CHAPTER II

Economic Background of Compensation Policy

and

Rules and Regulations
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The primary objective of Compensation Planning is the creation of a system of remuneration which is equitable from the view point of both the employer and the employee. The determination of a rational wage policy is dependent upon not only the internal issues of equity and job worth, but also on the larger issue of economy and society. Formulation of rational wage policy has always been one of the most significant social demands. Initially as an economic issue it was mainly the concern of the employer. But with the social development and subsequent industrial development employer and employees, wage bargain has become a matter for three fold concern of the employer, employee and the Government. “A rational wage policy has to woven into the socio-economic texture reflecting the objectives and aspirations of the people of a particular country. It can not be dealt with on purely economic considerations in isolation from social policy and political culture factors of that particular community”. Therefore, problems of wage policy should be of great concern to employees, management and the Government. The pressures of rising price encroach on the living standards of employees; the demand for higher wages and better working conditions creates price, market and production problem for management; and the final burden of finding a solution to the problems of wage policy ultimately falls on the Government. In modern society employees are forming union in every organisation. Political parties are also backing the worker’s unions to materialize their political interest. All the organized sectors of primary, secondary and tertiary are now negotiating with their employers to settle the compensation package. The human resource development system advocates meaningful salary structure to achieve wealth maximising objectives through the hard work of satisfying employees. In a welfare state, development of human resource is the primary concern of the government.
2.1 Economic objectives of Compensation Policy:

An important objective of any society is the achievement of maximum economic welfare. This requires the national income shall be maximised, secondly the national income should be divided equally among all the members of the society, and thirdly there should be a fair amount of stability in the national income.

In general, economic welfare will be maximised if the highest and most stable standard of living possible for each section of the community is attained. In order to secure this, it is necessary to achieve: (1) the full employment and optimum allocation of all resources; (2) the highest degree of economic stability consistent with an optimum rate of economic progress; and (3) maximum income security for all sections of the community. The income generation capabilities of Primary, Secondary and tertiary segment must be highest. The wage earners will receive higher wages and thereby the purchasing power would increase. Such situation may help to grow national income. The major objectives of wage policy must be aimed at attaining these conditions. About 30 to 40 percent people are directly or indirectly wage earners. If this section of the society is working hard and their purchasing power would increase and their expenditure would be the income of the other section of the society. As a result the national income of the community will increase. This is the most important objective of wage policy of the welfare state.

2.2 The social objectives of Compensation policy:

A wage policy must be instrumental in achieving:

i) the elimination of exceptionally low wages

ii) the establishment of "fair" labour standards,

iii) the protection of wage earners from the effects of rising prices,

iv) the incentives for workers to improve their productive performance and development of human resource.
The social and economic objectives, no doubt, are closely inter-related. Measures inspired by social consideration inevitably have economic effects, and those designed to achieve specific economic results have social implications. For example, the raising of wages through fixing a statutory minimum wage will normally effect production and employment and if measures are taken to keep costs of production at a competitive level it may frustrate the aspirations of the employees.

Keeping the above facts in mind, it is essential that wage policy should be necessarily inter-related with broader economic decisions on the one hand, and with the goals set for social policy on the other. Wages, being a price for labour, have to be in harmony with other prices in the system. Hence it become necessary to maintain a balance between the objectives of economic development and the principles of democratic system in the formulation of wage policy.

2.3 Employer’s Ability to Pay:

An important issue of dispute between labour, management, industrial tribunals has been whether the employer’s ability is relevant to the payment of D.A. Industrial tribunals have consistently held the view that the employer’s paying ability is a Major factor in the payment of D.A and thus the Indian adjudicators of the D.A settlement have favoured the position of the employer. Thus scientific analysis of employer financial position is essential to arrive at a DA payment decision.

2.4 The Problem of Neutralisation:

How much of the price should be neutralised has been a matter of controversy in India since the Second World War Industrial tribunals have supported full neutralisation in principle for low-wage; but for high wage the range of neutralisation has been 50-90 percent of the price increase. The tribunals have been governed by the following considerations;

1. The recognition that the industry’ paying capacity does not
permit full neutralisation.

2. Full neutralisation is feared to lead more inflation.

3. The economic condition of other group in the society to be considered.

2.5 Compensation structure

For pay packet to be rational the basic wage should be the major item and viewed as the price for 'normal' output on a job; it should be protected against inflation and adjusted against productivity or profitability improvement. In practice, however, basic wage typically constituted a small element which is rarely related to output or the outcome of a job. Further, the wage rate is usually not adjusted against inflation and the trend in productivity or profitability; instead, we have two adjuncts, viz., DA and statutory bonus. These two elements are unique in this country and have few parallels abroad.

DA is determined and influenced by numerous factors. These include union and management policies, wage board awards, labour court decisions, government policy and movements in the consumer price index (CPI). The influence of these factors is not uniform across regions and grades. Further, the rate of growth of CPI in different stations and centres is uneven. As a result of these, disparities in DA between centres and stations are created, posing industrial relations problems. This is especially true when DA constitutes a major element in the pay packet. A company the identical basic wage for a job in different stations in effect implies highly disparate wage levels because of (a) predominance of DA in the pay packet, and (b) acute disparity in DA across stations. So the conflict was not over levels; it was rather over disparities and inequities as perceived by employees. In fact, it implies a violation of the principle of equal pay for equal work. The situation is typical of the Indian scene and calls for merger of most if not all of DA with the basic wage and the adoption of rational DA system.
The other adjunct in the pay-packet, namely, statutory bonus has been perceived by unions and workers as a deferred wage. The quantum has often been determined in the past through bargaining over the statutory minimum, in practice, it has become a major irritant in industrial relations and constitutes a major source of conflict. There has been a trend to replace it by productivity-linked bonus. This was also possible under Section 32(vii)–(a) and (b) of the Payment of Bonus Act, 1965. However, only a few companies took advantage of this provision.

Incentive bonus in the pay packet should be viewed differently from statutory or productivity bonus. In the latter, the focus is on the economic or productivity performance of an organization, whereas under an incentive bonus scheme, differences in performance among individuals are recognised and rewarded. Thus, the nature, purpose and operational details of these two types of bonus are quite different from each other.

2.6 Basic Pay/Wages:

The basic pay, dearness allowance and annual bonus make up the bulk of average worker compensation. If is also essential to consider the statutory and non-statutory provisions influence the determination of basic wage, dearness allowance and annual bonus. Further, industrial tribunals, labour courts and national tribunal have also influenced the pay structure. Basic pay is fixed according to the provisions of statutory minimum wage, the awards of industrial tribunals and directive of the pay commission at the national and state levels and by collective bargaining. This minimum wage, according to the recommendations of the 1949 Report of the Fair Wages Committee appointed by the Government of India should provide not merely for the base substance of life but for the preservation of the efficiency of the worker by providing some measures of education, medical requirement and amenities. Basic pay of the industrial workers is based on a standard budget concept for a family of four which include food, clothing, housing and fuel. The assumption of basic wage
legislation is that the industry does not have the right to exist unless the minimum needs of the worker are met.

2.7 Wages vs. Salary:

A 'wage' (or pay) is the remuneration paid for the service of labour in production, periodically to an employee/worker. 'Wages' usually refer to the hourly rate paid to such groups as production and maintenance employees ("blue-Collar worker"). On the other hands "Salary" normally refers to the weekly or monthly rates paid to clerical, administrative and professional employees. Wage is usually referred as the worth of a job, while salary is the worth of an individual, there by suggesting that wages are fixed while salary is negotiable. In popular terms, wage refers to hourly payment while salaries are paid by monthly. Though wages can be paid by the end of the week or month, their calculation is done by hours. On the other hand, salaries can be yearly, monthly or bi-monthly. Since wages are paid on hourly basis, they imply no long term guarantee for employment, while the implicit assumption in salary is that the job can last for a long time. Wages have provision for overtime, whereas no such provision may exist for salaried employees though they may be compensated in other ways (e.g. paid leave in addition to regular leave). In Indian context, wages may also con note a bargainable proposition taken up by unions on behalf of workers and hence collected efforts are involved. On the other hand, the agreed salary may be the result of the bargaining capacity of an individual. However, these distinctions in theory are not absolute distinctions in practice. Organisations have been found to pay salaries to all levels of employees according to the scientifically structured compensation package.

