processing industry. They have their own calculations or the treatments for paying wages or salaries. The treatment/ calculation may be different as the difference in the organisation. But the system should be clear and good. The policies and practices of the firm or industry should be good and well planned. The relationship of the firms with the trade unions also affects the pay administration. It may be good or bad. It depends upon the relationship to some extent. There are different individuals joined in the organisation and assigned them a task to take a share for the organisation. As they are working for the organisation, as an employee/ worker, they get a reward in return of their work. The different individuals are not the same, they have their own aspirations, motives and will to do their duty, to accomplish their work. They have different performance physically or mentally. This should be taken into consideration as a factor, while making compensation decisions.

Again, the Pay Discrimination is also another determinant of pay decisions. Due to the differences in performance, interests towards the development of the units, achievement motivation, and productivity, pay
discrimination is also to be taken into account. Pay or wage or salary discrimination is the paying of wages or salaries differently i.e. not equally, to the different types of workers or employees as per their different performances, motives and the views from the management.

The Government Regulations and Policies are also important determinants of pay decision. There are many Government regulations and policies, this also affects the pay administration. The good or bad policy and regulation of the Government is to be highly consider while making decisions for remunerating the employees. There are various Acts, enacted by the Government in the services of the people and the society including the organisations. Some of the Acts of the Government in regard to organisation and pay are :-

a) The Factories Act, 1948,

b) The Industrial disputes Act, 1947,

c) The Minimum wages Act, 1948,

d) The Employees Provident Fund Act, 1952,

e) The Workmen’s Compensation Act, 1929,

f) The Payment of Bonus Act, 1985,

g) The Payment of Gratuity Act, 1972 etc.
The above given acts had been passed by the Central and State Governments to regulate the running enterprises whether large or small. The entrepreneurs should have awareness about their laws. The main provision of these acts are:

i) Provision of the Factories Act includes to ensure factory workers welfare, compulsory approval, licencing and registration of factories, various health and safety measures, employment of women and children, annual leaves, accident and occupational diseases, penalties, etc.

ii) Provision of Industries Disputes Act includes definitions of an industry, industrial disputes, workman, provision for work committee, notice of change of employment conditions, retrenchment and lay off compensation, etc.

iii) The main provision of the Minimum Wages Act includes fixing and revising of minimum wages and ensuring the rights of the employees working in the enterprises.

iv) The main provision of the Employees Provident Fund Act is related to the contributions towards Employees' Provident Fund by the employees and the employers.
v) The main provision of Workmen’s Compensation Act relates, a) for making employees liable to pay compensation if there is a personal injury caused by an employee/ worker; b) regarding time and method of payment of compensation, c) provision for appeal and obligations and rights of workmen and employers.

vi) Provision of the Payment of Bonus Act includes, the eligibility for bonus, payment of minimum and maximum bonus, time limit for payment of bonus, deductions from bonus and obligations and rights of employers and rights of employees.

vii) The main provisions of the Payment of Gratuity Act are: a) Payment of Gratuity of all those employees who have put in 5 years of continuous service at the time of termination of service due to death, resignation or retirement, b) rules regarding the maximum limit of gratuity to be paid and the rate of days of wages to be paid, c) Nomination for payment of gratuity and obligations and rights of employees and employers.

5.4: Essentials of a good remuneration system:

Good compensation of the employees is of crucial in every organisation. For compensating the employees, an entrepreneur/ Proprietor/

Employer should examine the basic philosophy behind their payment of wages and salaries. The organisations should pay fair and reasonable wages and salaries. The authority should compensate the employees equitably for their contributions to the success of the organisation. A good compensation system should bear the essential elements like:

i) **Fair and Reasonable Pay**: The pay should be with enough fair and reasonable.

ii) **Adequacy**: Adequate payment of pay is an essential element of a good remuneration system.

iii) **Equitable**: Pay should be equitable. Pay inequity within a firm, whether real or imagined, adversely affect an employees morale and job performance. There should be determination of an equitable wage structure.

vi) **Security**: The pay is to be secured.

v) **Satisfaction**: The pay should be satisfied the employees desired level of pay.
Table No. 5.3 represents the job feeling scale in relation to pay as response from the 218 employees in the 106 sample SSI units. This scale measures the pay structures or environment of the units, whether it is Good or Bad, Secure or Insecure, Highly paid or Under paid, Adequate for normal expenses or Not, fulfills one's desire level or Not and if income provides luxury or necessities only. The highest score mark is 5 and the lowest score mark is 1. So medium score mark is 3. If the mean score in the first scale i.e. good or bad is above 3 i.e. 3.5, or 4 or 5 the result is that there is a good pay for the employees. In other case if the response mean score is less than 3 i.e. 2.5, 2 or 1 the result is that there is a bad pay for the employees. If the mean score is in medium around 3 the result is that there is a normal in the category and so as and so forth for the others. The mean scores in the evaluation result found here is that, Good or Bad 3.86 result is something good, secure or insecure 2.99 result is Medium; Highly paid or under paid 3.77 result is higher paid; Adequate for or not adequate 4.12, result is adequate payment is there; fulfills one's desire level or not 3.76, result is satisfactory; Income provides luxury or provides necessities only - scores 1.69, the result is that the incomes are mostly provided necessities.

