CHAPTER 2

WAGE AND SALARY ADMINISTRATION: A CONCEPTUAL APPROACH
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2.1: INTRODUCTION

For the purpose of the present study, the history of wages since 11th century, development and concretization of wage plans in different countries is dealt with briefly. Principles of remuneration including economic principles, Employee and employer principles, principles for service and monetary incentives, principles of non-monetary incentives and staff incentives are also considered.

In the background of the theoretical framework, the second major part of this chapter discusses components of wage and salary, basic pay schedules for different classes of employees in Automobile Industry. It also throws light on labour laws relating to wage and salary administration in India.

2.2: CONCEPT OF SALARY AND WAGE

Generally money paid to the worker is considered as his wages. Various terms used in the payment system are; Pay Compensation, Earnings, Wages, and Salary etc.

2.2.1: Wage

As per the Oxford Dictionary meaning ‘an amount paid periodically, especially by day or week, for work or service of employee or servant; requital, reward that part of total production which is reward of all forms of Labour’. It is payment to the labour engaged directly in production.
According to the Encyclopedia of Social Science (1957-p.292) "wages are remuneration for labour. Like interest and rent, wages are contractual incomes. Wage rates, whether piece rates or time rates or whether fixed in money or in goods, are agreed upon by the payers and the recipients of wages before the product is sold".

2.2.2: Pay

Pay is an amount given to discharge debt to, the amount paid as wage for labour, usually manual or mechanical, at short stated intervals, as distinguished from salaries or fees.

2.2.3: Compensation

This term is of recent origin, which includes everything an employed individual receives in return for his work. It is a comprehensive term, which includes wage and all other allowances and benefits. The process of compensation is a complex network of sub-process directed towards remunerating people for the services rendered and motivating them to attain a desired level of performance. Thus, compensation includes all expenditures of valued resources by the organization for the employees, including managers and professionals, as well as blue and white-collar workers.

2.2.4: Earnings

It relates to remuneration in cash and in kind paid to employees, as a rule, at regular intervals for time worked or work done together with remuneration for time not worked, such as for annual vacation, other paid leave or holidays. Earnings exclude employers' contributions in respect of their employees paid to social security and pension schemes and also the
benefits received by employees under these schemes. Earnings also exclude severance and termination pay”.

2.2.5: Salary

It is a fixed periodical payment for other than manual or mechanical work. Salariat means salaried class. Salaried means a person paid by salary.

Salary is the payment made to personnel, engaged in rendering services whose production, quantum cannot be directly measured.

In ancient times ‘salt’ was used as ‘money’, as it was so scarce and precious, Caesar’s soldiers received part of their pay in common salt. This part of their pay was called as ‘Salarium’ and it is from this word that the term Salary is derived. Even today salt is the medium of exchange among the natives of some South Sea Islands and Africa.

The term salary and wage are often used to mean one and the same, but they are interchangeable. If a worker is paid by the year, he is considered to be in receipt of ‘salary’, not wages. If he is paid by the hour or day, he is stated to be in receipt of ‘wages’. If he is paid by the month, he is usually looked upon as salaried employee rather a wage earner. Normally, the term ‘salary’ is used for compensation to white – collar employees while the term ‘wage’ is used to denote the payment made to blue – collar workers. By whatever name it is called, “it means to say the reward for service rendered, paid in different forms by his employer to the employee as per the obligations of the laws of the land and conditions on which such obligation arises”.


2.2.6: Remuneration

It means reward, recompense, something paid in return for the service rendered.

2.2.7: Incentive

It means something inciting or encouraging to action; stimulus, inducement, urge that which acts as a motive especially given to increase the output.

2.2.8: Fringe benefits

These are also incentives, which incite or have a tendency to invite action as told by George R Terry, a management scientist. These stimulate the action necessarily if it is to perform by the workers. These may be:

i) Financial—planned money payments by the employer
ii) Non-Financial—includes planned and non-planned payments, which are not in terms of money.

The Fringe Benefits are supplementary to wages that increases total real wages of an individual or groups of individuals in the industry. As per Chamber of Commerce and USA these are total five, while George R Terry gives 28 numbers, few of them are as follows:

1. Statutory payments like Old Age Pension, Unemployment Insurance, Group Insurance
2. Payment of Pension and Labour Welfare expenditures
3. Periodical Rest or Leave with pay facilities
4. Payment for the time not actually worked
5. Others, like Profit Sharing, Suggestion Reward, Reimbursement of Tuition fees, Leave Travel Concessions, Festivals Advances etc.
The economist speaks of real wages as distinct from monetary remuneration. This term embraces all benefits accruing in return for labour, and these may come directly from the employer or indirectly from the state. Certainly remuneration can be either monetary or in kind.

To attempt to prescribe the limits of the use of the term ‘incentive’ is an almost impossible task, since it may be monetary or non-monetary, direct or indirect, tangible or intangible, physical or mental, according to the specific circumstances and the source of the urge or inducement.

The relationship between "remuneration" and "incentive" is somewhat intermixed. The non-monetary and less tangible aspects of incentive are not related to remuneration, while the monetary aspects are means of earning remuneration. Again, remuneration, in addition to being factual evidence of reward for effort as a result of incentive, can also be paid in circumstances where no incentive is applied.\footnote{24 Institute of cost and works Accountants., "Employer Remuneration and incentives" Portland place London W, 1964, ED pp7.}

Remuneration covers:

a. Wages paid for manual work.
b. Wages and salaries paid to staff employees
c. Fees and other emoluments for administration.
d. Monetary allowances
e. Allowance in kind

Incentives Covers:

A. Monetary incentives related to effort e.g., bonus schemes, merit rating etc.
B. Non-monetary incentives e.g. the provision of adequate facilities and background conditions to obtain full effectiveness of the personnel of all grades.

