CHAPTER I

Introduction
1.1 Introduction:

An entity is formed for the fulfillment of certain objectives like earning a desired rate of return on its investment, exploitation of natural resources, development of a given backward area and supplying to the public some essential goods and services. All the physical and financial resources are the tools used by human being to achieve the desired goals. Labour is an important input in all the activities, labour has been discussed and analysed in economics since the time of classical economists. Labour is the most important input in each and every organization. The objectives of all the entities can be achieved by managing men. Again development of human resource is the cause of economic or overall development of a country. Low growth and unemployment are the main concern of our economy. Unemployment means shortage labour because labour cannot be stored up. Unused labour is loss of resource for the country. Thus the human resource management receives the attention of economists and social thinkers to make proper use of this resource for the overall development of the economy. The ministry of human resource development in India has considered the multifaceted aspects to develop these resources during the recent years.

The quality and calibre of the people working in an organisation is the real asset of the organisation. Human beings are the most precious part of an organisation. An organisation with incompetent people will fail sooner or later but on the other hand competent persons can take the organisation ahead even in the adverse environment. The success or failure of an organisation largely depends on the people who are managing the affairs of the organisation. When Henry Fayal, a French management scientist, took over the charge of his company, it was on the verge of bankruptcy. His managerial ability made the company successful in a short span of time.

Human resource is of paramount important in the success of any organisation because most of the problems in organisational setting are human
and social rather than Physical, technical or economic. Failure to reorganise human resource cause immense loss to the nation. In the word of Alfred Marshall "the most valuable of all capital is that invested in human beings." From Social point of view, an enterprise combines two sorts of resources, a group of human beings and a group of Physical assets. The later in isolation of the former is useless. The concept of “Human value” is derived from general economical value theory. Like all resources, people posses value because they are capable of rendering future services. Therefore, the value of human resources like other resources can be defined as the present worth of their future expected services.

The valuation of human resource is the basic of human resource accounting which would help to treat human resource of an organisation as an important asset. The quality and competency of human resource helps the entity to grow in the changing environment.

As a factor of production labour i.e. human resource of an organisation should be adequately compensated for services rendered by the employees. The payment of wages and salary is termed as compensation. In the changing environment, compensation planning has primary objective of creating a system of remuneration which is equitable from the view point of both employer and employee. The determination of a rational wage policy is entirely based on not only the internal issues of equity and job worth but also on the larger issues of economy and society.

Formulation of rational wage policy has always been one of the most significant social demands. Earlier wage fixation was the concern of the employer. But with the industrial development and progress of education wage fixation has become a matter for the three parties, employer, employee and the state. Wages and salaries for securing food, clothing, shelter, transportation, insurance, pension plans, education and other physical, maintenance and security factor are available through the purchasing power provided by the
money income of wages and salary. The high cost of living condition of the people demand for higher wages and better working condition creates price, market and production. There are conflict between employers and the employees in the settlement of wage policy. The conflict creates various problems on the society. The final burden of finding a solution to these problems of wage policy ultimately falls on the Government.

Economic development can be effected by maximising gross national product of the country. An important objective of our national policy is the achievement of maximum economic welfare. To maximise economic welfare, national income should be divided equally among all the members of the society. In order to secure economic welfare, some conditions are to be fulfilled. These are — (i) The full employment and optimum allocation of all resources. (ii) Highest degree of economic stability along with economic development. (iii) Maximum income security for all sections of the society. The main objectives of wage policy must be achieving these conditions.

Human Resource Development is “the process by which a management determines how an organisation should move from its current man power position to its desired manpower position. Through planning, a management strives to have the right number and the right kinds of people at right places at the right time to do things which result in both the organisation and individual receiving long range benefits”¹ Human being differ from one another in their basic mental abilities, personality, interests, skill, intelligence, attitudes, aspirations, experience and behaviour. The performance of human beings and their behaviour on a particular job is influenced by intangible psychological and social factors such as family culture, education, personal likes and dislikes, emotions, job conditions, the welfare facilities and privileges available to them while at work, the wages and salaries they receive and above all, job

¹ Velter, Evic W, Man Power Planning for High Talent Personnel, 1967, P15
satisfaction and the material rewards or punishment they receive.

"Manpower" or "Human Resource" may be thought of as "the total knowledge, skills, creative abilities, talents and aptitudes of an organisation's work force, as well as the values, attitudes and benefits of an individual involved. It is the sum total of inherent abilities, acquired knowledge and skills represented by the talents and attitudes of the employed persons."² A human being is capable of producing new ideas, developing and improving capital goods and modifying the available physical and financial resources in order to achieve greater productivity, satisfaction and the goals set by an organisation.

Sophocles said, "The wonder of wonders is man, who has infinite capacity to think, to develop, to create, to invent, to feel, to love, to give, to kill, to respect and to hate, analyse or destroy" Human beings are complex in their behaviour and in their psychological make-up. Human behaviour is directed towards the fulfillment of some aspirations, needs, drives, wants etc. Every individual can and is able to work; but he may or may not be willing to work at all for wants of certain incentives, motivation or a particular work situation or out of mere indolence and lethargy. His willingness to work is based on largely on a management's ability to integrate the interests and needs of its employee with the objectives of the organisation. As Human Resource Development is concerned with the optimum use of human resources, it can bring great benefit at both the national and the organisational levels. At the national level, it would be concerned with factors such as the population and economic development. Provision for education and geographical mobility would be the government's responsibility. For an organisation, it is important because it improves its efficiency and productivity. For an individual it is important because it helps him to improve his skills and utilize his capabilities and potential to the utmost.

