CHAPTER SEVEN

SALARY ADMINISTRATION IN INDUSTRY
AND GOVERNMENT IN BANGLADESH

Salary administration is one of the most important management methods which may be of immense value to all concerned in the enterprise, viz., the employer, the management, and the employees. In any salary plan, whether it be for employees of an autonomous body or of a private enterprise, or government employees, salary administration constitutes an important element. It is assuming added importance in the context of rising labour cost, stagnant productivity, absence of motivation and commitment, government's increasing role in regulating the remuneration of employees and fast growing expectations of individuals to earn more to have a rise in the standard of living.

The salary policy - whether sophisticated or rudimentary can be easily discerned in almost any organisation both in the public and private sectors which deploys employees in return for some compensation. The salary policy, however well-conceived, sound and faultless, may fail to achieve the desired objectives if it is not administered and implemented equitably, efficiently, and is not in consonance with sound principles of compensation. It is because of this fact that in many countries of the world great importance is being attached to the formulation of salary policies and its administration.
Salary administration procedures are primarily concerned with the implementation and control of salary policies and with the control of salary costs against budgets. More specifically these refer to the organisation and procedures for developing, managing and administering the salary plan. They also deal with other facets such as job classification, fixation of salary and other associated conditions of service which subsume leave, gratuity, pension, etc., within the overall framework of salary plan designed on the principles and criteria enunciated in the salary policy.

The following pages of this chapter have been devoted to an analysis of the organisation for salary administration, salary budgeting, salary review procedures and control and co-ordination of the executive salary administration in the various sectors covered by the study.

7.1 Salary Administration in Public Enterprises in the Then Pakistan

Before liberation of Bangladesh, the government's participation in industrial enterprises was limited and the position regarding salary administration of autonomous bodies, corporations and nationalised enterprises was very confusing. The autonomous bodies and corporations had the powers to fix pay, fringe benefits and service conditions for their employees within the framework approved by the Government. Though the guiding consideration for allowing such freedom was to allow flexibility so that these bodies
could recruit qualified and professional manpower with little difficulty to achieve operational efficiency and compete with the private enterprises to attract, retain and motivate employees, but practically this degenerated into indiscipline regarding management of personnel or expenditure.

There was no basic principle which appeared to have been followed by these bodies in determining pay scales and fringe benefits. No fairness in treatment for comparable jobs among various autonomous bodies and corporations existed. The ultimate result was that employees doing similar or comparable jobs were getting widely different salaries in several scales along with different range of fringe benefits. This led to bitterness, frustration and pronounced tendency on the part of the employees to frequently change organisations for higher earnings. In the case of banks, insurance companies and industries nationalised or taken over by the government, there was no similarity in the compensation structure among those organisations too, as they were under different managements in the private sector. In many cases high compensations were not justified considering educational qualification and experience of the executives concerned. The recruitment policy, minimum prescribed qualifications and service conditions including granting of bonus, etc. also were widely divergent.

7.1.1 Organisation for Executives' Salary Administration in Nationalised Industrial Sector

At present, the entire NIS is managed by a number of corporations constituted for the purpose which are under the
administrative jurisdiction of relevant ministries of the Government of Bangladesh. Each sector corporation is responsible for administering salary within the framework approved by the Government. The personnel department and finance and accounts departments of each sector corporation are responsible for dealing with the different aspects of salary administration. Ministry of Finance and the Administrative Ministry of the Government under which a particular corporation operates give necessary instruction and guidance in this regard.

7.1.2 Preparation of the Salary Budgets

Salary budgets for all categories of employees of the head offices of the sector corporations are prepared by the budget divisions of the corporations which work under Accounts Departments. These budgets are required to be approved by the Ministry of Finance, Government of Bangladesh. The usual practice is that of preparing budgets for salaries of the executives and other employees of the head office which are 10% higher than actual expenses of the previous year. This will meet the merit and general increases of salary of employees and other enhancement in expenditure.