2.3: HISTORY OF WAGES

The history of wages is the history of mankind itself. Man’s primeval urge to survive and to provide himself with the means of subsistence is the motive force behind most economic and social change. War and revolution have been brought about by religious, political and racial fanaticism, crusades have been undertaken because of a high ideal, but in the last resort, how often is it that the pressure of man’s physical wants and the demands of his body for food and warmth have been the conditions out of which such events arose.

The struggle between what a man wants and what he gets goes on eternally. It is seen in the fourteenth century in the peasants, revolt against their compulsory servility. The rapidity of the changes in the late eighteenth and early nineteenth centuries and the concentration of workers in factories and factory towns, caused an intensification of the exploitation of human labour, which had existed under the domestic system but had been to some extent mitigated by the conditions under which that system had operated. The bitterness created found expression both in physical violence, such as the Peterloo Massacre (generated by French Revolution, the Luddite movement in Lancashire and Yorkshire in 1819 attempted to break plant in textile mills, similarly Peterloo tragedy in Manchester resulted into labour atrocities), and in the development of trade unions, and was responsible for the growth of tradition of hostility and mistrust between unions and employers. Abroad, the French Revolution was an example of people rising against the poverty and degradation of centuries.
And now the fight between master and man, although greatly abated, continues in the form of strikes, demands, and go-slows in spite of great efforts at reconciliation.

The history of the relationship between master and man may be divided into two broad phases in this country. There is no sudden change between the two. Transition is gradual but the force of economic events increased the tempo from time to time. If the Norman invasion is taken as a convenient starting point, the first, slow phase may be said to have lasted from about the eleventh century to the middle of the eighteenth. The second and for more active phase, extends over the short space of the last two hundred years. In the first period this country was largely agricultural and in the second it was transformed within the space of a few short years into the leading industrial country of the world. Disturbance to the social structure and way of life and disturbance on a vast scale was inevitable in such a convulsive change.

Feudalism to the industrial revolution, during which there was no recognition for the employer and employee relations. The land was held by the king and man attached to his estate for labour, to render service only for the service obligation to his lord. During the thirteenth and early fourteenth centuries feudalism both as a political and as an economic system began to be outgrown, and among the many changes was the development of a considerable class of "free" labourers working for "wage". Lords of the manor were not always averse to this in some respects; it was better to hire more or less regular labour and to pay wages for the cultivation and upkeep of the manorial estate than it was to force a grudgingly given service from the tenants. A cash relationship began to replace servitude. The further evolution resulted in two division of
peasants viz., tenants’ class, who got land on lease from the lord, the other become the ‘paid worker’.

During the Craft guilds stage, various craftsmen established their associations known as craft guilds. By fourteenth century these guilds were very powerful and fixed the wages of all class of workers and dealt severely with the defective workmanship and dishonest dealings of all trades. In some cases, craftsman’s wages were fixed by local justices, and sometimes by statute. With the growth of fashion and luxury the diversity of craftsmen’s trade grew, dissatisfaction appeared within the ranks of the guilds. The wealthier craftsman grown into entrepreneurs and traders, their poorer brethren remained craftsmen, they pressed for higher wages and formed into yeomen’s guilds. This prevailed till sixteenth century until Edward – VI confiscated their property by his act. The chief feature of this system was that the master craftsman employed labourers and apprentices for wages in his own home. This led to the growth of merchant capitalism.

The increase of merchant capitalism and its inadequacies gave way for Domestic System in which the capitalist employed the workers in their own homes, the workers providing themselves with the tools and equipment necessary for their trade. Their wages were usually based on piecework. This continued till eighteenth century up to the time of Industrial Revolution and even beyond. The factory system was almost unknown, but the revolution in technological methods during the latter half of the eighteenth century made the modern factory a logical sequel to the domestic system at employment.

There were no noticeable changes in the methods of paying the labour. Wages were paid either on time basis or on a very simple
piecework basis till the Incentives, come to be understood as form of remunerating the labour.25

The demands of the worker were not great because his pleasures were simple, he could fill his leisure with his own self-made amusements. This continued till eighteenth century French Revolution, where amalgamation of labourers took place to protect from the harassments by the Industrialists and realized that there is strength in unity that is how the union movement was initiated at the Industry level. It was followed by the further agitations to legalise their Unions for better results.

2.4: CONCRETIZATION OF WAGE PLANS

Few of enlightened employers tried their way to show better conditions, principle among them are Sir Robert Peel the elder, and Robert Owen. Humanitarian movements began to grow out of the widespread poverty and starvation. But these thoughts were ahead of the times and the people who held them were in a minority.

The rapid growth in the different industries at the same time arose a deep interest in religious and social questions, and the recognition of trade unions, secured an increase in wages for the working class and a more even distribution of the national dividend. It was towards the end of the century that the first thought appears to have been given to incentive schemes and methods of remuneration in general. Rapid advances in the development of machinery and in scientific management led employers to devise means of increasing output.

One of the pioneers in the field of scientific management, F.W. Taylor introduced in 1884 in the United States his merit differential piece

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rate for repetitive work. It found favour with no one, but is the first noticeable attempt at departure from the old order of straight piecework. It was followed by F.A. Halsey in 1891 ‘Premium plan for paying labour’, Rowan’s plan, Emerson, Gantt and Bedaux plan’s etc., all these aimed at reducing time spent in performing operations, giving benefit both to workers and to employers.

The value of the welfare of the workers as a non-monetary incentive was beginning to be realized, and much work in this direction is attributed to Mr. B.S. Rowntree. In 1906 he introduced a ‘Pension scheme’ for his employees.