² Megginson, Leon C., Personnel and Human Resource Administration, 1977, P. 4
For an organisation, it is important because it improves its efficiency and productivity. For an individual it is important because it helps him to improve his skills and utilize his capabilities and potential to the utmost. Manpower Planning can even be undertaken at the trade association's level for a particular industry.

Human Resource Development is a neglected area in the Indian context only a handful of companies uses a few mechanisms in this practice. Such companies however report that human resource development helps them in many ways. Firstly, forecasting of long-term manpower requirements helped them to forecast the compensation cost involved. Besides, by anticipating manpower needs, they have an opportunity for developing existing manpower to fill the future operation through promotion. They report that this attitude of encouraging existing employees creates a very favourable psychological climate for their motivation. Manpower planning also enables through performance appraisals in the manpower management cycle, determination of the weakness of the existing manpower so that corrective training could be imparted. Thus their training programmes become more effective. Developed manpower results in a relative reduction in the manpower costs. Particularly in the area of management succession, manpower planning makes a very useful contribution. Although there is unemployment in India, persons with the requisite skills and particularly managerial skill are still in short supplies.

Human resource planning leads to the maximum utilization of human resources reduce excessive labour turnover and high absenteeism; improves productivity and aids in achieving the objectives of an organisation. Faultily used, it leads to disruption in the flow of work, lower production, less job satisfaction, high cost of production and constant headaches for the management personnel. Therefore, for the success of an enterprise, human resource planning is a very important function, which can be neglected only at its own peril. Human resource planning is the responsibility of both the line and the staff.
manger. The line manger is responsible for existing man power requirements. The staff manager provides the supplementary information in the form of records and estimates. The staff manager is expected to: i) report about man power utilization in the present and the past, ii) Provide help and advice mangers on the assessment of manpower utilization and to develop sources of information and techniques for purpose of comparison; (iii) administer the procedure of forecasting or objective setting; (iv) present the overall

An organisation, whether formal and informal, large and small, is composed of people — the human resources who come from different walk of life and who are different from one another in their psychological make-up. The quantity and quality of human resources are modified by such environment factors as education, training and development. With the help of acquired knowledge of producing new ideas, developing and improving capital goods and modifying the available physical and financial resources in order to achieve greater productivity, satisfaction and the goals set by an organisation. Capital, national resources, foreign aids and international aid play an important role in economic growth, but none of these factors is more important than an efficient pool or well educated well trained and highly developed personnel, through whose creative efforts the goals of an organisation may be achieved. The handling of physical material and financial resources is quite different from that of human beings because the latter are not standardised, interchangeable or passive like the resources of the materials or of in animate objects.

Modern management has been increasingly aware of the fact that 'human factor' is the most important of all the factors of production. As Douglas McGregor put it as. “Many managers would agree that the effectiveness of their organisations would be at least doubles if they could discover how to tap the unrealised potential present in their human resources.”

Human relations theory, that was developed through the researches of Elton Mayo, Carl Rogers, Kurt Lewin, Daniel Bell and C. Wright Mills and Chester I. Barnard, concentrated on the social environment surrounding the job. It was about 1920s that human relations brought the attention of management the important role played by individuals in determining the success or failure of an organisation.

The human relations programme began when a group of researchers, from Harvard University, was invited to conduct studies at the Chicago Hawthorne Plant of Western Electric. These researches laid down the foundation of the relationship between productivity and physical working conditions. The general progression of the research at Hawthorne can be grouped in four phases. 4

1. Experiments to determine the effects of changes in illumination on productivity.

2. Experiments to determine the effects of changes in hours and other working conditions (such as rest periods, refreshment) on productivity the Relay Assembly Test Room Experiment.

3. Conducting a plant wide interview programme to determine worker attitudes and sentiments.

4. Determinations and analysis of social organisation at work.

(The Bank wiring observation Room Experiment).

The Hawthorne studies conclusively showed by quantitative measurements that

i) Normal interactions of workers at work always create a social network called the “informal organisation,” which

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exerts tremendous influence over workers behaviour pattern.

ii) The informal organisation frequently countermanded official orders passed down through the formal organisation and consequently played a determining role in setting productions rates.

iii) The workers are not to be viewed as mere a 'economic tools' or as 'isolated units' in the production process; but they had to be seen as "Complex human beings" whose normal human interactions were bound to affect total production output, no matter how sophisticated the technological process employed were.

1. 2 Concept of Compensation:

Employee compensation is a vital part of human resource management. Wage, Salaries and other forms of employee compensation constitute a very large component of operating costs. "One of the biggest factor affecting industrial relations is the salary of the worker." Majority of union management dispute relate to remuneration. No Organisation can expect to attract and retain qualified and motivated employees unless it pay them fair compensation. Employee compensation therefore influences vitally the growth and profitability of the organisation. For employees pay is more than a means of satisfying their physical needs. It provides them a sense of recognition and determines their social status. Remuneration is directly or indirectly one of the main springs of motivation in our society. Wages and salaries have significant influence on distribution of income, consumption, saving, employment, and prices. This is all the more significant in an underdeveloped country like India suffering from problems of concentration of income, inflation and unemployment and the nation as a whole.