2.8 Dearness Allowance:

The dearness allowance is to protect the wage earner's real income by neutralising the increased cost of living. It tries to relief the worker during the inflationary situation by trying offset to the cost of living with an additional
allowance. There are wide variations in the fixation of dearness allowance by Govt. and Non Govt. organisations.

There are two systems of D.A. Payment; one is a flat rate system of neutralisation, and the other linking the payment of D.A. to the consumer price index. The flat rate system provides a lump-sum payment to the employees over a period of time to adjust high cost of living.

The consumer price linked system, attempts to neutralise the actual rise. In the cost of living. This method is more realistic because it regulates movement of price in a given region. There are two variation of D.A. tied to the consumer price index. First, a specific rate of D.A. is fixed for every point rise in the price index, regardless of the income groups. In this system all employees receive the same amount of allowance, but the lower paid would then get a higher proportion of their basic as D.A.

The second form is based on income groups and cost of living brackets or "Slabs". In this method, the absolute amount of allowance increases with each higher income group related to changes in the brackets of price index as opposed to each point; at the same time the magnitude of relief as a proportion of basic pay is steadily reduced with each higher income group. The advantage of the D.A. income slabs is that it introduces an element of stability, because the allowance does not change with every point in the cost of living index.

2.9 Profit-Sharing Bonus:

Payment of bonus is an annual issue which every employee eagerly looks forward to. The payment of annual bonus is a constant source of friction every year in India. It has some unique features. There are statutory minimum and maximum limits on the amount of bonus to be paid to the employees.

The Bonus Commission appointed by the Government of India in 1961 recommended that a minimum 4% of basic plus D.A and a maximum of 20% to be paid as bonus. Based on the recommendations of the Bonus Commission, the payment of Bonus Act, 1965 was promulgated for the payment of Bonus to the
employees with a salary upto Rs.1600 p.m. This limit has been raised to Rs.2500 through an Ordinance in 1985. The objectives of the payment of Bonus Act, 1965, was to introduce a new formula for calculating bonus with the limits of minimum and maximum and principle of "set-on and set-off" to smoothen the inequalities of payments over a number of years. According to the principles of "set-on and set-off" the deficit of one year could be set of against the surplus of the subsequent years and the surplus over the maximum amount payable, i.e. 20% of the wages, would be carried over the next year. This process could continue for a cycle of four years.

The outstanding feature of the Bonus Act, 1965 is that the payment of minimum bonus was made obligatory on the part of employer, whether his organisation made a profit or not. In the same process, bonus became a matter of right for the employees. The Act applies to factories, and all other private and public sectors establishments which employ more than 20 persons.

The Payments of Bonus Act, 1965 was amended in 1969, 1972, 1975, 1977 and 1980. According to the 1969 amendment the tax relief in respect of the bonus paid or payable in an accounting year, this would be shared between the employer and employees. The 1972 amendment raised the minimum bonus to 8.33% regardless of profits or losses. The 1975 amendments introduced a new character to the concept of Bonus. Bonus was no longer to be considered as a deferred wage but was to link to profits. Bonus payment was to be based on productivity. Among the other important features of this amendment included:

1. Minimum bonus was reduced to 4%. If the company made no profit, it had no compulsion to pay the minimum bonus.

2. Negotiations to get the bonus in excess of 20% were sought to be positively discouraged.

3. Employees, in the Banks, LIC, Ports and Docks, and Non-competitive public sector undertakings could receive an ex-gratia payment up to a maximum of 10% in lieu of bonus.
The 1977 amendment once again declare bonus as deferred wage, although at the same time it put emphasis on promoting bonus agreements based on increases in productivity. It has fixed the minimum bonus at 8.33% of salary earned during the relevant year at the maximum at 20%. Employees of Banks L.I.C, Ports and Docks and non-competitive public establishments were to be paid ex-gratia amount not restricted to 10 % but between 8.33% and 20% based on bargaining.

The 1980 amendment sought to make 8.33% bonus as a permanent feature and made the banking companies and Industrial Reconstruction Corporation of India bound to pay bonus. In March 1980, a national seminar deliberated on linking bonus to productivity. The Major reason behind this view is the fact that productivity depends on many factors other than worker’s contribution. However, many industries, both in the private and public sector, have been attempting to work out bonus schemes based on productivity/production.

2.10 Other Allowances:

Apart from the basic, wages Dearness allowance, many other allowances are paid to employees to compensate them adequately so that the total package of remuneration provides them suitable compensation package.

The various allowances given to the employees are:-

i) **House Rent Allowance (HRA):** Organisations are set up in various locations such as urban centers, rural areas industrial belt etc, where houses are not available at a reasonable rent.

If the employees are required to pay house rent as per the prevailing market rates, a substantial portion of their wages will go as house rent and the employees will not be left with sufficient money to meet their other requirements.
Hence HRA is paid to the employees enabling them to pay house rent for a suitable accommodation. It varies according to the cost of living in different cities and places.

Employees are paid HRA as per slab in their wages and salaries. This allowance is not considered as wages. The HRA shall not be reckoned for any direct payment like gratuity, over time, provident fund etc.

ii) Leave Travel Allowance (LTA): Employees while working, seldom get opportunity to visit places where they can go and spend sometime along with the members of their families to get relaxed and reenergized for the work to be continued with zeal and enthusiasm. For such purpose employees are also willing to visit their native places.

Many organisations have introduced scheme commonly called Leave Travel Assistance (LTA) / Leave Travel Concession (LTC) etc. and these facility facilitates the employees to go to their home town or places for relaxation and reenergizing.

Organisation has different types of practices for various categories of employees for payment of LTC. Normally employees who have completed a few years of service satisfactorily are entitled to LTA/LTC.

iii) Washing Allowance: While employees are working in various industrial processes, various kind of dirt gets accumulated on their body and uniform. If the employee do not keep themselves clean, they are likely to get different types of diseases.

A particular amount is paid as washing allowances to certain categories of employees and they are expected to keep themselves clean.

In some organisation duty uniform are provided to front line employees who directly come in touch with customers, these employees are given washing allowance and are expected to keep their uniforms clean, and make better presentation before the customer.
Once washing allowance is provided, the employers are in a position to enforce a standard of cleanliness on the workforce which will ultimately force the employees to keep themselves clean and in due course of time, the organisation will have its own standard of cleanliness.

iv) Conveyance Allowance: For smooth and efficient functioning of any organisation, employees are required to come to work place in time. Employees who either have got a residence in the housing colony or at any nearby places, commutes everyday distance by various means while coming to work place. While commuting employee’s loose lot of time, energy reaching work place they find themselves exhausted.

In order to facilitate employees to come to the work place comfortably and in time, employers provide conveyance allowance to the employees for availing better transport service, or maintaining and using own vehicle. The conveyances allowance is paid to employees for the days in which he receives normal wages. This however is not paid for days on which he is on leave without pay.

v) Shift Allowance (SA): Some organisations are required to work continuously under shift system because of the nature of production or service they have. Normally there are three shifts, 6 A.M. to 2P.M, 2P.M to 10P.M and 10PM to 6A.M. In order to establish balance among employees, so far shift duty is concerned; the employees are rotated among these three shifts. It implies that all employees will get by rotation duties at night shift equally.