In the early days of the present century there was a growing realization that low wage standards were not producing the best results, and attempts were made to stabilise wages and living standards by ensuring that labour received some compensation when the cost of living rose.26

The special reference must be made to the setting up of the Whitley Committee in October 1916 and its success in endeavoring to bring about nevertheless, the structure of wages in this country at the present time presents a picture of apparent chaos. Between industry and industry, job and job, wage level vary considerably, but in accordance with no visible principle and without relation to be value to the community of the work done, the economic requirements of the country as a whole, or even the needs of the particular industries and their capacity to pay.

It is perhaps true to say that the history of labour and wages is the history of the endless struggle to relate the legitimate reward of the

workers with the share of the national income due to him for his contribution towards the national wealth. There is no formula for determining such reward and the law of the market still broadly prevails.

In the words of Jules Backman, "What happens to wages is of critical concern to everyone, to the worker - wages represent income; to the businessman, they represent costs; and to the Government, they represent potential taxes; wages are the largest source of purchasing power; hence, changes in labour income have an important bearing on the level of economic activity. At the same time, payments for labour are the most important element of cost in our economy and thus influence the level of prices and of profits".  

2.5: DIFFERENT CONCEPTS OF WAGE

Since 1948, several terms have acquired currency referring to the wage levels i.e.,

i. The Minimum Wage

ii. The Need Based Minimum Wage

iii. The Fair Wage and

iv. The Living Wage

The first one owes its origin to the provision of the Minimum Wage Act.1948; the second one has found its place in industrial awards and judicial dicta of the courts; the next term has been introduced in the report of the Committee on the Fair Wages; and the last one in the Resolution of the Fifteenth session of the Indian Labour Conference held in July 1957. It would be obvious that these wage concepts cannot be described in definite

words because their contents are elastic and they are bound to vary from time to time and from country to country.28

2.5.1: Minimum Wage

The basic minimum wage is the bare subsistence wage; above that is the fair wage; and beyond the fair wage is the living wage. The content of the Minimum Wage is not fixed and static. It is the dynamic and is bound to vary from time to time and place to place. The International Labour Organization (ILO) lists three criteria for fixing the minimum wage. These are - (a) the needs of workers (b) the capacity to pay and (c) wages paid for comparable work elsewhere in the economy or more generally the standard of living of other social groups.29

The Committee on Fair Wages (1948) opines that, Minimum Wage must provide not merely for the bare sustenance of life but for the preservation of the efficiency of the workers. For this purpose, the minimum wage must also provide for some measures of education, medical requirements and amenities.30

2.5.2: Need-based Minimum Wage

The Indian Labour Conference held in 1957 at Nainital which, passed resolution with an intention to provide concept of Minimum Wage for all workers in industry, states “that minimum wage was need - based and should ensure the minimum human needs of the industrial worker, irrespective of any other considerations”.

To calculate the minimum wage, the committee accepted the following norms and recommended that they should guide all wage fixing authorities, including minimum wage committees, wage boards, adjudicators, etc.

(i) In calculating the minimum wage, the standard working class family should be taken to consist of three consumption units for the one earner; the earnings of women, children, and adolescents should be disregarded.

(ii) Minimum food requirement should be calculated on the basis of a net intake of 2,700 calories, as recommended by Dr. Akroyed for an average Indian adult of moderate activity.

(iii) Clothing requirements should be estimated at a per capita consumption of 18 yards per annum, which could give for the average workers family of four, a total of 72 yards.

(iv) In respect of housing, the norm should be the minimum rent charged by government in any area for houses provided under the subsidised industrial housing scheme for low-income groups; and

(v) Fuel, lighting and other miscellaneous items of expenditure should constitute 20 per cent of the total minimum wage.

2.5.3: Fair Wage

The Encyclopedia of Social Sciences describes, “a fair wage as one equal to that received by workers performing work of equal skill, difficulty or unpleasantness”. According to Prof. Pigou, “wage rate is a fair in the narrower sense when it is equal to the rate current for similar workmen in the same trade and neighborhood and fair in the wider sense when it is equal to the predominant rate for similar work throughout the country and in the generality of trades”. A fair wage is, in the opinion of the Indian
National Trade Union Congress (INTUC), "a step towards the progressive realization of a living wage". A fair wage is settled above the minimum wage and goes through the process of approximating towards a living wage.

The Committee on Fair Wages stated that the fair wage was something between a minimum wage and a living wage. The committee envisaged that while the lower limit of the fair wage must obviously be the minimum wage, the upper limit is equally set by what may broadly be called the capacity of the industry to pay.

2.5.4: Living Wage

Justice Higgins of the Australian Commonwealth Court of Conciliation in the Harvester Case has given the most illustrative definition; "The living wage is one, which is appropriate for the normal needs of the average employee, regarded as a human being living in a civilized community." Justice Higgins has, at other places, explained what he meant by this cryptic pronouncement. The living wage must provide not merely for absolute essentials such as food, shelter and clothing but for "a condition of frugal comfort estimated by current human standards". He explained it further by saying that it was a wage "sufficient to ensure the workmen food, shelter, clothing, frugal comfort, provision for evil days, etc., as well as regard for the special skill of an artisan if he is one."

According to the South Australian Act 1912, the living wage means, "a sum sufficient for the normal and reasonable needs of the average employee living in a locality where work under consideration is done or is to be done".
There are three possible ways of obtaining some indication as to what constitutes a living wage.\textsuperscript{31}

1. It should be sufficient to purchase the minimum theoretical needs of a typical family, calculated in accordance with some more or less scientific formula.

2. It should be sufficient to pay for a satisfactory basic budget, as revealed by a survey of actual family expenditures.

3. It should be comparable with a living wage already established in similar circumstances.

The concept of 'Living wage' in the words of Prof. Snowdon "as it may be possible to give a precise or satisfactory definition of a living wage, but it expresses an idea, a belief, a conviction, a demand".