Employee compensation can divide into two categories:-

a) Base Compensation.
b) Supplementary Compensation.

Base Compensation refers to basic pay in the form of wages and salaries. It is a fixed and non-incentive payment on the basis of time expended on the job. Supplementary compensation consists of incentive and variable payment based on either individual output or the group as a whole.

Administration of employee compensation is called compensation management or wage and salary administration. It involves formulation and implementation of policies and programmes related to wage, salaries, and survey, development and maintenance of wage structure rules for administration of wages, profit of wage and salary.

"Compensation which includes directly cash payments, indirect payments in the form of employee benefits and incentives to motivate employees to strive for higher levels of productivity is a critical component of the employee's relationship. Compensation affected by force as diverse as labour market factor, collective bargaining, government legislation and top management philosophy regarding pay and benefits." (Wayne F Cascio)

Employee compensation is an important issue for the management of an organisation. A properly planned and administered salary system is one of the most important aspects of modern management. Deciding how and what people should be aped is the basis of policies and procedures. Ewell developed salary system which enables the organisation to attract, retain and motivate people of the required caliber and qualification. Such a systemic salary structure should also be able to control payroll costs.

The starting point of salary administration is the determination of salary levels by the process of job evaluation. Job evaluation is a systematic method of assessing the value of each job in relation to other job in an organisation. This is done by identifying the key tasks and the various dimensions of the jobs and thereby easy to find out hierarchy of grading.
The term compensation is used to mean employees gross earnings in the form of financial rewards and benefits as part of employment. Compensation may also be viewed as (a) a system of rewards that motivates employees to perform their duties in work place. (b) a tool used by organisations to foster the values, culture and the behaviour they require in work place, and (c) an instrument that enables organisations to achieve their business objectives.

Compensation is typically divided into direct and indirect components. 'Money' is included under direct compensation (popularly known as wages i.e., gross pay), while benefits come under indirect compensation may consist of life accident and health insurance, the employer's contribution to retirement, pay for vacation or illness and employer's payment for employee welfare as social security.

The term direct compensation is used to describe financial remuneration usually cash and includes such elements as basic pay, dearness allowance, overtime pay, shift allowance, incentive bonus, profit sharing bonus and commissions etc. Indirect compensation or wage supplements or fringe benefits refers to such benefits as provident funds, pension scheme, medical and health insurance and sick leave and various other benefits and perks.

Wage supplements, indirect compensation and fringe benefits are used interchangeably. These can be described as general category of employee benefits which may include statutory, non-statutory, social security and welfare-oriented benefits. The statutory benefits, for example, will include, pension, provident fund, gratuity, medical insurance, etc. Voluntary benefits may include such elements as employee care benefits including medical reimbursement, educational allowances, vacation, family leave, tuition reimbursement, child family care, housing and re-location services, etc.

Wages supplements roughly contribute 20 to 25 per cent or more of the total wage in industry. The question arises as to why an employer spends so
much money on wage supplements or fringe benefits as they are sometimes called. The answer is that there are considerations other than legal obligations. Some of these are (a) to attract and retain labour, (b) to induce a sense of commitment to the organisation, (c) to promote more harmonious employer-employee relations, (d) to generate good morale in the employees, (e) to provide a satisfying healthy and safe work environment, (f) to promote employee welfare, (g) to help in the image building of the organisation, (h) to meet the statutory and legal requirements for protection of the employees against old age, sickness and contingencies such as accident and (j) to avail of the tax benefits applicable to expenditure on various employers welfare programmes and activities.

“Wage supplements or fringe benefits, as they are sometimes called, vary as a consequence of the organisation's compensation policy and human resource philosophy, its location, the type of business and the type of job that an individual holds. The strategy of employee benefits programmes is determined also by specific business objectives, cost factors, organisation compensation policy, employee preferences, collective bargaining issues, benefit programmes of competitive employers, taxation, legal and regulatory implications, the human resource management philosophy of the organisation and other organisational considerations such as job hazards and risk factors.”

Economic compensation constitutes a segment of total rewards system in an organisation. Despite that money still plays a major, more persistent and more trouble some role in the overall satisfaction of the employees. Compensation or paying employees for work and developing structures of compensation-packages thus becomes one of the major responsibilities of human resource management. A goods pay packet not only helps in attracting the most talented employees but also helps in retaining them for a long time in the organisation. Financial compensation with accompanying economic security is certainly an important

5.Indira Gandhi National Open University School of Management studies.
input in the organisation's goal of maximising returns. However, a large number of problems in industry in India are also attributable to compensation. They may range from production to work stoppage, from frustration to satisfaction and from cooperation to conflict. Most managers believe that using economic incentive can get the employees to respond to the demand of the job and overall expectation of the organisation.

1.3 Compensation functions and responsibilities:

There is a need to define and develop the compensation function in an organisation and determine its location. The functions and responsibilities of a compensation programme will be as follows:

- To formulate compensation plans;
- To establish criteria for wage and salary determination;
- To establish job evaluation systems, i.e., rating of jobs, job differentials and job standards;
- To ascertain on going rates for jobs in industry/community;
- To analyse government wage regulations, company wage policies, and agreements with unions to maintain up-to-date wage-rates;
- To make policy recommendation;
- To establish fringe benefits and other supplementary compensations;
- To recommend and administer plans for wage incentive systems;
- To supervise and maintain records pertaining to all matters of compensation;
- To help the management in framing a compensation policy suitable to business goals and objectives;
- To promote and foster the desired values and organisational culture through compensation policy; and
• To promote team effort and unit performance through compensation policy.