However there are organisations where a few employees are required to work more in night shifts and rotations are not possible. They are paid an additional allowance called night shift allowance because they do jobs frequently during night hours which is strenuous. The rate of SA varies from organisation to organisation. Most of the time a fixed amount is paid as SA.

vi) Cash Handling Allowance: There are organisations where one particular category of employees handles lot of cash (currencies and coins) of
various denominations. Their job is to receive / pay / transfer cash amount. While doing so, they are required to count cash correctly. Sometimes by way of genuine error, they receive less money, pay more money and also receive bad currencies and coins.

In such situation they are required to compensate the loss caused to the employees due to such error. Thus as an element, these employees receive this allowance on regular basis.

vii) **Lunch Allowance and Dinner Allowance**: those employees, who required to do the organisation's work away from the usual place of duty during the lunch or dinner period, are paid lunch & dinner allowance.

viii) **Educational Allowance**: The education allowance is paid to the employees to make the package more attractive and facilitate greater spirit to educate their children.

ix) **Underground Allowance**: All employees working in underground operations are entitled to this allowance because the underground job is more strenuous and risky.

x) **Outstation Allowance**: This allowance is paid to all employees on outstation duty.

xi) **Servant Allowance**: In order to enable the executives to work in a relax mind and free from household duties, they are provided servants or allowance enabling them to keep servants.

xii) **Social Security Allowance**: This allowance is paid to employees to help them to protect themselves and their families in an unforeseen situation in life. Employers get their employees insured under various of social security schemes. The amount for the insurance schemes is paid by the employers.

xiii) **City Compensatory Allowance**: In cities due to high prices of living remains higher. Employees posted in these cities are paid city compensatory allowance by way of compensating them against loss of real income caused to them due to higher consumer price index prevailing there.
This allowance varies in rates according to consumer price index prevailing in various categories of cities.

xiv) **Overtime Allowance**: Daily working hours for workers are prescribed under various acts. Workers working for more than the prescribed hours are entitled overtime payments, which is normally double the ordinary rates of wages.

All these allowances are the component of compensation package to insure healthy atmosphere in worked place and to get desired performance from the employees. The satisfaction of the works is the root cause to develop their inner potentiality for the overall development of the organisation.

2.11 **The Wage/ Salary Determination Process**:

Usually, the steps involved in determining wage rates are: performing job analysis, wage surveys, analysis of relevant organisational problems, forming wage structure, framing rules of wage administration, explains these to employees, assigning grades and price to each job and paying the guaranteed wage.

2.12 **The Process of job analysis**:

The Process of job analysis results in jobs descriptions which lead to job specifications. A job analysis describes the duties, responsibility, working conditions inter-relations 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 responsibility expected of an employee. After determining the job specifications, the actual process of grading, rating or evaluation the job occurs. A job is rated in order to determine its value relative to all the other jobs in the organisation 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.
2.13 Job Evaluation:

Job evaluation is a technique to establish the relationship between contribution of an employee and compensation for this contribution. Although in reality it is very difficult to get a precise value of the contribution of an employee because of the large number of factors involves in the performance of an employee of a job. Job Evaluation is perhaps the most suitable mechanism to do just the same to find out the contribution of an employee. Straus and Sayles (1976) identified six circumstances under which job evaluation has a good chance to succeed. These are:

1. When it does not disturb the existing promotion paths or the traditional wage pattern.
2. When the organisation is paying relatively high wage and job evaluation exercise does not require too many adjustments in existing structures.
3. When the organisation is relatively independent of comparison because of geographic isolation or job requirements.
4. When relations with unions are good.
5. When a large number of people likely to be affected by job evaluation exercise are involved in the process itself.
6. When the organisation is in a position to add a little extra beyond the levels worked out on the basis of job evaluation exercise.

Job evaluation examines the effect of skills, capabilities, responsibility and work environment on the performance of the job. It does not price the job but provides basis for it. It is also a starting base for developing job description and specification, necessary for recruitment and subsequent appraisal of performance. It also provides bases for placing job with similar values in grades and job classification.

There are four major methods of job evaluation:

a) Ranking Method
b) Job Classification
c) Point System.

d) Factor Comparison System.

a) Ranking Method:

This is perhaps the simplest method of job evaluation. Here the total or "Whole", "job" is ranked against other jobs on the basis of "difficulty level". No measurable points or score values are assigned. It is simply arranging the job in an hierarchy. Since the job as whole is taken in consideration no attempts are made to break each job into its composite segments. First the ranking is done by the functional areas, and then they are combined for developing an organisational level system. This method is useful in small organisations with relatively flat structures. However, one of the major drawbacks of any ranking is the relative position and distance of one job compared to others. In other words, when jobs are ranked on all overall difficulty level, it tells which job is more difficult than the other. It does not indicate the degree of difficulty which often creates a basis for disagreeing on the pricing of jobs.

b) Job Classification:

Mostly used by government agencies and departments, job classification consists of first identifying classes, categories or grades. After this their level of difficult is identified by defining its specification and then individual jobs are classified in these categories /grade. The individual jobs may come from various functional areas with common responsibilities and work. Compensation levels for each grade /category are allocated and employees working in various departments and sections may end up getting the same compensation level as long as they belong to the same grade / category. Like the ranking method, in this system job as a whole is taken into consideration with little or no attention to its component parts. This system is most appropriate for small organisations with relatively flat structures.
c) Point System:

This method of job evaluation consists of first developing key compensable factors on which each job must be evaluated. The collection of these key factors is called manual or yardsticks. These manuals can be developed on the basic organisation's own experience or those developed by industry wide organisation. Each of these key compensable factors has a scale value which defines the degree of presence of that factor. Each job is rated on these key factors and a value is assigned. At the end of this exercise the values at each factor are added to get a total score which is than converted into a compensation level (Salary / Wage).

Varma (1986) developed a modified method of job evaluation in his case study of Jagat Mills. The method consisted of three key factors-know-how (sum total of the technical experience, and practical skills for acceptable job performance), problem solving (amount of original, self starting thinking for analyzing, evaluating and making decisions) and accountability (measured effect of the job end results). Each one of these factors is further broken down into sub-components. Thus know-how consisted of academic background, relevant work experience and human relations skills. Problem solving had three sub-components - approach to problem solving, nature of control or guidance from superiors and coordinative functions. Finally, accountability comprised of decision making and contribution. To organisational objectives. All the sub-components were evaluated on a seven point scale. Each of the 15 executives was interviewed extensively and their jobs were rated on the eight sub-components of three key factors. These ratings were then added to get a total score for each of the 125 jobs which later were converted to monetary value.

Point system is a useful method of job evaluation. However, care must be taken to ensure that the manual is as all inclusive so as to avoid possibilities of leaving out important factors or their sub-components. It provides flexibility, and forms the basis of comparing jobs on the same factors. Once the manual is
developed, job evaluation becomes simple and easy. However, same cluster of factors cannot be used for all classes of jobs in the organisation. For example, the key factors of administrative people may be different from production or research and development departments.

d) **Factor Comparison System:**

This method is complicated and expensive. It required the consultation of expert and specialists for comparison and appraisal of jobs. Unlike point system a few compensable factors are chosen based on job analysis. These factors are those that are found to some degree in all the jobs. The weightages of these factors are pooled judgments of a group of expert on key jobs and not as arbitrary as in point system. The current rate of pay is used as a basis for developing weightages for each of the elements of compensable factors for all key jobs. When all the key jobs are thus analyzed, weightages for the elements are developed by taking an average on the key jobs. Thus the money value of one factor in one job is compared to the money value of the same factor in other job. This is what makes this method more acceptable because it is based on the established compensation structure.