The salary budget of the individual nationalised enterprise is prepared by the enterprise concerned in the similar way and it is approved by the Board of Directors of the respective sector corporation controlling the enterprise. In these cases, approval by the Ministry of Finance is not necessary.
7.1.3 Salary Review

As discussed earlier that compensation of the employees of the NIS are strictly guided by the government's rules and regulation in this respect and there is no provision for review of salaries and other benefits with the change in the economic conditions of the country. Normal yearly increments of salaries which are embodied in the pay scales are automatically granted to the executives concerned. But in nationalised sector, there exists a practice whereby special increments may be granted for outstanding performances. For top executives in certain special cases such additional remuneration may be recommended and approved by the Board of Directors of the Corporation. For senior level executives under similar circumstances such additional increments or remuneration may be recommended by the departmental heads and approved by the Board of Directors of the respective corporations. For mid-level and junior executives similar benefits may be recommended by their departmental heads and these must be either approved by the Board of Directors or by Standing Selection Committees delegated with such powers by the former.

The overall salaries and other benefits may be reviewed and enhanced by the Government by its executive order or by constituting Pay Commission for the purpose.

7.1.4 Co-ordination and Control of Salary

The entire system of salary administration is co-ordinated by the Personnel Division headed by Chief of
Personnel in accordance with the established budget for the purpose. All cases of grievances emanating in connection with compensation issues are dealt with by this Division and are decided upon. Important issues may be referred to the Board of Directors and even the Implementation Section of the Ministry of Finance may be consulted for the purpose.

For controlling compensation costs, monthly review of the expenditure is made and reasons for deviations from the budget are located and possible corrective actions are initiated. In controlling salary costs, Finance and Accounts Divisions of the Corporations work in close cooperation and collaboration with the Personnel Divisions.

7.2 Organisations for Salary Administration in MFSI

In Bangladesh, national private sector industries are still in their developmental stage and many of these enterprises are family concerns. Their management practices are rather primitive with very little emphasis on human resources. Most of the enterprises do not have personnel departments and as already noted elsewhere there is no scientific salary structure in many of these concerns. However rudimentary may be the salary administration system, it exists there. It has been observed that in most of these organisations executive salary administrations are handled by the Managing Director or Executive Director. These organisations do not have pre-determined rules and regulations guiding salary management. There is also no definite system of reviewing executive compensation. However, many organisations do
review the salaries and other benefits which may depend on
the executives' performance or changes in the cost of living
or enterprises' profitability. Salary review budgets and
guidelines - whether general or individual - are recommended
by the Managing Director or the Executive Director as the
case may be and these are approved by the Board of Directors
of the enterprise concerned. Review of the salary and other
benefits of the top executives has to be initiated by the
Board of Directors and approved by the same body. It needs
further approval from the controller of Capital Issues, an
affiliated authority dealing with Company Affairs, under the
Ministry of Finance, Government of Bangladesh. Review of
the salary and other benefits of the senior executives are
recommended by the Managing Director or the Executive Director
and needs approval of the Board of Directors of the enterprise.
For mid-level executives the same are recommended by the
Departmental Heads and approved by the Board of Directors.
In case of junior executives the review procedure is that
of recommending by the Departmental Head and approval by the
Managing Director or the Executive Director of the enterprise.
It should be noted here that both individual and general
review of the salary and other benefits of the executive have
the similar procedure to be undertaken. For general review
of the executive compensation occasionally survey of compensat-
ion pattern of other allied organisations are also conducted.
But for national private sector industries this is a rare
phenomenon. Only one industrial unit of the total ten surveyed
reported that it conducts such survey.
7.2.1 Co-ordination and Control of Salary Administration

Since most of the organisations do not have personnel departments, the accounts and finance departments entirely handle the executive compensation administration. The chief executive i.e. the Managing Director or the Executive Director of the enterprise also looks after compensation issues of the executives whereas Accounts and Finance Department acts as advisor in resolving such problems.

The salary costs for the executives are controlled by the Accounts and Finance Departments in accordance with the established budget. Periodic reviews of salary costs are undertaken in order to keep the cost within the budget allocations. The reasons for expenditure beyond the budgeted allocations, if any, are investigated and necessary corrective measures undertaken.

7.3. Organisations for Salary Administration in MNC's

Multi-National Corporations engaged in industry in Bangladesh are well-organised sector and their system of management are comparatively efficient and modern since they are subsidiaries of enterprises which have their origin in managerially developed countries. This is also reflected by their profitability and organisational effectiveness. Although they have certain special advantages like improved technology, patent right of producing commodities which have been developed in advanced countries and for which there is almost monopoly market, etc.
Every MNC has its own personnel division. Personnel issues are dealt with by this division. But salary administration is a joint function of Finance Division and Personnel Division. These organisations have their Board of Directors which delegate some of the powers to the Chairman of the Board. Managing Director is generally the executives head. In some organisations certain departments are placed under a director and he looks after certain departmental operations. Also in certain organisations there is post of General Manager who coordinates various departmental activities and maintains link with the Managing Director, the chief executive of the enterprise.