The overall result reveals that in most of the units there is an adequacy for payment of wages, the pays include only for normal expenses, satisfy their normal expectations but are not in higher security. The pays are not highly secure. Again, there is a fluctuation in pay determinants. There is a good figure in somewhere and poor figure in another, as the case may be.
**Table No. 5.3**

Level of Job Feeling Scale as responded by the employees in the Sample Units regarding Pay

<table>
<thead>
<tr>
<th>St No.</th>
<th>Response Scale/Different Dimensions</th>
<th>Weights Assign</th>
<th>Total Number of Scores/Responses</th>
<th>Total weighted Scores</th>
<th>Mean Score</th>
<th>Remarks/Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Good - Bad</td>
<td>5, 4, 3, 2, 1</td>
<td>22, 160, 20, 16, 0</td>
<td>5 X 22 + 4 X 160 + 3 X 20 + 2 X 16 + 1 X 0 = 842</td>
<td>3.86</td>
<td>Good pay.</td>
</tr>
<tr>
<td>2</td>
<td>Secure – Insecure</td>
<td>5, 4, 3, 2, 1</td>
<td>20, 62, 38, 92, 6</td>
<td>5 X 20 + 4 X 62 + 3 X 38 + 2 X 92 + 1 X 6 = 652</td>
<td>2.99</td>
<td>Medium.</td>
</tr>
<tr>
<td>3</td>
<td>Highly paid – Under paid</td>
<td>5, 4, 3, 2, 1</td>
<td>20, 146, 39, 9, 4</td>
<td>5 X 20 + 4 X 146 + 3 X 39 + 2 X 9 + 1 X 4 = 823</td>
<td>3.77</td>
<td>Higher paid</td>
</tr>
<tr>
<td>4</td>
<td>Adequate for Normal Expenses – Barely live on Income</td>
<td>5, 4, 3, 2, 1</td>
<td>61, 132, 16, 9, 0</td>
<td>5 X 61 + 4 X 132 + 3 X 16 + 2 X 9 + 1 X 0 = 899</td>
<td>4.12</td>
<td>Adequate for normal expenses.</td>
</tr>
<tr>
<td>5</td>
<td>What I deserve – Less than I deserve.</td>
<td>5, 4, 3, 2, 1</td>
<td>20, 138, 47, 13, 0</td>
<td>5 X 20 + 4 X 138 + 3 X 47 + 2 X 13 + 1 X 0 = 819</td>
<td>3.76</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>6</td>
<td>Income Provides Luxury – Income Provides necessities only.</td>
<td>5, 4, 3, 2, 1</td>
<td>4, 23, 10, 46, 135</td>
<td>5 X 4 + 4 X 23 + 3 X 10 + 2 X 46 + 1 X 135 = 369</td>
<td>1.69</td>
<td>Income provides mostly necessities.</td>
</tr>
</tbody>
</table>

Source: Personal Survey.

Note: Highest Score Mark is 5 and Lowest Score Mark is 1; Therefore, Medium Score Mark is 3.
Calculation of Standard Deviation from the Mean Scores for the level of job feeling scale about 'Pay' as responded by the employees.

<table>
<thead>
<tr>
<th>Scores (X)</th>
<th>Deviation from Mean (X-(\bar{X}))=d</th>
<th>(d^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.86</td>
<td>+ 0.5</td>
<td>0.25</td>
</tr>
<tr>
<td>2.99</td>
<td>- 0.37</td>
<td>0.13</td>
</tr>
<tr>
<td>3.77</td>
<td>+ 0.41</td>
<td>0.17</td>
</tr>
<tr>
<td>4.12</td>
<td>+ 0.76</td>
<td>0.58</td>
</tr>
<tr>
<td>3.76</td>
<td>+ 0.4</td>
<td>0.16</td>
</tr>
<tr>
<td>1.97</td>
<td>- 1.35</td>
<td>1.93</td>
</tr>
</tbody>
</table>

\[
\sum X = 20.19 \quad \sum d^2 = 3.22
\]

Mean or \(\bar{X} = \frac{\sum X}{N} = \frac{20.19}{6} = 3.36\)

Standard Deviation or \(\sigma = \sqrt{\frac{\sum d^2}{N}}\)

\[
= \sqrt{\frac{3.22}{6}} = \sqrt{0.54} = 0.73
\]
Further, evaluation reveals that the mean score of 3.36 results a slightly higher from the medium score of 3. This reveals that there is a medium situation in the pay environment. There is a standard deviations of 0.73. This reveals that in the pay dimensions given, there is areas, where a deep looking into the area, for further improvement is required. Again the highest negative figure of deviations from mean i.e. - 1.37 reveals that the employees get pay satisfying their normal necessities only. However, the higher deviation (+ve) from mean i.e. +0.76 is found in the dimension of 'adequate for or barely live on income'. This reveals that the payment is adequate.

Thus, the pay environment in the industrial units under study are need to look into for development measures mostly to the exceptional areas where there is less scores i.e. higher negative deviations.