Methods of job evaluations are based on judgments of those evaluating the jobs. This may lead to some degree of hesitation in accepting job evaluation exercise. However, in the absence of more scientific techniques, they provide the best approach available. In fact with sophisticated software now available the methodology can be find out to provide more objective results

**2.14 Wage/ Salary Surveys:**

Once the relative worth of jobs has been determined by job evaluation, the actual amounts to be paid must be determined. This is done by making wage or salary survey in the area concerned. Such surveys seek to answer questions like what are other firms paying? What are they doing by way social insurance? What is the level of pay offered by other firms for similar occupations? etc,
gathering information about "benchmark jobs", which are usually known as good indicators.

There are various ways to make such a survey. Most firms either use the results of "packaged surveys" available from the research bodies, employers associations, Government Labour bureaus, etc, or they conduct their own. These surveys may be carried out by mailed questionnaire, telephone, or personnel interviews with other managers and personal agencies.

A wage survey to be useful, must satisfy these points:

a) Frequency- affected by rapidity of changes, current, and contemplated. Once per year is common. b) Scope (number of firms) - influenced by the geographic area from which people are drawn, the number of units completing for this labour accuracy requirements, and willingness of organisation to share information. c) Accuracy- the diversity in job titles and specific duties is staggering. The greater the accuracy and detail needed, the greater the requirements for careful description and specification and surveyor’s reliance on person-to-person interviewing rather than mailed questionnaires.

Such wage surveys provide many kinds of useful information about differences in wage levels for particular kinds of occupations. This can have a great influence on an organisation’s compensation policy.

2.15 Salary Surveys

Perhaps a quick and less expensive way to determine compensation could be to conduct a survey of what is being paid in similar industries for similar positions. This could be done at two levels- organisational and professional consultant levels. As far as organisational level is concerned, the HRM department itself can undertake a study to find out comparable compensation package advertised in newspapers and other print and electronic media including website for similar jobs in similar industries. Information can also be collected from professional association, e.g. Association of Engineers, All India Management Association, National Institute of Training and Development etc.
These associations have access to compensation package of member organisations and can provide the information at literally no cost to the organisation.

Human resource management department can also undertake a research study by formally doing a salary survey. However, such an attempt requires formal knowledge of research methods understanding and training in epistemology (philosophy of Science) on the part of human resource management manager entrusted to carry out this study. In the absence of such knowledge, the results may be interpreted to provide misleading conclusions. Research is complicated process. It requires willingness to accept results that may be unfavourable to one's position and stand. Objectively and lack of bias are guarantees of truth in research. Unfortunately, not many people are willing to accept the truth. A second factor is time and cost in conducting research. If an organisation is looking for quick answers, research may not be ideal approach. For Example, to conduct a salary survey, first a questionnaire has to developed, it has to be preceded and mailed to a sample of representation organisations. Experience has shown that the return rate of mailed questionnaire has been attached. Having received some of the completed questionnaire, they have to be analysed, and conclusion and their implications have to be highlighted. This requires time and money despite the fact the questionnaire research is the cheapest, both in terms of time and money and much more objectives than such techniques as interview, participative observative or collecting data from secondary sources.

To avoid some of these problems and to ensure that results of formal surveys at perceived as objectives by those who are going to be affected by the results, some organisation take the help of professional consultants. They are outsiders and are not perceived to have stakes in organisational decision making. Their relationship with the organisation is also short lived only to the extent of the time taken in completing the assignment. Consultants may use a
variety of techniques to give recommendations and suggestions for developing compensation package.

2.16 Relevant Organisational Problems:

In addition to the results of job analysis and wage surveys, several other variables have to give due consideration in establishing and well-accepted relationships among certain jobs which can upset job evaluation, whether the organisation would recruit new employees after revised wage structure; are the prevailing rates in industry or community inconsistent with the results of job evaluation? What will be the result of playing lower on higher compensation; and what should be the relationship between the wage structure and the fringe benefit structure? Belcher has listed 108 variables which can affect levels of compensation and wage structure.¹

2.17 Preparation of Wage/Salary Structure: The next step is to determine the wage structure. For this several decisions need be taken, such as: a) whether the organisation wishes, or is able, to pay amounts above, below or equal to the averages in the community or industry: b) whether wage ranges should provide for merit increases, or whether there should be single rates: c) the number and width of "pay grades" and the extent of overlap: d) which jobs are to be placed in each of the pay grades: f) differentials between pay plans; and g) what to do with salaries that are out of line once these decisions have been made?

The quantity and quality of employees an organisation needs to employ also determines the levels of wages and salary fixed. For example, wage/salary rates will be fixed at a higher level if organisation needs quality people to be employed and retained. If the availability of jobs is scare, the wages and salary levels will be low. Wage levels may also be low even lower than the prevailing wage rate if the firm's economic situation is such that it cannot afford to pay the prevailing wage rate in the industry or region.

¹ Belcher, David W., Wage and Salary Administration, Printice-Hall, New Jersey, 1962. P.P. 18. 22-23, 75-76
According to Monappa, the following factors determine the level of wage/salary in the organized sectors of the Indian industry.

Stage 1

Individual Workman

Mutually decide on the wage to the job

Employer

Stage 2

Collective Bargaining (influence of unions)

Govt. laws wage board

Price for the Job

Philosophy of the Management towards wages

Local Accepted rates

Tribunals Courts

Employee's wage and components

Region-Cum-industry Settlement

Internal pricing through job Evaluation

Intemixture of these variables in a particular Organizational context results in the wage structure

In a particular plant

Note: Stage 1: Self-contained model where external influence is marginal; and
Stage 2: Depicting the interplay of external and internal influence.

"Jobs offered by an organisation vary in term of their values. Job value is ascertained by job evaluation. Job evaluation is a systematic method of appraising the value of each job in relation to other jobs in an organisation. Once all job are assigned values, these are placed in a grade, or say, a rate per job. These grades are arranged in a hierarchical order starting with lower to higher jobs. Thus, wage/structure consist of the various salary grades and their different levels of single jobs or group of jobs. This will be more clear from the following salary/pay structure of teachers at present in a University:"  

Professor : Rs. 16,400-450-20,900-500-22,400  
Reader : Rs. 12,000-420-18,300  
Lecturer : Rs. 8,000-275-13,500

2.18 How to devise a salary structure?:

"Like wage and salary fixation discussed earlier, there might be so many ways to devise a salary structure. However, the simplest way to devise a salary structure is outlined here as follows:

1. Ascertain and establish, on the basis of market rate surveys and studies of existing salary structure, the most senior and most junior jobs to be covered by the salary structure.

2. Based on above, draw up salary grade structure ranging from the lowest limit to the highest limit along with the width of salary gaps between jobs and size of overlap between different grades.

3. Make a job evaluation exercise. This can be done by any method of job evaluation. However job evaluation by means of a simple ranking scheme is preferable.

4. Procure market rate data keeping in mind that there is likely to be a range of market rates in existence in the labour market.

5. Finally, based on the results of job evaluation and market rate surveys and studies, arrange all jobs in the grades in an hierarchical order. Infact, it is the stage where a good judgment is required."  