The function should be manned by some one who has specialised knowledge and skill in compensation programmes. In addition to specialised skill, such a functionary should have an adequate exposure to and appreciation in the principles and practices of general management, organization and employee relations. The functions should be preferably located in the personnel division at a senior level. To ensure the effectiveness of the functionary, a coordinating committee should be constituted. Represented on the committee should be divisional heads from personnel, industrial, engineering, and finance department.

1.4 Role of Compensation:

Compensation has an important role to play in an organisation. Typically, it has the following characteristics:

a) It enables an organisation to attract and retain the manpower it requires;

b) It motivates employees and provides directions to their efforts;

c) It induces employees to develop skills and competencies which the organisation requires or may require in future; and

d) It is used to foster values and culture of the organisation.

Traditionally, the focus of compensation management has been primarily on enabling an organisation to recruit and retain employees while complying with legal and statutory requirements. Pay was primarily related to status and hierarchical position. It is now being viewed increasingly as the key to acquire a competitive advantage. Innovations in compensation are considered necessary to do more with less by reducing labour cost per unit of output, motivating employees to higher performance, providing an impetus to skill development and higher quality and so on.
Payroll costs have necessarily to be seen in the context of corporate strategy and performance and its ability to attract and retain adequate manpower. Payroll cost considerations have impelled many multinationals to increasingly hire host country managers, in preference to assigning its employees for overseas duties. Unions can also influence compensation level and practices; collective bargaining agreement induces rigidity in wage rates. With the emergence of the new employee with a higher level of education and skill as well as the flat structure of the organisation, the union influence on pay determination and compensation management is decreasing and its role as a management tool is getting strengthened. Compensation policy and practices are being considered as an important factor in an organisation's survival, profitability, long-term growth and competitiveness in the context of global situation

Organisations are concerned with pay because of its importance for finding the manpower to do business; it motivates important decisions or employees about taking a job, leaving a job and working on the job.

While designing direct compensation plans, it is important that an organisation chooses an approach that is in alignment with its organizational philosophy, values and culture and is supportive of organisation and business goals. Due to the basic changes in an organisation today in the form of strategic business units (SBUs) and the new challenges and opportunities, there is a growing search for innovative direct compensation strategy. Such approaches compel them to focus on motivating employees to achieve organisational goals through broad-banding, skill-based pay and team pay plans. However, so far, there is no conclusive evidence on the effectiveness of these approaches.

Direct and indirect compensation programmes must be assessed for the extent to which they attract, retain and motivate the workforce required relative to major competitors. The cost of labour is critical to corporate performance; it
must be constantly reviewed and analysed to examine where cost can be reduced without prejudice to productivity and fulfillment of business goals.

When skills for competitive advantages are in greater demand, companies that do not respond with competitive pay packages will phase out, they will have less labour cost at the expense of organisational capability. Dynamic organisations make sure that while reducing and controlling labour cost their compensation packages attract and retain the persons required for maintaining a competitive edge.

Organizations also need to ensure that individual and group results are measured and performance is reflected in pay. An effective pay for performance programme can be a powerful tool with which to attract, retain and motivate a competent work force. Many high-tech and knowledge-based organizations are moving towards compensation system with relatively more pay in the form of stock options for its key employees. This, for instance, is true of software development organizations. In these organisations, employee stock option plans are becoming increasingly popular.

1.5 Economic issues in Compensation Policy:

a) Subsistence Theory:

David Ricardo in his famous book on 'Principles of Political Economy and Taxation' propounded the subsistence theory of wages: Ricardo states that the price of labour depends on the subsistence of labour. This price equals the amount of commodities necessary to feed and cloth a worker and his family, which represented the cost to society of "enabling the labourers to subsist and to perpetuate their race".

The subsistence wage theory is based on the assumption that labour, like any other commodity, is purchased and sold in the market. In the long run the value of labour tends to be equal to the cost of production (of that labour). This
labour cost is equal to the amount necessary for the maintenance of the worker and his family at the subsistence level.

This theory relied on the Malthusian Law of Population. According to Ricardo, if the supply of labour falls short of the demand for it, the workers will be paid higher than the subsistence level, which would induce the workers to have more children. This will increase the labour supply and as a consequence the wage rate would inevitably fall to the subsistence level. Conversely, if the wages fall below the subsistence level, children would die off or some workers may decide to have fewer children, which would eventually bring down the birth rate. This will result in decreased labour supply, which will ultimately be equal to the demand for it. Ricardo viewed that the market price of labour could not vary from the subsistence level for a long time. For this reason, the subsistence wage theory was also known as the "Iron Law of Wages".

b) The Surplus Value Theory:

The surplus value theory of wages associated with Karl Marx. Marx was in many ways closer to Ricardo in his approach to the question of value for labour power. However, he did not subscribe to the Malthusian Theory of Population for the explanation of wages. Marx accepted Ricardo's view that the market price of labour power could not for long depart from the value of the subsistence which is required for the maintenance of that labour power. He, however, viewed that it was not the tendency of population, which brought wages to the subsistence level, but it was the tendency in the capitalist system to chronic unemployment and the existence of industrial reserve army, which drove wages to the subsistence level. The supply of labour always tended to be kept in excess of the demand for it by a special feature of capitalist wage system. The capitalist was in a position to force the worker to spend more time of his job than what was necessary to earn his subsistence wage. According to Marx, the worker did not get full compensation for the time he spent on the job. The rate of surplus value, which is the ratio of surplus labour to necessary
labour, is also called the 'rate of exploitation' under the capitalist form of production. Marx, however, held the view that the introduction of trade union bargaining and similar interferences could stop the tendency of wages falling to their minimum level and even reverse it.

c) The Wages Fund Theory:

Adam Smith assumed that there existed a pre-determined fund for the payment of wages. It was the size of the fund, which determined the demand for labour and the wages paid to them.

Later John Stuart Mill tried to explain the movement of wages in a changing world. He observed that there was a changing 'natural rate' defined by the changing ratio of capital to population. Mill further added that population must here be taken to mean only of the labouring class or those who work for wages and capital to mean only that part of capital which is spent in the direct purchase of labour. Thus, according to wages fund theory, wages are determined by: (a) the wage fund or part of working capital which has been expended for obtaining the services of labour; and (b) the number of workers seeking employment. The wage fund was assumed to be fixed and it does not change. Any change in wage rate, therefore, would be due to change in the number of workers seeking employment.

d) The Marginal Productivity Theory:

J. B. Clark first developed the Marginal Productivity Theory of Distribution. Later on many others including Marshall refined this theory further. According to J. B. Clark, reward for a factor of production for its services was determined by the marginal revenue productivity of that factor. According to Marshall, both demand and supply together determine the factor price, which in a perfectly competitive market is equal to the marginal revenue productivity of the factor.
e) The Bargaining Theory:

John Davidson, the earliest exponent of the bargaining theory of wages, argued that the wages and hours of work were ultimately determined by the relative bargaining strength of the employers and the workers.

According to this theory, there is an upper limit and a lower limit of wage rates and the actual rates between these limits are determined by the bargaining power of the employers and the workers. The upper limit could be the highest wages that the employers would be willing to pay beyond which they will incur losses resulting from high labour costs. The lower limit could be either the minimum wages prescribed under the statute or the strength of resistance of the workers at the subsistence wages below which they will not be available for work.

f) Demand and Supply:

According to Marshall, the determination of wages is affected by the whole set of factors which govern demand for and supply of labour. It is therefore necessary to understand the various factors, which influence the demand for and supply of labour.

The employers' demand for labour is dependent on a number of factors such as the demand for his/her product, availability of other factors of productions (the most important being the supply of capital), the level of technological progress, etc. The demand price of labour is determined by the marginal productivity of individual worker.

The term supply of labour can be expressed in a number of senses. First, it may refer to the number of workers seeking employment. Maurice Dobbs has stated that this number will very not only with the total population, but also with the proportion of the population, which is proletarianised. These are the workers with no alternative livelihood join the labour market seeking employment for wages. Secondly, it may be the number of hours for which each
worker is available for work. The supply of labour in this sense is being increased by an increase in the number of working hours. Finally, the supply of labour varies with the intensity of work. The supply of labour tends to increase if the workers work harder than before.

As regards the relationship between wages and supply of labour it appears that higher the wages, greater will be the inducement to work and therefore the greater the supply of labour would be and vice versa. However, it may not always be true. Generally, supply of labour tends to increase with an increase in the wage rate. However, once the wage rate has reached a certain level, any further increase may not induce workers to work more. This is because with a rise in wages, workers may prefer leisure in work.

Thus, Wage rates are influenced by a number of factors governing the demand for and supply of labour. The marginal productivity of labour, which determines its demand price. It is the standard of living of workers that plays an important role in the determination of supply price of labour. The actual wage rate is determined at that level where the demand for and supply of labour are equal.

g) Purchasing Power Theory

The classical economists, especially Pigou argued that a cut in wages during unemployment and depression would help restoring full employment in the economy. Lord Keynes in his 'General Theory of Employment, Interest and Money' has criticized this classical viewpoint. Keynes looked at the problem of wage rates from a macro viewpoint. Keynes looked at the problem of wage rates from a macro viewpoint. According to him, wage is not only the cost of production to the employer but also an income for the wage earners who constitute a majority in the total working population. The same workers and their families consume a major part of the products of the industry. Hence, if the wage rates are high they will have more purchasing power, which would increase the aggregate demand for goods and also a high level of output.
Conversely, if the wage rates were low, their purchasing power would be less, which would bring about a fall in the aggregate demand. This will have an adverse effect on the levels of employment and output. Therefore, a cut in wage rate, according to Keynes, instead of removing unemployment and depression (as envisaged by the non-classical economists) will further add to the problem.