The idea of a living wage seems to come from the fountain of justice, which no man has ever seen, which no man has ever explained, but which we all know is an instinct divinely implanted in the human heart. A living wage is something for greater than the figures of a wage schedule. It is at the same time a condemnation of unmerited and unnecessary poverty and a demand for some measure of justice.\textsuperscript{32}

Thus, the concept of a Living wage is not a static concept; it is expanding. A living wage will provide the workmen with the highest state of industrial efficiency, and will enable him to provide his family with all the material things, which are needed for their health and physical well being enough to enable him to qualify to discharge his duties as a citizen.

(Hindustan Times V/s their workmen union)


2.6: WAGE ADMINISTRATION

The basic purpose of Wage and Salary Administration is to establish and maintain an equitable wage and salary structure. Its secondary objective is the establishment and maintenance of an equitable labour-cost structure i.e., an optimal balancing of conflicting personnel interest, so that satisfaction of employees and employers maximized and conflicts minimized.

The Wage and Salary Administration is concerned with the financial aspects of needs, motivation and rewards. A sound wage policy is to adopt a job evaluation programme in order to establish fair differential in wages based upon differences in job contents.

It deals with techniques and procedures for designing and maintaining salary structures, rewarding staff, and exercising wage control. The basic aim of wage administration is to attract, retain and motivate employees by developing and maintaining competitive and equitable wage structure. It is concerned with:

- The design and maintenance of wage structure.
- The operation of wage progression system.
- The provision of employee benefits and other allowances, and
- The development of a total remuneration policy.

Thus, the task of wage and salary administration is a broad and complex one. The problem area in wage administration is the different dimension of wage differentials and disparities, which have both economic and social significance. The wage structure everywhere today tends to move towards one situation: the money wages that a worker can command are still on the whole inversely, not positively, correlated with
the degree of physical unpleasantness of the work he does. On the whole, the wage structure is characterized by high dispersal across occupations, industries and regions.

2.7: OBJECTIVES OF SOUND WAGE/SALARY POLICY

The important objectives of sound wage/salary policy are as follows:

a. There shall be link with productivity.
b. There shall be link with job requirements.
c. It should ensure the lower cost of production.
d. There shall be incentive system for the achievements
e. There shall be proper wage differentials.
f. It should ensure guarantee of minimum wage to meet minimum needs of the worker.
g. It should be within the framework of the legislations for e.g., Minimum Wages Act 1948 etc.
h. It should be flexible to changing economic conditions
i. It should promote good industrial relations
j. It should be similar to the other firms in the same industry
k. It should promote for good industrial relations, selections, and placements.
l. It should be providing hedge against inflation.

2.8: PRINCIPLES OF REMUNERATION

Basic considerations which govern remuneration are:

a. The overall impact of remuneration levels on the economy of the nation.

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b. The level of remuneration which the employer is able to pay as an appropriate value for his employee’s services;
c. The needs of the employee in relation to the standard of living he desires.

2.8.1: Economic Principles

a. It should ensure increased standard of living to its citizens.
b. Economic stability of the country should not be affecting.
c. It should be within the general total costs of the industry.
d. It should not be resorting to discrimination of the workers within the Industry.
e. It should be proportionate to his/her contribution to the Industry.
f. It should be based on the demand and supply factors of the workers.
g. It should be in proportion to the skill and ability of the workers having adopted differential total remuneration.

2.8.2: Employer Principles

i. It should ensure the employer to increase the productivity.
ii. It should be commensurate with skill, ability and experience of the workers.
iii. The incentive scheme should be based on sound principles of mutual benefit.
iv. It should ensure to evoke naturally favorable response of the employers.
v. Adoption of fair promotion policy, which motivates employees to assume higher responsibility.
2.8.3: Employee Principles

- It should be in conformity with his abilities and contribution to the organization.
- It should ensure him savings for his bad days i.e., to use in the time when he could not work.
- It should be positively motivating the worker and feel proud of his employer.
- It should be ensured with minimum welfare measures like, time breaks, entertainments, safety conditions etc.
- It should ensure him minimum standard of living for himself and his family.

2.8.4: Wage Criteria

Sumner Slichter,\textsuperscript{34} lists seven wage criteria:

a. The minimum necessities of workers.
b. The change in the cost of living
c. The maintenance of take-home pay in the face of reduction in hours.
d. The changes in the productivity of labour
e. The ability (or inability) of the employer to pay.
f. The alleged effect of higher or lower wages upon consumer purchasing power and employment; and
g. The wages paid in other industries in different places.

2.8.5: Principles of Remuneration for Service

There must be an agreement between employer and employee which may be either written or implied and which is two fold in character:

- The employee agree to give his services to the employer and

\textsuperscript{34} Slichter., Basic Criteria Used in 'Wage Negotioners', p68.
The employer undertakes to pay suitable remuneration, the amount and form of which should first be agreed between the parties, subject to the requirements to honor negotiated agreements between employers and unions.

The following factors determine wage levels:

- The demand for labour
- The capacity of industry to pay
- The bargaining strength of the parties (unions)
- The existence of monopolies
- Wage levels in other industries.
- Wages in relation to the cost of living.

The rate of the individual employee remuneration is conditioned by:

- The degree of difficulty, danger, and inconvenience associated with work;
- The intensity of effort required.
- The amount of training and education necessary to perform the task.
- The degree of responsibility
- Special human characteristics necessary for the performance of the work.

The groups of employees to be considered in assessing wage levels are:-

1. Production workers
   
   i. Adult male and female workers (skilled, semi skilled, unskilled)
   
   ii. Apprentices (craft and technical)

2. Indirect workers as in all above
3. Supervising staff.

4. Administrative staff
   i. Clerical staff
   ii. Departmental heads
   iii. Managers
   iv. Directors

Negotiated basic rates tend to provide equal rates of payment to all workers within the group and do not take fully into account the individuality of human nature and endeavour and the effort expended by the individual.