There are two more elements involved in a salary structure:

1. Salary Progression

Salary Progression:

"As the term itself implies, it refers to a sequence of progress in salary. In other words, salary progression relates to increases in salary to merit. It relates compensation/salary to performance on a consistent and equitable manner. The procedure of salary progression is characterized by the following key features:

i) The salary grades are divided into define areas or zones. An employee will pass through these stage or zones as he/she progress in experience. For

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example, a Professor in a University starts with a basic pay of Rs. 16,400 and touches Rs 20,900 after 10 years’ experience and Rs 22,400 after 13 years’ experience.

ii) There is an incremental rate at which an employee progresses along with the salary grade. In the above example, the incremental system consists of a rate of Rs.450 per year during the first 10 years’ period and Rs. 500 per year during the last 03 years’ period of experience”

**Broadbanding / Graded Salary Structures:**

“Broadbanding means a process reducing salary grades to a limited one. In other words, broadbanding means collapsing salary grades and ranges into a few broad and wide levels or ‘bands’ each consisting of a relatively wide range of jobs and salary levels. As mentioned earlier, in a University, for example, all teaching jobs are reduced to three broad grades, namely Professor, Reader and Lecturer. This broadbanding of grades is more popular in industrial organisations employing huge number of employees. For example, Toyota has broadbanding its all jobs into just five grades or bands. Similarly, General Electricals has been able to restructure its all jobs into three job classifications, *viz.*, **Division I**: Production Members, **Division II**: General. Maintenance Team Managers; and **Division III**: All Tie and Dye Members.

The main advantage of broadbanding is that it injects greater flexibilities into employee compensation. It is especially sensible where firms flatten their hierarchies and organize around self-managing teams.”

2.19 Job Pricing:

Job evaluation exercise, irrespective of method used, is only the beginning. It provides the relative value of each job by assigning a numerical value. Job pricing refers to converting the numerical value in actual rupees and paisa. Keeping in mind the market rupees value of jobs, two approaches are

used to price the jobs.

In the first approach the total allocated budget for wages and salary becomes the basis for pricing. However, these cannot be fixed values. They may be changed from time to time by managerial decision by negotiation, by changes in government laws or by changes in market. After all salary budgets are sensitive to these situations.

The second approach is based on the difference between the compensation of the highest and lowest paid jobs in the organisations. Here either the lowest paid job becomes a basis for stepping up the compensation value for compensable factors or stepping down in case the highest paid job is used as a benchmark.

In both cases three situations may happen. As a result of the new compensation structure, the employees may get higher salary/wages than before which is a welcome change. The employees may get the same or lower salary/wages. Since the whole idea of job evaluation exercise is to motivate employees to perform better any lowering of wage may have adverse effects. Hence, the same revised salary/wage must be upgraded by using increments. In case where the revised salary/wage must be upgraded by using increments. In case where the revised value is less than the existing value protection of existing rates has to be provided.

2.20 Factors Influencing Compensation Structure of an Organisation:

The wage policies of different organisations may vary in real situation. 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 higher caliber of the labour force. Some managers believe in the economy of higher wages. They feel that, by paying higher wages, they would attract better workers who will produce more than the average worker in the
industry. The greatest 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 higher wages because of a combination of favorable product market demand, higher ability to pay and the bargaining power of trade union. But a large number of them seek to be competitive in their wage programme. i.e., they aim at paying somewhere near going rate in the labour market for the various classes of labour they employ. Most unit’s gives 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 compensation policies to adopt a job evaluation programme in order to established 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:

i) The organisation’s 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) Trade Union’s bargaining power;
viii) Job requirements;
ix) Managerial attitudes and
x) Psychological and Sociological factors.

i) The Organisation’s Ability to Pay:

Companies that have good sales and higher profits tend to pay higher wages than those which running at a loss or earning low profits because of the
high cost of production or low sales. 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. During time of prosperity, employers pay high wages to carry on profitable operations and because of their increased ability to pay. But during a period of depression, wages are cut because funds are not available. Marginal firms and non-profit organisations (like hospitals and educational institutions) pay relatively low wages because of low or no profits.

ii) Supply and Demand of Labour:

The labour market conditions or supply and demand forces operate at the national, regional and local levels, and determine organisational 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 labour market pressures probably force most organisations to "reclassify hard-to-fill jobs at a higher levels" than that suggested by the job evaluation. The other alternative is to pay higher wages if the labour supply is scarce: and lower wages when it is excessive. Similarly, if there is great demand for labour expertise, wages rise; but if the demand for manpower skill is minimal, the wages will be relatively low. Mescon Say: "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."7

iii) Prevailing Market Rates:

This is also known as the "comparable wage" or "going wage rate", and is the most widely used criterion. An organisation’s compensation policies generally trend 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 organisation's competitors, it will not be able to attract and maintain a sufficient quantity and quality of man power. Belcher and Atchison observed; “Some companies pay on the higher 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.”8

iv) The 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 able 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.

v) The Living Wage:

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, employers do not generally favour using the concept of a living wage as a guide to wage determination because they prefer to base the wage 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.

vii) **Trade Union’s Bargaining Power:**

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.

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. Job is graded according to the relative skill, effort, responsibility and job conditions required.

ix) **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 effected accordingly. These matters require the approval of the top executives.
x) Psychological and Social Factors:

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 wage 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 distinctions is made on the basis of caste, colour, sex or religion.” To satisfy the conditions of fairness and justice, a management should take these factors into consideration.

2.21 Methods of Payment of Wage & Salary:

Time Rate System:

Under this system the employees are simply paid a predetermined rate per week, or hour for the actual time they have worked. The basic rate for the job can be fixed by negotiation, by reference to local rates, or by job evaluation. This system is prevalent in the engineering and processing industries and among clerical, supervisory and managerial personnel where there is no rigged standardization of work and a certain amount of skill is involved. Within the time for, a minimum standard of performance is expected.

From the point of view of employees, the advantage of time rates are that earnings are predictable and steady. Moreover, they need not argue with supervision and rate-fixers about piece rate or time allowances.

Payment by Result System

Under this system the pay or part of the pay is related to the number of items a worker produces or the time he takes to do a certain amount of work. It is applicable to simple manual operations, where the effort of an individual can be measured in terms of quantity or quality. This may be through a straight piece-work or a differential piece-work system.
a) **Straight Piece - Work:**

Straight Piece - Work is payment of a uniform price per unit of production. This is most appropriate where production is repetitive in character and can easily be divided into similar units. In this system, you can pay him for the time allowed to complete a task (time piece -work). In the latter case, if the worker completes the job in less than allowed time he gains the advantages of time saved.

b) **Differential Piece- Work System**

Differential Piece- Work System Allow you to adjust wage cost per unit in relation to output. In this system the wages cost per unit of production falls as output increases. At the same time the hourly rate of worker's earnings still increases, although not in proportion to the increases output. This system is possible where it is easy to relate effort to production and work is standarised, respective and measurable, one should keep quality in mind while adopting the piece rate system.

c) **Measured Day Work**

In this system the pay of the employee is fixed on the understanding that the will maintain a specified level of performance. The pay does not fluctuate in the short-term with performance. What distinguishes this system from the time rate system is the concept of an incentive level of performance. By this putting the employee under an obligation to perform at the effort required by the guaranteeing the incentive payment in advance.

2.22 **Minimum, Fair, Living Wage:**

Some new terms have gained currency in India after independence. These are:

i) **Statutory Minimum Wage:**

Statutory Minimum Wage is the wage determined according to the procedure prescribed by the relevant provisions of the Minimum Wages Act 1948. Once the rates of such wages are fixed, it is the obligation of the employer
to pay them, regardless of his ability to pay. Such wags are required to be fixed in certain employments where "sweated" LABOUR IS PREVELANT, OR WHERE THERE is a great chance of exploitation of labour.

ii) Bare or basic Minimum Wage:

Is the wage which is to be fixed in accordance with the awards and judicial pronouncements of Industrial Tribunals, National Tribunals and Labour courts. They are obligatory on the employers to pay.

Minimum wage, 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 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 highest level of the fair wage is the living wage.

iii) Minimum 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 the purpose, the minimum wage must provide for some measure of education, medical requirement and amenities." In other words, a minimum wage should provide for the sustenance of the worker's family, for his efficiency, for the education of his family, for their medical care and some amenities.