According to the Keynesian Theory, full employment is a function of national income; the higher the level of national income the greater the volume of employment and both income and employment are determined by effective demand. Hence, if the national income falls, it would have an adverse effect on employment. In order to ensure incomes to wage earners and to restore full employment, Keynes recommended state intervention by adopting economic policies such as monetary and fiscal policies. The other mechanisms, according to Keynes, could be direct controls over prices, wages, investment and production.

h) Comparative Advantage Theory:

Economists specializing in international trade argued about countries, industries and companies competing on the basis of comparative advantage of cheap labour. Employers are known to move to areas where labour is cheap, be it within a country or across countries. Subject to internal and external constraints, labour also tends to show a tendency to move to areas, which pay higher value for their skills and effort. Besides land-labour nexus and other social, cultural, religious, linguistic, politico-legal barriers restricts labour mobility. Even the World Trade Organisation agreement provides more for mobility of capital and products, but not labours.

In recent years, however, there is pressure on countries and companies competing on the basis of cheap labour to ensure compliance with minimum core labour standards concerning minimum age, freedom of association, right to collective bargaining, forced labour and non-discrimination. Efforts to link
international trade with international labour standards at the international level and consumer boycotts and social libeling at the major level through campaigns and other initiatives at the sectoral level make it increasingly difficult to compete on the basis of cheap labour it in violates core labour standards mentioned earlier.

i) Behavioural Theories and Relevant Issues in Compensation Policy:

Every reward or element or compensation/remuneration has a behavioural objective and seek to fulfill a need (physiological or psychological) and achieve a goal. Luthans argues that 'motivation is a process that starts with a physiological or psychological deficiency or need that activates behaviour or a drive that is aimed at a goal.

Reward systems are aimed at compensating people for their skill, effort, responsibility and working conditions and motivating them for higher performance. Behavioural science theories are classified into three categories, content, process, and contemporary theories. These are discussed here very briefly.

j) Content Theories:

The content theories look at what motivates people at work. Maslow, Hergberg and Alderfer contributed significantly to content theories.

k) Hierarchi of Needs:

Abraham Maslow proposed a hierarchy of five needs: physiological (food, shelter, clothing–which wages can buy), safety (emotional and physical safety–health insurance, pension), love (affection and affiliation–belongingness, social), esteem (power, achievement, status, etc.) and self-actualisation (personal growth, realization of potential). Individuals may seek fulfillment of higher order needs before their lower order needs are fulfilled. Maslow suggests that a satisfied need is not a motivator. The exception, however, is the self-
actualisation need whose gratification increases in growth-motivated individuals.

l) Two Factor Theory of Motivation:

Two-factor theory of motivation by Friedrich Hergberg classifies rewards into two categories: intrinsic and extrinsic. These are also called as motivators (satisfies) and hygiene factors (dissatisfies). Intrinsic rewards are motivators and satisfies related to job content. They include achievement, recognition, work itself, responsibility, job enrichment, and job enlargement. Extrinsic rewards are hygiene factors and job dissatisfies. These include company policies and administration, supervision, salary, interpersonal relations, working conditions. Hergberg's theory oversimplifies the complexity of motivation. Pay can be dissatisfying if it is very low, but it can also be satisfying: A poster in an executive's cabin reads thus: I like the pay, not the job!

m) Erg Theory:

Clayton Alderfer formulated his theory based on three groups of needs: existence (survival or physical well-being), relatedness (interpersonal) and growth (personal development) (ERG) theory. These needs are a continuum, not necessarily in the same order, rather than hierarchical or compartmentalized categories. Based on a person's background and cultural environment, one set of needs may precede over others.

The works of Maslow, Hergberg and Alderfer are referred to as content theories. They are useful, but have limited implications for policy and practice. Hergberg's theory, however, provides insight for job design.

n) Process Theories:

Process theories look at the cognitive antecedents that go into motivation or effort, particularly the way they relate to one another. We examine very briefly the work of Vroom (on valence and expectancy) and Porter and Lawer (performance-satisfaction linkage).
Expectancy Theory:

Victor Vroom proposed expectancy theory based on the concepts of valence, expectancy and instrumentality. Valence refers to an individual's preference for a particular outcome. For instance, older workers might value retrial benefits against fewer, if any, younger workers in today's knowledge industry. Younger, single (unmarried) workers with fewer family obligations have less or no need for benefits like children's education, health benefits, leave travel concession, etc. than older, married people with one or more children. A related phenomenon is salience which refers to whether the outcome (in this case it could be reward or compensation) is considered significant or not. For instance, if management offers something as an incentive to its employees, it may not produce the desired behaviour or impact if the latter consider it as insignificant or devoid of worth commensurate with the effort required.

Instrumentality could mean that an individual would be motivated to give superior performance (first-level outcome) in anticipation (expectation) of promotion (second-level outcome).

Expectancies are mental and cognitive. Although the concept of expectancy seems to be the same as that of instrumentality, expectancy relates efforts to first-level outcomes while instrumentality relates first-level outcomes and second-level outcomes. In other words, expectancy is the degree of probability that a particular action or effort will lead to particular first-level outcomes. Instrumentality refers to the degree of probability that first-level outcomes will lead to a desired second-level outcome. Put simply, Motivation is a function of valence and expectancy.