Generally MNC's have compensation structure which are higher and varied compared to other sectors operating in Bangladesh. There is system of reviewing compensation structure of the executives with changes in the cost of living in the country. Every year compensation survey among various MNC's are conducted in order to make the compensation comparable and competitive to attract and motivate efficient manpower.

7.3.1 System of Salary Review

Salary budgets are prepared by the finance departments of the MNC's. Compensation review - individual and general - are conducted. General compensation reviews are carried out in response to the charges in cost of living and compensations paid by other MNC's. Individual reviews are conducted on the basis of a particular executive's performance and efficiency. Salary review budgets and guidelines are recommended by the
Managing Director in collaboration with finance and personnel departments - and these are approved by the Board of Directors of the enterprises. Review of salaries and other benefits of the top executives are recommended by the Board of Directors and approved by the Board and the Controller of Capital Issues under the Ministry of Finance, Government of Bangladesh. For upper level executives this review is recommended by the Managing Director and approved by the Chairman of the Board of Directors delegated with such powers. In case of mid-level and junior executives, review of salaries and other benefits of these executives are recommended by the departmental heads of the enterprises and are approved by the Managing Director, the chief executive.

7.3.2 Co-ordination and Control of Salary System

In all MNC's compensation paid to executives is a secret affair. So Financial Manager with his Management Accounting section co-ordinates the entire salary administration system. The same section also controls executive compensation costs in accordance with the established budget. Of course, the Managing Director and Finance Director also play important role in the coordination and control of executive compensation. In almost all MNC's quarterly review meetings of the Board of Directors are held where relevant issues are discussed and necessary corrective actions are taken.

7.4 Constitutional Provision Regarding Conditions of Service of Government Executive

The Constitution of Bangladesh provides, "Subject to the provisions of this Constitution, Parliament may by law
regulate the appointment and conditions of service of persons in the service of the Republic."¹ It also provides that the President shall be competent to make rules regulating the appointment and the conditions of service of such persons until provisions in this behalf is made by or under any law, and rules so made shall have the effect subject to the provision of any such law. This constitutional provision regarding the conditions and terms of service of the Government executives which include compensation and other allied issues makes it clear that in Government, salary administration is guided by the rules and regulations framed in this regard by the Parliament or the President as the case may be.

7.4.1 Salary Administration of the then Central Government in Pakistan

In the Central Government of the then Pakistan all financial matters such as revenue income, expenditure control, economic and investment policy—both internal and external, including the function of the Mint were under the administrative control of the Ministry of Finance. In the Finance Ministry there were three branches dealing with Pay administration which had two-fold objectives of securing uniformity in pay, benefits and other conditions of service of the personnel employed in various government departments and attached offices on the one hand and to ensure economy in the employment of such personnel on the other.²

7.4.2. **Salary Administration in the then East Pakistan (Provincial Government)**

The salary administration was bit different in the former East Pakistan Government. Prior to the administrative reorganisation carried out in 1962, the Finance Department through its Audit Branch used to administer salary functions in respect of the employees of the Provincial Government. A new department was created in the name of "Service and General Administration Department" in the year 1962 which combined personnel administration work of the Home Department and the Audit Branch of the Finance Department. In the Services and General Administration Department, a new section named "Regulation Branch" was created to deal with pay administration issues. However, the Finance Department still exercised certain control over pay administration by keeping to it the power to sanction cases of relaxation and the like. The implementation function of the pay award announced in 1964 was also retained by the Finance Department and "Regulation and Implementation" section was constituted in this department for this particular purpose only.