The question of determining the minimum wage is very difficult 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 very difficult to decide. Moreover, since the cost of living varies with the price level, it follows that the price index should be periodically reviewed and modified.
However, the principle for determining minimum wages were evolved by the Government and have incorporated in the Minimum Wages, Act 1948., the important principle being that minimum wages should provide not only for the bare sustenance of life but also for the preservation of the efficiency of the workers by way of education, medical care and other amenities.

iv) Living wage:

This wage was recommended by the Committee as a fair wage and as ultimate goal in a wage policy. It defined a Living Wage as “One which should enable to 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 measure of decency, comfort, education for his children, and protection against misfortunes. This obviously implied a high level of living.

Such a wage was determined by keeping in view the national income and the capacity to pay of an industry. The committee was of the opinion and a 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 the standards prevalent in more advanced countries.

The goal of a living wage was to be achieved in three stages. In the First stage the wage to be paid to the entire working class was to be established and stabilised. In the Second Stage, fair wages were to be established in the community-cum-industry. 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 minimum wage and the highest limit of the living wage, depending upon the bargaining power of labour, the capacity
of the wage rise on neighboring industries. The productivity of labour, the place of industry in the economy of the country, and the prevailing rates of wages in the same or similar occupations in neighboring localities.

v) Fair Wage:

According to the committee on "Fair Wages." It is the wage which is above the minimum wage but below the living wage." The lower limit is set by the "capacity of the industry to pay. Between these two limits, the actual wages should depend on consideration of such factors as (a) The productivity of labour; (b) The prevailing rates of wages in the same or neighboring localities; (c) The level of the national income and its distribution; (d) The place of industry in the economy of the country.

vi) The Need-Based Minimum Wage;

The Indian Labour Conference, at its 15th session held in July 1957, suggested that minimum wage fixation should be need-based, and should meet the minimum need of an industrial worker. For the calculation of the minimum wage, the Conference accepted the following norms and recommended that they should guide all wage-fixing authorities, including the minimum wage committee, Wage-Boards and adjudicators; etc.

(a) The standard working class family should be taken to consist of 3 consumption units for the earner; the earnings of women, children and adults should be disregarded a total of four consumption units.

(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 worker's family of 4, 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 Subsidized Housing Scheme for low-income groups; and

(e) Fuel, lighting and other miscellaneous items of expenditure should constitute 20% 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 organisation to work out its monetary equivalent. These estimates have varied considerably.

2.23 Public Policy and Legal Framework:

Public policy and legislative framework provides the basic for wage determination. Within the framework of public policy and legislative framework, wages are determined through one or more of the following methods: (a) unilaterally by employers, (b) through collective bargaining between employer (or federation of unions in sector-cum-region) and union (or federation of unions in a sector or sector-cum-region), (c) Pay Commissions for civil service, (d) Wage boards for select industries, and (e) adjudication by a third party where wage disputes remain unsolved through negotiation and conciliation.

The legal frame work for the payment of wages/salaries is governed mainly by four legislation beside the guidelines for managerial remuneration and relevant provision in the Indian Companies Act, The four legislation include: The payment of Wages Act 1936. The Minimum Wages Act 1948. The Equal Remuneration Act 1972 and the Payment of Bonus Act 1965. In addition, the Department of Public Enterprises issue from time to time detailed guidelines and set up Pay Review Committees with regard to public sector pay.
To enforce legislative provisions, tripartite regional minimum wage advisory committees exist in the centre and in various states. The labour machinery at the state and central level oversees the implementation of equal remuneration act, four voluntary organisation connected with women’s welfare have been empowered to lodge complaints on behalf of the affected persons. A series of welfare legislations -employees’ State Insurance Act, 1948 and Employment Provident Act, 1952 for instance - also deals with remuneration and related aspects. To oversee their functioning tripartite boards with representatives of Government, employer organisations and worker organisations have been established. In addition, there are Lok Adalats and Computerised Grievance Redressal Mechanism to deal with complaints relating to one or more of this legislation. Individual employees, trade union can also seek redressal through labour courts all the way upto the Supreme Court. Even uninvolved parties and non-governmental organisations also can proceed with public interest litigations to seek redressal of persons affected by violations of various legislations like for instance. Minimum Wages Act.

Government has also established machinery to collect data and information and disseminate the same. Labour Bureau, Simla, not only collects and compiles information about the cost of living index which provides the basis for compensating the workers for rise in cost of living under the existing applicable schemes of dearness allowance. Labour Bureau, Simla. Annual survey of Industries of the Central Statistical Organisation and National Sample Survey are among the other institution s which collect and compile information on wages and living conditions. Labour Bureau and the Central Industrial Relations Machinery in the Ministry of Labour also prepare reports on the implementation of the legislations mentioned above. Labour Bureau also conducts, from time to time, inquiries into wages and working conditions of workers in select industries (for instance, mines, beedi and cigar, etc) for which separate legislations are in force.
2.24 Unilateral Pay Fixation:

In India 92 percent of the labour force is unorganized. Though a significant portion of the unorganized labour force is covered by minimum wage legislation, given the high unemployment and underemployment there are little incentives for employers to comply with the legislation (for every person who does not work below minimum wage there could be many more who are willing to work for less than the minimum wage) and many practical difficulties in effective enforcement. It is not only anecdotal accounts by workers and trade union activists, but also field study reports by researchers, both Indian and foreign, which confirm the problems with actual implementation of minimum wage legislation. Majority of the unorganized sector workforce is not unionized and hence the possibility for determining wages and working conditions through collective bargaining is virtually ruled out. In a few cases collective bargaining in the unorganized and sick industries in the private sector has actually led to agreeing for less than the benefits and protection afforded by legislation.

Given the above scenario, in respect of a vast majority of the workforce in the unorganized sector wages are unilaterally determined. This often results in not only workers getting less than the minimum wages and benefits stipulated under law, but also discrimination in wages and benefits between one (set of) workers and another. In a large number of private sector establishment, for the non-unionized supervisors and executives wages are unilaterally determined by their employers. In this case however, usually employers tend to base the salary levels at or around, if not above, the market rates in view of the difficulties in attracting, retaining and motivating skilled and experienced personnel lesser. Unilateral wage fixation by employer can be unfair to the individual employees because the latter will have lesser bargaining power vis-à-vis their employers, often tend to encourage arbitrariness and raise questions about fairness and equity.
2.25 Collective Bargaining:

Collective bargaining is a process where by standards are created to govern labour relations-including particularly wages and working conditions. ILO conventions No 87 and 98 establish the right of workers to organize and bargain collectively. In Indian union density is about 6% of the labour force in the country. Of them nearly two thirds are in government and quasi-government organisations, including defence are not covered buy collective bargaining.

Union act does not provide for statutory recognition of collective bargaining though some state government legislation provides for it and legislation puts a minimum on adjudication rather than collective bargaining. Refusal to bargain collectively, in good faith, with recognized trade unions is, however, made an “unfair labour practice” under section 2(ra)/Scheduled V of the industrial Disputes Act and is punishable under section 25(u) with imprisonment for the term which may extend to six months or with fine which may extend to Rs.1,000 or with both.

2.26 Levels of Bargaining:

Sectoral bargaining at National level: Prior to 1970s wage boards appointed by government were given awards on wages and working conditions. The number of wage boards had declined from 19 in late 1960s to one (for journalists) in late 1990s. Since early 1970s sectoral bargaining is occurring at national mainly in industries where the government is a dominant player. These include banks and coal (approximately 800,000 workers each) steel and ports & docks (250,000 workers each). 58 PRIVATE/PUBLIC/MULTINATIONAL BANKS are members of the India federation of banks employees. Over 200 coking and non-coking mines were nationalized in early 1970s. They are spread all over the country, with some owned by the state governments and many by the central government. There is one national agreement for the entire coal industry. In steel there is a permanent bi-parties committee for the integrated steel mills in the public and the private sector.
Since 1969, this committee which is called the National Joint Conductive Committee for Steel Industry (NJCS) has signed six long term settlements. The 11 major ports in the country have formed the Indian Port’s Association. They hold negotiations with the industrial federations of major national trade centers in the country.