Some reward must be provided for these factors, either by recognizing merit differentials, or by providing incentives to ensure that varying effort and skill are suitably rewarded.

2.8.6: Principle of Monetary Incentives

The imperfections in human nature, which effect relations between employer and employee and for which management must attempt to overcome by providing appropriate form of incentives, are:

a) Laziness - this characteristic that defers the employee from doing any more than he is forced to do,

b) Apathy and ignorance - the inability to appreciate the effect of one's inefficiency or disloyalty as it effects society, and lack of ambition to improve one's position,

c) Suspicion and Distrust - the fear that the others are taking or getting an advantage of him,

d) Selfishness - the attitude of indifference to co-operation with others for mutual benefit, and the obsession of setting the full benefit personally,
e) Conservatism - reluctance to accept new ideas or keep abreast of the times in relation to social, economic and technical evolution.

The applications of monetary incentives can be put under two headings:-

a) Schemes, which are purely related to effort and make additional remuneration variable with the rate of production,

b) Schemes of a more general nature, which take a broader view of the skill, abilities, and human traits - i.e., merit rating schemes – but which nevertheless may vary from time to time according to assessments of effort and other factors.

According to the particular circumstances for which an incentive is required; the type of scheme may be either:

a) Individual, i.e., the employee the direct reward for his personnel efforts; or

b) Collective, i.e. the employee shares in a group scheme with others and receives an appropriate share on a predetermined basis without consideration to individual efforts.

The extension of incentive schemes to indirect workers is usually a necessity on the grounds of justice. It is essential, if interest is to be maintained by the indirect workers, that he should feel he is contributing to greater output. Therefore, Bonus etc., may be based principally and logically on output it is agreed in one hand that there should be a generous reward for high effort, but, on the other, too generous a reward may defeat the objective of the incentive. The following general principles should apply to all incentive schemes:
a. The reward must be as nearly related to effort as possible both in amount and in time of payment.

b. The scheme must be just to both employer and employee.

c. There must be mutual agreement to ensure that the basis of the scheme is fully understood, covers all reasonable points, and is not capable of being misinterpreted.

d. The scheme should be strong and positive, it should have clearly defined, worthwhile, and attainable objectives.

e. There should be no limits placed upon the amount of additional earnings.

f. The scheme should be so framed that anomalies or loose practice cannot occur through the willful disregard of non-standard conditions.

g. The incentive should not be affected by matters outside the employers control.

h. The incentive should be reasonably permanent and not just a device to be used by the employer when he is busy and dropped when he is not.

i. The rates for payment by result should be fixed only after the job can be properly assessed.

j. Piece rates or time allowances, once fixed, should remain same unless conditions or methods change.

k. The standard of performance set must be reasonably attainable by the average employee - it should be possible to demonstrate that this is so.
1. The scheme should be simple, capable of being understood by the workers so that they can make their own calculations, and easy to operate with the minimum of clerical work.

m. If the bonus calculations can be geared in with production control, and if the time allowances can work in with, or provide the basis for, a system of standard costing or budgetary control, so much the better.

n. A properly prepared incentive scheme should assist supervision and help to reduce the cost of it.

o. The scheme should be in conformity with any national, local or trade agreements.

p. There should be direct influence on the moral of workers, the scheme, if supported by employees, can do much to promote confidence.

2.8.7: Principles of Incentives other than Direct Monetary Incentives

In the last decade considerable advance has been made in techniques of applying psychological incentives. This has arisen from the realization that full efficiency in an organization cannot be obtained unless the background conditions and facilities are mutually satisfactory to the employee and employer. The belief that an employee is only interested in his wage packet may be only a half-truth, and incentives based on higher motives now have their place.

These incentives may be divided into two classes:

a. Other financial incentives - for e.g., Profit sharing, pensions, subsistence allowances and expenses, suggestion awards, long service awards, time keeping bonuses.
b. Non-monetary incentives- for e.g., canteens, recreations and sports facilities, medical services, joint consultation, training.

All these non-monetary incentives have the aim of creating the right conditions under which direct incentives can have the best chance of realization.

2.8.8: Staff Incentives

The creation of direct incentives for staff is always a most difficult task since it is rarely possible to measure output positively enough. Consequently, staff incentives are usually of the indirect type and the principles and aims of non-monetary incentives apply equally to staff workers.

The main considerations in relation to this class of worker appears to be to provide and inducement to the employee not to change his job. This is achieved by:

i. Providing an opportunity for promotion and for increasing salary;
ii. Providing merit or regular increases during the retention of the same job.
iii. Providing the training schemes or education facilities so as to make promotion and salary increase possible.
iv. Providing staff pension schemes.

2.9: METHODS OF WAGE FIXATION

The prominent methods adopted for fixation of wage are:

1. As per Legislation or Statutory Wage fixation
2. Wage Boards or Pay Commissions Recommendations
3. Job evaluation methods, and
4. Through Collective Bargaining
The Collective Bargaining includes: (a) Bi-Partite Agreements voluntarily agreeing between the employer and Union (b) Bi-partite Settlements negotiated and Settled primarily by the parties but registered before a conciliator in settlements (c) Consent Awards, when disputes are pending before the Tribunal, parties negotiate the contracts, which is recorded by the Tribunal but the contracts so negotiated acquire legal status. However, in case of service and public utility services conciliation is compulsory to avoid prolonged disputes, and for smoother industrial relations in the long-run. ³⁵

2.10: THE PROMINENT PAYMENT SYSTEMS

There is no uniformity in wage payments of different countries as there is a wide variation in the methods of negotiations and settlement, based on historical, cultural and national factors. There is a wide variation as regards government intervention in Industrial relations field; the type of collective bargaining; the extension to which payment by results methods are being replaced by standard grades based on job evaluation; the amount of fringe benefits included in the wage bill, the gaps between the pay of men and women; and the strength of organized labour in different countries.