Vroom's concept can be interpreted thus: Individual gives company what it values, superior performance and expects, in return, promotion. Promotion is the instrumentality that management uses to obtain superior performance.
Vroom provides insight into the conceptual determinants of motivation. Though he does not offer specific suggestions on what motivates, and his theory is based on the assumption that people are rational and logically calculating, real life situations may not be so idealistic. But, then, it could well be seen that in companies where promotions are not based on superior performance, promotion policy and its administration could well become the demotivating factors.

p) Equity and Attribution Theories

Equity:

J. Stacy Adams, who proposed equity theory, argues that a major input into job performance and satisfaction is the degree of equity (or inequity) that people perceive in their work situation. Inequity occurs when a person perceives that the ratio of his or her outcomes to inputs and the ratio of a relevant other's outcomes to inputs are unequal.

People feel unhappy not only when they receive less than what they consider they deserve, but also when they receive more than what they consider they begin to wonder whether others too are receiving more than what they deserve. If it is indeed the case the next question that comes to their mind is compared to what they are getting, whether others are receiving much more than what they deserve.

Related Issues:

Equity can be internal or external. Internal equity refers to the pay differential between and among the various skills and levels of responsibility. For instance, a skilled worker could get more than the unskilled worker. Whether a blue-collar worker should get less or more than the white collar depends not only on relative skill differentials and difficulties in working conditions, etc., but also on the demand and supply of those skills and the dominant occupational preferences of people in the society. When in one engineering fabrication industry gas cutters (welders) were getting less than
grass cutters (gardeners) it was perceived by the technical staff that it was a glaring instance of a lack of internal equity because in that industry welding is considered to be a highly rated technical trade and should command higher wage rate. Internal equity is established through job evaluation. Pay satisfaction surveys also provide insights into it. Job evaluation can be done not only for manual jobs, but also for managerial jobs. Collective bargaining pressures have, however, substantially eroded pay differentials based on skill differentials. In many industries, dearness allowance and other employee benefits constitute bulk of the pay packet and basic pay, which is supposed to be based on job, evaluation constitutes only a small portion of the total pay packet.

External equity refers to concerns how wage/pay levels for similar skill levels in one firm compare with those in other firms in similar or same industry and location/region. For instance, if welders in one firm get the same as welders in the other firms in the industry/region there is perceived external equity. External equity is assessed usually through pay surveys and pay satisfaction surveys. Companies, which pay significantly less than the market rates, would find it difficult to attract, retain and motive people to perform better. Therefore, it is possible that low wage rates may not always be associated with low wage costs.

1.6 Attribution:

Fritz Heider and Lewin and Festinger contributed significantly to the attribution theory. It assumes that people are rational and logical in their behaviour and that both internal and external forces combine additively to determine behaviour. People will behave differently if the realize that their outcomes are controlled more internally than externally. This theory has great potential for understanding organisational behaviour and provides deep insights on goal setting, leadership behaviour and diagnosing causal factors of employee performance.
At present, all the concerned parties are considering all these classical and recent theories in formulating compensation package

1.7 Objectives of the Study

This study is an attempt to examine the compensation planning of the few select organisations as a mechanism for the human resource development. The following are the objectives to achieve through this study.

1. To examine the methods of wage fixation of the select organisation.
2. To evaluate the economic background of employee compensation.
3. To identify the objectives and merits of labour welfare measures and social securities benefits.
4. To study the compensation and Salary administration of the select organisations.
5. To study the effect of compensation planning on human resource development in different organisations.
6. To suggest ways and means for human resources development.

1.8 Importance of the study:

1) To determine equitable wage for different jobs in an organisation.
2) To ensure that like wages and salaries are paid to all qualified employees according to their qualities.
3) To provide a standard procedures for determining the relative worth of each job.
4) To serve as a useful reference for setting individual grievances regarding wage rates.
5) To provide a benchmark for making career planning for the employees in the organisation
6) To meet the organisation need for right type of people in right number at right times
7) To avoid shortfalls and surpluses of employees to a large extent
8) To increase skill, knowledge, potentialities, productivity and job satisfaction.
9) To improve the co-ordination of worker’s efforts for which duplication of efforts and conflict among efforts can be avoided.

1.9 Research Questions:

The following research questions were formulated to study compensation planning in state and central level organisations.

1) Whether compensation package has been able to contribute towards the development of human resource in an organisation?

2) Is it a mechanism to induce working force to do hard work for achieving organizational goals?

3) Whether well structured compensation package can help to achieve total satisfaction of the employees?

4) Whether wage and salary structure is an instrument to improve industrial relation and social development?

1.10 Methodology:

The study is based on both primary and secondary data collection. Six organisations have been selected out of the whole universe randomly: two from Government, one from autonomous body, one from commercial bank, one from Oil sector and one from Transport sector. They are Irrigation Department, Govt. of Assam, Central Public Work Department, Govt. of India, Guwahati University, State Bank of India, Guwahati Refinery and Airport Authority of India. The research was conducted to examine the Compensation Planning of the Six organisations as a mechanism for the H.R.D.
1.11 Primary Methods

The primary information for investigation of compensation planning and salary administration have been collected after conducting an enquiry from different levels of employers and employees of six select organisations. The respondents of each organisation have been categorised as officers and non-officer, supervisors, upper division clerks, lower division assistants and fourth grade employees and grass root level workers. At least five senior officer of each organisation, five middle management officer of each organisation, five UDA, five LDA and two fourth grade employees of each of the organisation were randomly selected to carry out the investigation. A common questionnaire (Annexure I) both Officer and Non officer were designed together for the select organisations to know the Compensation planning and also to know the awareness about the human resource management through Compensation Package prevailing in the said organisations. The questionnaire method of survey was undertaken due to its main advantage of versatility, speed and cost. The questionnaire was by and large structured and designed in such a way so that all aspect of compensation package could be obtained for which the research work was being undertaken.