A peculiar feature of sectoral bargaining at the national level is the presence of a single employer body and the involvement of concerned administrative ministry from employer’s side. In many sectors, two to five major national centers of trade unions, which have a major presence through respective industry federations of worker’s organisations, negotiate. In banks, coal, and port & docks invariably all agreements were preceded by strikes or strike threats. Only in the steel industry this did not happen during the past 29 years. Even though industry -wide bargaining is not extended to the oil sector, which was nationalized in the late 1970s, the Oil Coordination Committees accomplish a great deal of standardization in pay and service conditions even if collective bargaining occurs at firm and / or plant (for instance, Hindustan Petroleum Corporation Limited), The agreements in banking and coal covered 800,000 workers each while that in steel and ports and docks covered 250,000 workers each.

2.27 Pay Commission for Central Govt.:

The pay structure of the Central Government employees is based on the recommendations of Pay Commissions set up by the Central Government. While some state Governments also broadly follow the recommendations of the Central pay Commissions for their employees and a few other state Governments set up their own Pay Commissions. During the past 50 years of India has set up five pay commissions. The recommendations of the Fifth pay Commissions, which submitted its report in 1997, as accepted by the Government are currently in force. Pay Commissions also covered a wide range of employees in the public sector.
There are significant differences between the methods of settlement of wage disputes available to workers in the private sector and those of concerned Government employees. The latter are at the disadvantages position as none of the wage settlement methods such as collective bargaining, conciliation, adjudication or arbitration is availed to these employees to settle wage claims and disputes.

A Joint Consultative Machinery was set up by the Central Government to discuss matters relating to welfare of the employees and improvement of efficiency and standards of work. The scheme provides for a limited extent of compulsory arbitration on the following subjects:

1) Pay and allowances.
2) Weekly hours of work,
3) Leave of a class or grade of employees.

The Government however becomes the final authority in deciding whether an issue can or cannot go for arbitration.

Despite these arrangements, the effective method available to Government employees is that of enquiry by the pay Commission. The Central Government has so far set up five Pay Commission which reported in 1947, 1959, 1973, 1984, 1997 respectively. Most State Governments have also set up Commissions from time to time.

Pay Commissions which were set up to regular intervals functions non-statutorily, study the problems establishing their own procedures for the collection of data and information and make recommendations to the Government. Though these recommendations are given much weightage, the ultimate responsibility lies with the government whether to accept, or modify or reject some of them.

The First Central Pay Commission recognized that the influence of the law of demand and supply cannot be wholly ignored in fixing in the salaries of public servants. The fairness and adequacy of the salary proposed must be
judged balancing the interests of the employee, employer and public. The Commission stated that an employee must be paid a "living Wage". However, with the Fair Wages Committee's clarification of the concept of living wage it becomes clear that the living wage which was recommended by the Commission should actually be the minimum wage.

The Second Pay Commission also referred to the principles that as a matter of social policy, the lowest rate of remuneration should not be lower than a living wage and the highest salaries also should be kept down, consistent with the essential requirements of recruitment and efficiency. The Commission reached the conclusion that the minimum wage or salary should not be determined merely on economic consideration, but should satisfy also a social test - both because of its intrinsic validity and because of its bearing on efficiency. Even above the minimum level Government should remunerate their employees fairly; for these who serve the state, as well as others, are entitled to fair wages (Second Central Pay Commission Report).

The first two Central Pay Commission stressed that the minimum wage must satisfy a social test and that wages above the minimum should be 'fair'. The major requirement of sound pay system quoted by the Third Pay Commission included inclusiveness, comprehensive and adequacy.

a) Inclusiveness - the pay structure and career pattern adopted for the civil service should broadly be adopted by autonomous quasi-government organizations also. Secondly, the large-scale appointment of casual, contingency and work-charged employees should be discouraged and kept to the minimum.

b) Comprehensibility - the pay scale proper should provide as true and comprehensible picture of the total remuneration given the Government employee.

c) Adequacy - the pay structure should be adequate both internally and externally. Individual attributes such as education, training and skill should be
taken into account for internal adequacy. For being externally, the pay structure 
should provide for some measure of protection of living standards.

None of the above pay commissions viewed that the Government should 
be assigned the role of "model employer" by paying higher wages and salaries. 
However, it was observed that the Government must be guided by the objectives 
and principles prescribe by the Pay Commission.

Though the feasibility of need-based minimum wage as examined by the 
two Pay Commissions, they differed in their views on the 15th session of the 
Indian Labour Conference specifications on the minimum wage. The third Pay 
Commission viewed that the minimum wage fixes should be realistic and should 
match the conditions prevailing in the economy. The Commissions concluded 
that "the adoption of the minimum remuneration based on the 15th ILC norms 
at this stage would be tantamount to a misdirection of resources "" (report of the 

An important criteria in wage determination in industry is that of 
comparison. The First Pay Commission considered that a "fair relativity" should 
be maintained between government employees and outside rates. The second 
pay Commission felt that though fair comparison between rates of remuneration 
for comparable work could be adopted, it involves practical difficulties in the 
application of the principle. The third pay Commission paid considerable 
attention to fair comparison under the principle of equal pay for equal work". 
However, there can be no fair comparison between establishment with a profit 
motive and a public service motive. The fourth Central Pay Commission deal 
with the criteria of comparability on how it is not satisfactory as an absolute 
factor for fixing the governmental pay structure by comparison with that 
prevailing in the private sector. A market price cannot be assigned to the value 
of work in the public services. The commission viewed that comparisons should 
be used in determining pay of government employees. As far as possible, the 
effort should be to provide comparable emoluments for comparable work.
Capacity to pay is another significant criterion applicable to the remuneration of Government employees but the method of assessment of Government's capacity is entirely different from that in the private sector. Since, the Government's capacity to pay cannot be measured precisely, the government could pay fair wages to its employees. The fourth Central Pay Commission observed that the capacity of the employer to pay its employee is a factor to reckon be given due consideration. The Commission said that the fairness of the payments has to satisfy a double test in the sense it has to be fair from the point of employees as well as the people they serve.

The fourth Central Pay Commission (1984; p84) disagreed with the First and Second Pay Commission which rejected the model employer principle". The Commission expressed that a model employer need not necessarily pay higher wages than other good employers. A "model is above the ordinary or above that which is the minimum, or higher than what are content with or what is enough to serve their propose.

Another important factor in wage determination is to cost of living. The approach of most Pay Commission has been a devise a salary structure with reference to a certain consumer price index at which the Commissions believes that prices may eventually get stabilised or, at any rate below which prices are unlikely to fall and to provide for neutralization of any rise in the cost of living thereafter through dearness allowance linked to, generally varying with, the consumer price index. The various Commissions expressed different views on the subject of dearness allowance payable to Government employees. The first Central Pay Commission observed that the dearness allowance is relevant not only to the needs of the most vulnerable section of the employees but some of the upper employees also require a measure of relief. The quantum of dearness allowances will be raised, lowered or discontinued for a rise or fall in the consumer price index. The same principles would apply to all classes of employees except that when the consumer price index fell considerably below
the existing level, DA was to be discontinued at different index levels for employees on different pay scales. The Commission recommended DA to all employees drawing a salary upto Rs 100.

The Second Central Pay Commission considered DA as a device to protect the real income of wage earners and salaried employer’s from the effects of rise in prices, The Commission, however, limited payment of dearness allowance to those drawing a salary of less than Rs 300 per month. The Third pay Commission observed that dearness allowance should be treated as compensation to the wage earners and salaried employees against rise in prices over the index level to which the pay structure was related. After examining the consumption pattern of employees in the higher Pay range the commission recommended extending payment of dearness allowance to all employees getting pay not exceeding Rs 2250 per month.