However, the system of free collective bargaining at the plant and at industry level covering both blue and white-collar workers has become the cornerstone of wage determination in several countries in the present century.

In United Kingdom, the British Parliament adopted minimum wage legislation in 1909 and general slogan was abolishing of sweating.36

In West Germany, there are only 16 union groups organized on Industrial basis, and employer organization, commonly issue guidelines for wage negotiations and for collective bargaining. The settlement does not require Government approval but have to be reported to the federal Minister of Labour.

In United States of America, collective bargaining is the most powerful institution; it is carried out exclusively at the level of Enterprise on job evaluation methods.

In Australia, collective bargaining operates in the context of an extensive network of legally constituted wage-fixing tribunals, which are ready to intervene in industrial disputes by conciliations and arbitrations, provides highly centralized approach to wage adjustments.

In France, by adopting legislation on minimum wages in 1950, it has entered into collective bargaining system recently. After industrial unrest of 1968 the new agreement called 'Grenelle' declaration brought consensus between Government, employees and Unions to stimulate collective bargaining and extend its scope to cover such issues as hours, salaried status and profit sharing of all industries.

In Netherlands, the history of Government intervention prevailed for more than 12 years after the end of Second World War. The Dutch operated a compulsory wage and price fixing system. This was convenient mediation for the government to decide wages, its imposition and administering for all the industry through standard method of job

evaluation and productivity. By 1950 employers and unions were keen to regain their freedom of action and return to the normal collective bargaining processes, which prevailed in other European Countries. As a result Dutch collective bargaining is still centralised, with contracts negotiated at national or industrial level or industry wise, which is generally applicable throughout industry. Dutch attach great importance to fringe benefits and social security measures.

In Sweden, it is based on an agreement - the Saltsjobaden agreement reached in 1936 between the National Federations of Employees (SAF) and the unions (LO). These Organisations meet regularly at national level to reach broad agreements the permissible rate of percentage increase in wage, taking into account national economic performance and needs, and they lay down guidelines for individual unions and employers. The industry wise and plant wise agreements should conform to the parameters laid down in the national level agreements, reached between employers and employees at the apex level.

In India, the agreement is to the terms of payment, increase or decrease; types of benefits to be given are all negotiated between the managements and trade unions through collective bargaining. The final settlement is influenced by number of forces, economic and social conditions. The exercise necessarily involves a delicate balance between numerous conflicting goals and interests of both employers and employees with public interest in general and consumers' interest in particular.
2.11: COMPONENTS OF WAGE / SALARY IN INDIA

The normal structure of wages/salaries in India includes the following composition. They are:

2.11.1: Basic Wages/Salary

It is fixed as per the grade or at the time of appointment increase with years of service and increments or promotions earned by the Individual, which the employer should pay to all workmen belonging to all categories. It is fixed minimum wage whereas other components like Dearness Allowance, Bonus etc., changes according to the cost of living indices and the performance of the Industry.

2.11.2: Dearness Allowance

It is an additional amount paid by the employer to his employees to compensate them to a certain extent for the rise in the cost of living. In the opinion of National Commission on labour, it is paid to the employees mainly to stabilize their expenditure in the events of increase of prices and that facilitates buying the same amount of goods of basic necessity as before. During world War II first time it was introduced in the Cotton Textile Industry in Bombay, Ahmedabad called as ‘dear food allowance’. It is given mainly to compensate the gaps between the ‘money wage’ and ‘real wage’. The system and rates varies from industry to industry according to the agreements or the policies of the industry.

2.11.3: Annual Statutory Bonus

It is unique component of Industrial wage system in India. It is extra payment in terms of cash or its equivalent beyond normal wage not necessarily covered by the agreement but implied, to be given for accomplishment of certain tasks or achievements of the employees. It is
treated as an incentive for regular attendance, an encouragement for good work, or for some additional or special service. The bonus has the following concepts of interpretation:

a. Bonus is a deferred wage which aims at bridging the gap between actual wage and need based wage.

b. Bonus is the share of workers in the prosperity of an organization.

c. Bonus is primarily a share in the surplus as per the Payment of Bonus Act and is profit based or productivity based calculated on short term basis surplus viz., current year profits only. In case of banks the payment of this is regulated i.e., upto maximum of Rs.2,500/- having upto Rs.3,500/- basic salary holders only. Otherwise the minimum rate of Bonus is 8.33 per cent of the wages or salaries irrespective of profit or loss by the industries covered under the Act. In case of ability to pay more than this by an employer it is restricted upto maximum of 20 per cent ceiling in any particular year.

2.11.4: Fringe Benefits

It includes various monetary, non-monetary benefits given by the employer to the employees connected with employment but not based on the employee’s contributions. It is to promote and maintain sound industrial relations, to boost employees morale, to provide security to employees in social risks like old age pensions, gratuity, provident funds, Maternity benefits, safety devices against accidents in service, compensations, housing, medical, health and hygiene, canteen and stores, educational, recreation facilities, financial service, counseling etc., which creates a sense of belongingness among the employees and makes them to
remain loyal to the organization. Therefore these are described as "golden Hand-cuffs".

2.11.5: Incentives

These are the facilities, which incite or induce the employees to put forth their best in the maximizations of the productions or profits of an undertaking. It is given as encouragement for showing exemplary performance, achievements; as such there is no connection directly to the profit or production of the organization. Such payments will increase the earnings of the workers and improves their efficiency thereby their loyalty to the master is increased. This is familiarity known as 'tips system' in the employment. Presently certain private and private limited companies pay in the name of 'pay packets' to their employees who are often not taken into account as part of the wages. This system cannot be found in any of the public sector or Government undertakings.