7.4.3 **Present Salary Administration in Government**

After liberation, the Services and General Administration Department was redesignated as the Establishment Division under the jurisdiction of the Ministry of Cabinet Affairs. But the functions which were used to be discharged by the previous Services and General Administration Department and Finance Department in connection with salary administration have been
retained by the respective re-designated Establishment Division and the Ministry of Finance. Even now, the Establishment Division and the Regulation and the Implementation Sections of the Ministry of Finance are the responsible organs administering salary problems and other allied issues of the employees of the Government and the huge public sector enterprises that emerged after independence. It results in examination of cases at more than one place, unnecessary references and wastage of time and manpower and also leads to confusion and lack of direction for proper salary administration. The Pay Commission Report, 1973 also observed it and recommended the establishment of a "Ministry of Personnel and Pay Administration" with the sole responsibility of administering compensation of the employees of the Government and other public bodies. But unfortunately this recommendation of the Pay Commission has not been implemented so far which needs to be expeditiously implemented in view of the huge public employees.

7.4.4 Salary Budget for the Government Employees

Salary budget for the government executives is prepared by the Budget Division of the Finance Ministry. This budget is approved by the Parliament of the country or in its absence by the executive head of the country i.e., the President. The preparation of the budget is guided by the rules and regulation in force guiding the salary and other benefits of the executives. The normal enhancement of salary viz., the yearly increment of the executives are accommodated within the budget. As already discussed, there is no system of giving merit increases of pay
to executives for outstanding performance. There are separate heads of accounts for providing certain benefits like medical facilities, transport, etc. for which special allocations are made on a lumpsum basis considering the actual expenses on these accounts in the previous year. The actual expenses are reviewed with the budget allocations periodically. The budget deviations are regularised before the next year budget is approved.

7.4.5 Review of Salary and other Benefits in the Government

In case of Government executives, the usual practice is that of setting up commissions, etc., whenever the government feels that salary structure requires to be overhauled and revamped in view of the galloping inflation in the economy. In 1972, National Pay Commission was set up which gave its recommendations in 1973. But these recommendations could not be implemented for executive class. In 1977, by an executive order of the Ministry of Finance, compensation of government employees and other public bodies were changed and enhanced. It introduced 21 scales for all categories of employees of which 10 were for executives according to the definition of this study. Besides, government also grants adhoc relief to employees as and when there is a rise in cost of living, but there is no 'salary escalation clause' providing for automatic increases of pay. The other benefits are also changed or enhanced by orders of the Ministry of Finance.

7.4.6 Control and Co-ordination of Salary System in Government

In Bangladesh, the Establishment Division and Regulation and Implementation Sections of the Ministry of
Finance are the responsible organs of salary administration in the government. These organs of the government clarify all issues pertaining to salaries and other benefits, make periodic review of the salary costs with the objective of controlling their cost, and coordinate the whole system of salary administration. They are also responsible for giving decisions regarding grievances of the employees in respect of salaries and other benefits. For certain benefits, which require prior approval of the authority, viz., house-ceiling benefit, etc., necessary approvals are furnished by these divisions.

7.5 Comparison of Salary Review Systems in Different Sectors

The salary review system - its responsibility and authority in the different sectors are embodied in Table 7.1. An analysis of the table shows that salary review systems of the MIS are broadly comparable with that of Government and the review systems of the NFSI are also comparable with those of MNC's. While in the MIS limited amount of flexibility is there in exceptional circumstances, the system in the Government is very rigid in nature. In both NFSI and MNC's pay administration is exclusively their own affairs except in the case of remunerations of top executives which must get approval of the Controller of Capital Issues, an affiliated organisation of the Ministry of Finance.

7.6 Some Important Observations

Salary administration procedures in the MIS and Government are featured by duplication in authorities and
agencies dealing with various aspects of compensation. This duality in authority creates confusion resulting in wastage of manpower and resources. In view of the overlapping, cumbersome and confusion in respect of who is to administer what aspect of salary in Bangladesh, it becomes almost impossible to apply uniform standards and principles unless and until the whole procedure is properly streamlined and responsibilities defined.

It would be in the fitness of things that the salary administration practices of the NPSI and MNC's are well-coordinated and suitable legal provisions are incorporated in order to make the salary structure of the whole country having reasonable semblance of homogeneity. However, the differences in salaries should only reflect differences in corporate objectives and goals. The recommendation of the Pay Commission Report, 1973 suggesting the creation of a separate ministry to be called "Ministry of Personnel and Pay Administration" should be implemented at the earliest. This Ministry should be made responsible for undertaking detailed research on various aspects of compensation of the employees and also with the task of coordinating compensation of employees among different sectors and suggesting necessary legislation in this regard.