The fourth Central Pay Commission also viewed that the compensation should provide full neutralisation of price to employees drawing basic pay upto Rs 3,500/-, 75% to those getting basic pay between Rs 3,501 and Rs 6,000 and 65% to those getting basic pay above Rs 6000 subject to marginal adjustments. This compensation may continue to be shown as a direct element of remuneration.

Doubts expressed regarding the suitability of the Consumer Price Index for Industrial workers presently being used for purpose of grant of DA to Central Government employees. It has been argued that this index does not truly represent the consumption pattern of all Central Government employees and should be replaced by an index specially prepared for the purpose.

The fifth Central Pay Commission, which submitted its report in 1996, made some proposals linking pay revision with work organisation and manpower planning. It recommended 40% increase in pay and 30% reduction in manpower over a three year period, new modes recruitment, including contract employment, and innovative suggestions on training, performance appraisal,
career progression, transfer policies and accountability. The Government accepted the first part of the recommendations and not the second part.

The problem with pay commission is two fold: they are not able to relate recommendations with the principles they enunciate. Secondly Governments usually tend to take economic decisions on political considerations.

2.28 Wage Boards:
The wage boards have a long history in the Indian Industrial relations System. As early as 1931 the Royal Commission on Labour recommended the setting up of wage boards for determination of wages. It was envisaged in the First Five Year Plan that permanent Wage Boards with a tripartite composition should be set in each state and at the Center to deal comprehensively with all aspects of the question of wages. The above recommendation, however, did not receive adequate attention and the wage disputes continued to be settled through Industrial Tribunals. The Second Plan also considered the wage Board to be more acceptable machinery as it gives the parties a more responsible role in reaching decisions. The Fair wages Committee, the real authors of the wage Board Scheme, said that fair wages should be fixed on an industry-cum-region basic. But the Government has consistently set up a single industry -wide wage boards throughout the country.

The first Wage Board to be set by the Government was in 1957 in the cotton textile industry. Since then more and more industries have been brought with the scope of Wage boards. The wage board were set up: to provide better climate for industrial relations; to represent consumers/public interests; to standardize wage structure throughout the industry concerned and - to align the wage settlement with the social and economic policies of the Government.

Constitution of Wage Boards:
Wage Board is tripartite in nature, which consists of a chairperson, an equal number of representatives of employers and employees (two members each) and two other independent members (an economist and a consumer’s representative)
nominated to the board. The Chairman shall be appointed by the appropriate Government in consultation with the Chief Justice of the High Court concerned or Supreme Court of India, as the case may be any person who is or has been or is eligible to be appointees as a judge of the High Court shall be qualified for appointed as the Chairman. It has been the practice to nominate a member of parliament to represent the interest of the consumer/public.

The members representing the employers shall be appointed by the appropriate Government on the recommendation of the most representative organisations of the employers in the activity. The members representing the employees shall be appointed by the appropriate Government on the recommendation of the most representative organisations of the employees in the activity.

**Functions of Wage Board:**

The primary functions of the wage board shall be to determine to wages payable to the employees of the activity. The appropriate Government or the recognized organisation of employers and employees, by mutual agreement, may refer to the wage board any other matter for determination.

**Procedure of the Wage Board:**

The wage Board shall follow such procedure as may be prescribed; provided that where the appropriate government has not prescribed any procedure the wage board may evolve its own procedure.

**Criteria for Award of the Wage Board:**

In evolving a wage structure, a wage board is required to take into consideration the needs of the industry, the system of payment by results, prevalent rates of wages for comparable employments, the categories of workers to be covered, capacity to pay, level of employment and other relevant factors including public interest in making its award. Wage boards may have been assigned additional tasks such as consideration of the grant of bonus and framing of gratuity scheme.
Award of the Wage Board:

The award of the wage board; a) shall be based on the majority opinion and shall be in writing and signed by the members including the chairman. b) Shall be final and shall not be called in question by the court in any manner whatsoever but an appeal may be filed against the award before the National labour relations Commission. c) shall come into force with effect from such date as may be specified therein and if no date is specified therein and if no date on which it is signed. d) shall be binding on all persons who subsequently become employed therein and all their employees including the heirs or successors and assigns of the employers. e) shall remain in operation for a period of three years and it may be extended for such further period as may be decided by mutual agreement between the parties.

Enforcement of the Award:

After the award of the wage board has come into force every employee of the activity shall be entitled to be paid wages in terms of the award and every employer of the activity shall to be paid wages at rates which shall in no case be less than the rates of the ward, provided that if the wages of an employee are higher than wages due as per the award he shall be entitled to continue to draw higher wages at his option.

The wage boards are non-statutory, except the one for working journalists, in some states; however, there are statutory wage boards for certain industries, As a rule the wage boards have been functioning with a flexible approach. Each board collects information by issuing a detailed questionnaire and holds sittings to record the views of the concerned interests. After an assessment of these the board makes its recommendations to the Government. The procedures adopted by the boards have evoked sharp criticism. The recommendations of the wage boards are examined by the government and the various recommendations are accepted by the parties. In a few cases the recommendations have been modified, leading to apprehensions about the
government adopting a partisan stand towards employer or employees as the case may be.

The major criticism leveled against the wage boards has been that;

a) single machinery for wage fixation in all types of industries will not be suitable and therefore depending upon the nature of the industries, wage boards, collective bargaining or adjudication could be utilized for wage determination;

b) Non-implement or even unanimous recommendations.

c) The question of linking wages with productivity has not been considered seriously by any of the wage boards;

d) Serious procedural delays Bipartite Committee was set up on the advice of the 27th session of the Standing Labour Committee to examine the problems of delays in the working of the wage boards and securing fuller implementation. One of the suggestions emerged was that after the constitution of a wage board for a particular industry disputes relating to matters before should not be referred to adjudication.

The National Commission of Labour (1969) also recommended there need be no independent persons on the wage board The Chairman should preferably be appointed by the common consent of both employers and employees The Wage Boards should be required to submit their recommendations within one year if their appointment, the recommendation of a wage board should remain in force for a period of five years unanimous recommendations of the wage boards should be made statutorily biding Central Wage Board Division should be set up on a permanent basis to service all the wage boards.

2.29 Adjudication:

When Pay Commission and Wage Board submit the reports, the governments accept the recommendations with or without modifications. When collective bargaining and conciliation fail to accomplish resolution of dispute between labour and management, the cases may be decided through voluntary
arbitration or compulsory adjudication. During the 1970 and 1980 wages in the cement industry were decided through arbitration. Not any longer, when wage disputes persist government refers them to the adjudication.

Though the adjudicator's award is normally binding on labour and management. It is not uncommon for parties to move the courts over the award of the adjudicator. In such cases the Supreme Court is the final arbiter. There have been however, instances where even Supreme Court verdicts had problems in implementation, enforcement due to ground realities. In such instances either labour or management, usually the former, makes amends and agrees with the latter for something less than what the Supreme Court mandated. The dearness allowances dispute in Raptokas Bret (1992-93) is one such case. While Supreme Court ordered the company to pay double indexed dearness allowance the company found it difficult and instead wanted to sell the unit. The union then gave up its demand for double indexed dearness allowance and entered into agreement with the management.

In most industrialised countries, it is realised that interest issues (wages, allowances, etc) can not be adjudicated, but rights issues (right to unionise, right to bargain, right to prior notice, right to consultation, etc) can be. In India, however no such distinction is made and both interest issues and rights issues are subject to bargaining and adjudication. This creates avoidable difficulties in the running of enterprises.

XXX

The next chapter deals with the Law and Rules governing employee benefits.