2.12: LABOUR LAWS TO WAGE AND SALARY ADMINISTRATION IN INDIA

The Labour Laws influence the fixation of wage and salary. Some of the central laws, which have a bearing on employee remuneration, are:

1. Payment of Wages Act 1936.
2.12.1: Payment of Wages Act 1936

The Payment of Wages Act regulates the payment of wages to certain classes of persons employed in industry. The Act guarantees payment of wages in time without any deductions except those authorized under the Act. It provides for the responsibility for payment of wages, fixation of wage period, time and mode of payment of wages, and permissible deductions from wages. The Act applies to railways, factories, mines, motor transport service, clock, and inland vessel etc.37

According to this act, wages means all remuneration (whether by way of salary, allowances or otherwise) expressed in terms of money and includes;

a. Any remuneration payable under any award or settlement between the parties.
b. Remuneration in respect of overtime, holiday, or any leave period.
c. Additional remuneration like Bonus payable under terms of employment.
d. Sum payable under any by reason of termination of employment.

Deduction from Wages

The following deductions are allowed out of wages payable by an employer:

a. Fines
b. Deduction for the actual period of absence
c. Deduction for hours–accommodation
d. Deduction for amenities supplied and authorized by the Government

2.12.2: Minimum Wages Act 1948

This Act has been passed to provide for fixing minimum rates of wages in certain employments and the provisions of the Act are intended to achieve the object of doing social justice to the workers employed in the scheduled employments by prescribing minimum rates of wages for them. The Act purports to achieve to prevent exploitation of labour and for that purpose the authorities under the Act are empowered to take steps to prescribe minimum rates of wages in the scheduled industries.39

Minimum rate of the wages fixed or revised consists of the following:

1. A basic rate of wages and a special allowances, viz., cost of living allowance.

2. A basic rate of wages with or without cost of living allowance and cash value of concessions for supplies of essential commodities.

3. An all-inclusive rate, i.e., basic rate, cost of living allowance and cash value of concessions.

The government may fix or revise minimum wages either by committee procedure or by notification procedure. Where notification method is adopted for fixation of revisions, the proposals are notified in the Official Gazette for the information of persons likely to be affected,

specifying a date not less than two months from the date of notification, after which the proposals will be taken into consideration. In the case of revision by the notification method, the appropriate government should consult the advisory board also.

**Hours of Work and Holidays**

Section 13 of the Act authorizes the government to fix the hours of work, a day of rest with remuneration and payment for the work on a day of rest at the overtime rate.

Minimum wages fixed by the Government for Automobile Industries is shown in the following table;
AUTOMOBILE ENGINEERING (INCLUDING SERVICING & REPAIRING)

Notification No.KAE 46 LMW 97, dated 24-4-2001
Published in the Gazette dated:
Minimum wages with effect from 1-04-2001
Cost of living allowance to be paid over above 2329 points
Cost of living index: 2822-2329=493 points
Minimum wages and V.D.A from 01-04-2007 to 31-03-2008

SCHEDULE

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Class of Employment</th>
<th>Minimum rates of Wages per month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Zone -I</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Zone - II</td>
</tr>
<tr>
<td>1</td>
<td>Highly Skilled – A:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Forman</td>
<td>Basic 2374.00 2312.00</td>
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<td></td>
<td>b) Supervisor</td>
<td>V.D.A 443.70 443.70</td>
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<tr>
<td></td>
<td>Total</td>
<td>2817.70 2755.70</td>
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<tr>
<td>1</td>
<td>Highly Skilled – B:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Assistant Forman</td>
<td>Basic 2312.00 2249.00</td>
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<tr>
<td></td>
<td>V.D.A</td>
<td>443.70 443.70</td>
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<tr>
<td></td>
<td>Total</td>
<td>2755.70 2692.70</td>
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<tr>
<td>II</td>
<td>Skilled:</td>
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</tr>
<tr>
<td></td>
<td>a) Turner</td>
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<tr>
<td></td>
<td>b) Fitter</td>
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</tr>
<tr>
<td></td>
<td>c) Mechanic</td>
<td>Basic 2249.00 2186.00</td>
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<tr>
<td></td>
<td>d) Welder</td>
<td>V.D.A 443.70 443.70</td>
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<tr>
<td></td>
<td>e) Electrician</td>
<td>Total 2692.70 2629.70</td>
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<tr>
<td></td>
<td>f) Carpenter</td>
<td></td>
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<tr>
<td></td>
<td>g) Painter</td>
<td></td>
</tr>
<tr>
<td></td>
<td>h) Blacksmith</td>
<td></td>
</tr>
<tr>
<td></td>
<td>i) Time Keeper</td>
<td></td>
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<tr>
<td></td>
<td>j) Senior Clerk</td>
<td></td>
</tr>
<tr>
<td></td>
<td>k) Store Keeper</td>
<td></td>
</tr>
<tr>
<td></td>
<td>l) Tin-Smith</td>
<td></td>
</tr>
<tr>
<td></td>
<td>m) Upholstery Man</td>
<td></td>
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<tr>
<td></td>
<td>n) Machinist</td>
<td></td>
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<tr>
<td></td>
<td>o) Vulseaniser</td>
<td></td>
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<tr>
<td></td>
<td>p) Cashier</td>
<td></td>
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<tr>
<td></td>
<td>q) Head Watchman</td>
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</tr>
<tr>
<td></td>
<td>r) Accountant</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>Semi Skilled:</td>
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</tr>
<tr>
<td></td>
<td>a) Assistant Fitter</td>
<td>Basic 2154.00 2092.00</td>
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<tr>
<td></td>
<td>b) Assistant Electrician</td>
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<tr>
<td></td>
<td>c) Assistant Blacksmith</td>
<td>Total 2597.70 2535.70</td>
</tr>
<tr>
<td></td>
<td>d) Assistant Greaser</td>
<td></td>
</tr>
<tr>
<td></td>
<td>e) Assistant Otman</td>
<td></td>
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<tr>
<td></td>
<td>f) Assistant Painter</td>
<td></td>
</tr>
<tr>
<td></td>
<td>g) Assistant Mechanic</td>
<td></td>
</tr>
<tr>
<td></td>
<td>h) Assistant Tinker</td>
<td></td>
</tr>
<tr>
<td></td>
<td>i) Telephone Assistant</td>
<td>Basic 2154.00 2092.00</td>
</tr>
<tr>
<td></td>
<td>j) Cashier</td>
<td>V.D.A 443.70 443.70</td>
</tr>
<tr>
<td></td>
<td>k) Senior Typist</td>
<td>Total 2597.70 2535.70</td>
</tr>
<tr>
<td></td>
<td>l) Salesman</td>
<td></td>
</tr>
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<td></td>
<td>m) Store Clerk</td>
<td></td>
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<tr>
<td></td>
<td>n) Learners or Apprenticeship</td>
<td></td>
</tr>
<tr>
<td></td>
<td>o) Type Fitter</td>
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</tr>
<tr>
<td>IV</td>
<td>Unskilled:</td>
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</tr>
<tr>
<td></td>
<td>a) Cleaner</td>
<td>Basic 1824.00 1787.00</td>
</tr>
<tr>
<td></td>
<td>b) Helper</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c) Attender</td>
<td></td>
</tr>
<tr>
<td></td>
<td>d) Sweeper</td>
<td>Basic 1824.00 1787.00</td>
</tr>
<tr>
<td></td>
<td>e) Watchman</td>
<td>V.D.A 443.70 443.70</td>
</tr>
<tr>
<td></td>
<td>f) Peon</td>
<td>Total 2267.70 2230.70</td>
</tr>
</tbody>
</table>