1.12 Tools of Data Collection:

All the information regarding wage fixation, job specification and job analysis and evaluation, employee's satisfaction, quality of worklife, employer ability to pay were collected with the help of a questionnaire and personal interview with the different levels of employees. The questionnaire consists five parts-

i) Personal data

ii) Response to 49 questions in four scales and in some cases only two scales.

iii) Causes of dissatisfaction.
iv) Complaints if any.

v) Suggestion for improvement.

While collecting primary data from the field, it was observed that most of the employees were not aware about the fixation of wages and salary. A few Trade Union leaders could understand the Principles of Wage fixation. An attempt was made to find out the procedure of wage fixation from pay Commission reports of different organisations.

These methods include the statistical survey for collection data regarding compensation planning of the select organisations. Questionnaires for getting information regarding the compensation structure of the above mentioned concerns were sent to the personnel managers, officials and executives and workers of the personal department. Personal visits to the select organisations and certain field areas of the said concerns were also made. Many a questionnaires were returned by partial answering and in case of certain questionnaires no answers could be received even after personal contact.

1.13 Secondary Data:

were collected for secondary information to get relevant information for this study.

1.14 Data Analysis

A number of statistical techniques have been used to analyse the data. These include- Analysis of variance (F-test), Bar diagrams, Pie Chart, etc. By considering primary and secondary information a critical analysis has been carried out to arrive at our conclusion.

1.15 Review of Literature:

There are a number of research works on Human Resource Development. But so far no body has covered the compensation aspect of Human Resource Development. A comprehensive study on salary administration was conducted in UK industries by Armstrong M and Helen Murlis during 1980 and they have ascertained the role of Salary Payment in motivating industrial worker.

Dr. C.B. Mamoria has been discussed in his studies job evaluation techniques to determine what job is worth, determinants and administration of direct and indirect rewards to motivate employees. Dr. C.B. Mamoria has conducted that wages and salary are the basis for H.R. Development.

The veteran civil servant L.K. Jha, who argued in his studied that it is important to compensate managerial employees adequately enough to keep them out of temptation as well as developing potentialities of employees to give their best efforts to the organisation.

Dr. C. Gopalan and Dr. B.S. Narasinga Rao, published in January, 1971, the “Special Report Series No.60 of the Indian Council of Medical Research and Directory of Allowance for Indians” worked out a chart of locally adjusted improved diet for the purpose of determining minimum wage. According to this study he workout a balance diet for an adult sedentary workers in terms of calories i.e. 2400 calories

Mirza S. Saiyadain has discussed in his studies suggest ways and means to effectively manage human resources. His area of interest are human
resources management, structures and designs, conceptual and theoretical framework of H.R.D and also their relevance are applied in the Indian context.

Dr. Bhaskarjyoti Borah in his research study has discussed human resource accounting in oil sector for the human resource development. He has also studied how human resource accounting helps the management to take decision on employees of the organisation. He has analysed the potentials of H.R.A and its usefulness and applicability in the organizational context.

Mehta, P indicated in his analysis mainly on objectives and subjective factors in employee satisfaction in life. He has also discussed work along with condition of work and problems of work organisation in textile industry.

Ramaswamy discussed in his studies some factors influencing productivity of Indian Worker. He has discussed formulation of wages structures on the basis of changes in cost of living the supply and demand of labour, job requirement and prevailing rates of wages and ability to pay is accorded a secondary importance.

Rao, G.V.S in his comprehenship studies interpreted determinants of job satisfaction in managerial personnel – A test of Herzberg’s two factor theory. He has also studies perceived need satisfaction and importance of highly skilled and skilled personnel.

Prof. S.S. Khanka has discussed some of the emerging and contemporary issue like employee empowerment, potential appraisal, strategic human resource management and human resource management in a changing environment to know about human resource management.

Thus the present study on compensation planning could fillup the gap in human resource development

1.16 Periodicity:

This study is carried out for a period of eight years from 1996-97 to 2004-05. This period is one of the most important periods for our economy due
to the globalisation and free market economy where competency requirements of employees were emphasized.

1.17 Limitation of studies:

The research work faced the following problems during the course of study.

1) It has already been discussed in this chapter that awareness is lacking about the compensation planning by most of the employees. People participation is necessary to ascertain equity principle on debatable issue. This seems to be the most important limitation of this study.

2) Unwillingness of the employees to respond the questionnaire is also another drawback. Many respondents did not want to respond as they felt that their time will be wasted in fill up the questionnaire and also most of the employees were found very busy with their personal problem as well as work load due to shortfall of employees.

3) The answer to the questions are based on the perception of the particular respondent answering their view but lack of proper knowledge about the subject matter many respondent partially answer the question and a few employees no respond is given till now.

4) Many employees especially in the non-officer level did not know what a compensation package actually meant. So many were reluctant to answer relating to the various component of pay.

5) The entire research work and the finding are to be primarily used for education purpose viz. Degree of Doctor of Philosophy (Ph. D) Course. However, adoption of any recommendation of the study by the Govt. & other organisation is a matter of the respective organisation.