2.12.3: The Payment of Bonus Act 1965

The Payment of Bonus Act applies to certain persons employed in every factory and establishment employing not less than twenty persons on any day during an accounting year. An employee under the Act means any person other than apprentice, engaged for hire reward whether the terms of employment be express/implied and includes supervisors/managerial and administrative employees drawing salary/wages not exceeding Rs.3,500/-per month. Every employee not drawing salary/wages beyond Rs.3,500/-per month who has worked for not less than 30 days in an accounting year, shall be eligible for bonus for a minimum of 8.33 per cent of the salary/wages even if there is loss in the establishment whereas a maximum of 20 per cent of the employees’ salary/wages is payable as bonus in an accounting year.40

Eligibility for Bonus

The Payment of Bonus Act indicates that the following categories of persons will be entitled to bonus:

a. Skilled or unskilled or manual labour
b. Managerial staff
c. Supervisory staff
d. Administrative staff
e. Technical staff
f. Clerical staff

Every person who falls written the above category is entitled to bonus under the Payment of Bonus Act.

2.12.4: Equal Remuneration Act 1976

The equal Remuneration Act provides for payment of equal remuneration to men and women workers and for the prevention of discrimination, on the ground of sex, against women in the matter of employment and for matters concerned therewith or incidental thereto. According to this Act, every employer is responsible to pay equal remuneration to all the employees without any discrimination. And no employer should make any discrimination against women while making recruitment for the same work or work of a similar nature except where the employment of women in such work is prohibited or restricted by or under any law for the time being in force.

2.12.5: The Payment of Gratuity Act 1972

Gratuity is a measure of social security available on retirement, resignation, death or disablement. The Act is applicable to every factory, mine, oilfield, plantation, port, and Railway Company and every shop or establishment in which ten or more persons are employed or were employed on any day of the preceding twelve months.\(^{41}\)

All employees, whether industrial or clerical, performing skilled, semi-skilled, unskilled, manual, supervisory or technical jobs are entitled to receive gratuity. An employee having been in employment uninterruptedly for a period of not less than five years and on any amount of wage is entitled to receive gratuity. Gratuity becomes due for payment on a) superannuation b) retirement c) death and d) disablement.

Superannuation means attainment of such age as fixed in the contract or conditions of service when the employee shall vacate employment; in any other case it means attainment by the employee of the age of fifty eight years. Gratuity is payable to the employee in person in

the case of termination of employment on his superannuation or his retirement or his resignation. In case of the death of the employee, it is payable to his nominee. If no nomination has been made, it shall be paid to his heirs. For every completed year of service or part thereof in excess of six months gratuity is payable at the rate of fifteen days wages, based on wages last drawn subject to maximum limit of Rs.3,50,000.

2.12.6: Employees' Provident Funds and Miscellaneous Provisions Act 1952

The Act is a social security measures for workers and employees during their period of service and upon cessation of service or upon death during service. Schemes are required to be framed under the Act by creation of Provident Fund, Pension Fund and Deposit linked Insurance Fund. The Act applies to every factory or establishment employing twenty or more persons. An establishment can avail exemption for an initial period of three years if employees are fifty or more and five years in other cases. There are three schemes under this Act, which provide for provident fund, family pension and Deposit linked insurance scheme for employees. These funds usually receive payments from employees or employers or both. According to Employees' Provident Fund and Miscellaneous Provisions Act 1952, the maximum ceiling limit for employees' contribution is 12 per cent of basic pay and DA, similarly employer can also contribute to the extent of 12 per cent, out of which 8.33 per cent is transferred to Pension fund with a maximum ceiling of Rs.6500 per month.42

2.13: SUMMARY

Wage and salaries play a very important role in determining the conditions of employment. The relationship between employers and employees depends mainly on wages. It constitutes a major part of the total cost in most of the organizations. The control of wages and salaries is of paramount importance because it affects numerous factors such as productivity, prices, capital formation, employment, standard of living etc. Every organization should have a proper and sound wage and salary policy because it helps in recruiting, retaining and developing employees as well as maintaining good industrial relations. In order to survive in the socio-economic system, the organization should give due weightage to the various factors in framing and adopting wage and salary policy.