

Module-II

Compensation Management

What is Compensation Management

Compensation Management is an organized practice that involves balancing the work-employee relation by providing monetary and non-monetary benefits to employees. Compensation includes payments such as bonuses, profit sharing, overtime pay, recognition rewards and sales commission. Compensation can also include non-monetary perks such as a company-paid car, company-paid housing and stock options. Compensation assists to motivate the employees and enhances organizational effectiveness. Compensation displeasure can lead to absenteeism, turnover, job dissatisfaction, low performance, strikes and grievances.

Compensation refers to a wide range of financial & non financial rewards to the employees for their services rendered to the organization. It is paid in the form of wages, salaries and employees benefits. Such as paid vacations. Insurance, maternity leave free travel facility, retirement benefits etc.

Nature of Compensation:-

Compensation offered by an organization can come both directly through base pay and variable pay and indirectly through benefits.

Directly Base Pay:-

It is the basic Compensation an employee gets, usually as a wage or salary.

Directly Variable Pay:-

It is the compensation that is linked directly to performance accomplishments (bonuses, incentives, stock options).

Indirectly Benefits:-

These are indirect rewards given to an employee or group of employees as part of (health insurance, vacation pay, retirement pension etc.).

OBJECTIVES OF COMPENSATION : (General)

- To recruit and retain qualified employees.
- To increase or maintain satisfaction.
- To motivate employees for better performance.
- To attract and retain skilled and talented workforce.
- To determine basic wages and salary administration.
- To achieve internal and external equity.

- To ensure equal pay for equal work, that is, each individual's pay is fair in comparison to that of another person doing a similar job.
- To support, communicate and reinforce an organization's culture, value and competitive strategy.
- To reduce employees turnover and to absenteeism encourage employee loyalty/morale.
- To reward for exceptional job performance with plans including bonuses, commissions, profit sharing, stocks, gain sharing etc.
- The control cost – A rational compensation system helps the organisation to obtain and retain workers at a reasonable cost.
- Comply with legal regulation- A sound wage and salary system consider the legal challenges imposed by the government and ensures the employees compliance.

Objectives of Compensation Management (On the basis of Primary and Secondary)

1. Primary Compensation:

The primary objectives of compensation or wages are classified under four broad categories:

- i. Equity,
- ii. Efficiency,
- iii. Macro-economic stability, and
- iv. Optimum allocation of labour.

i. Equity:

The first category is equity, and may take several forms. Equity includes income distribution through narrowing down of inequalities, increasing the wages of the lowest paid employees, protecting real wages, and the concept of equal pay for work of equal value. Compensation management strives for internal and external equity. Internal equity requires that pay should be related to the relative worth of a job such that similar pay is assured for similar jobs.

External equity refers to making comparable payments, that is, paying workers what other firms in the labour market pay comparable workers. Compensation differentials, based on differences in skills or contribution, are all related to the concept of equity. Internal equity actually means employees and their contribution are treated fairly with a pay programme in relation to other jobs in the organization.

ii. Efficiency:

Efficiency is often closely related to equity. These two concepts are not adverse. The objectives of efficiency are evidenced in attempts to link a part of wages to productivity or profit, group or individual performance, acquisition and application of skills, and so on. Preparations to achieve efficiency are also seen as being equitable, provided they fairly reward performance. The preparations are treated as inequitable if the reward is viewed as unfair.

iii. Macro-Economic Stability:

Companies try to achieve macro-economic stability through high employment levels. Low inflation helps to achieve macro-economic stability. For instance, an inordinately minimum wage would have an adverse impact on the levels of employment, though at what level this consequence would occur is a matter of debate. Although compensation and compensation policies are two of the many factors which influence macro-economic stability, they do contribute to or hinder balanced and sustainable economic development.

iv. Efficient Allocation of Labour:

Employees consider the net gain. Efficient allocation of labour refers to the concept of labour/employee moving out of a situation to another for a net gain. Such movement may be from one geographical location to another, from one job to another, and within or outside an enterprise. The provision or availability of financial incentives causes such movement.

For example, workers are likely to move from a labour surplus or low-wage area to a high-wage area. On acquiring new skills, they may be tempted to derive benefit from moving to jobs with higher wages. Employee attrition is more when an employer's wages are below market rates. Again, an employer attracts job applicants when his wages are above market rates. When employees move from declining to growth industries, an efficient allocation of labour due to structural changes takes place.

2. The Secondary Objectives Compensation:

From the standpoint of human resource management, a well-designed compensation package helps an organization to achieve additional objectives which are the secondary objectives of compensation. The secondary objectives include acquiring competent personnel, complying with regulations, controlling costs, enhancing administrative efficiency, facilitating understanding, retaining employees, and rewarding desired behaviour.

i. Acquiring competent personnel – Good compensation helps an organization attract competent applicants. As everyone has become aware of their value in the market, it is only wise for the management to provide suitable compensation packages to the employees for their retention.

ii. Complying with regulations – A sound wage and salary system considers the legal challenges imposed by the government and ensures the employers compliance.

iii. Controlling costs – A rational compensation system helps the organization obtain

and retain workers at a reasonable cost. Without effective compensation management, workers might be over-paid (when product costs go up) or under-paid (which reduces employee motivation).

iv. Enhancing administrative efficiency – Any organization desires and attempts to optimally use the human resource information systems (HRIS). A well-designed sound wage and salary programme helps to manage HRIS efficiently.

v. Facilitating understanding – The compensation management system should have a high level of clarity. In addition to the human resource specialists and operating managers, the employees also should understand the compensation management system easily.

vi. Retaining employees – Attrition may increase when compensation levels do not fulfil employees' expectations. They quit due to the feeling that compensation is not competitive.

vii. Rewarding desired behaviour – Companies expect certain types of behaviour from the employees. Pay is likely to reinforce desired behaviours and acts as an incentive for the behavioural modification, and for the behaviour to occur in the future. Effective compensation plans reward performance, loyalty, experience, responsibility, and other behaviours.

Types Of Compensation

I. Financial Compensation:

1. Direct Financial Compensation:

Financial compensation means monetary payment made to an employee in exchange for his work. This includes basic pay, bonus, incentives, overtime payment, commission and variable pay.

a. Basic Pay – It is the direct financial compensation an employee gets for the time worked. It takes the form of wage or salary.

b. Incentives – It is a plan that links pay to productivity or profitability. It may be linked to the performance of an individual or a team or the entire organizational level performance. Bonus, profit-sharing plan, variable pay and stock options are examples of incentive plans.

2. Indirect Financial Compensation:

It includes benefits like pensions, insurance, paid holidays. These benefit are available to all employees.

Benefits:

They are employer-provided other than wages, salaries, or incentives. They make up indirect component of a financial compensation plan. These benefits are not performance-based and are awarded to all employees by virtue of their membership in a given organization.

They are of two types:

1. Mandatory and

2. Voluntary

1. Mandatory Benefits:

These benefits are legally binding on an employer to provide to the employees., viz., Provident fund, gratuity scheme, health plan, maternity leave, medical leave, etc., are examples of these benefits.

2. Voluntary Benefits:

These are discretionary and provided by the employer voluntarily. These include compensation for' time not worked, for example, paid holidays, family-friendly benefits, retirement benefits, etc. Organizations today offer their employees benefits like sabbaticals, Childcare centers, work from home option, job search facility for spouse, health/life/accident insurance, company-sponsored education facility, Free transport, subsidized meals, free concierge services by which employees have their telephone, electricity bills, etc., paid.

II. Non-Financial Compensation:

These are psychological rewards given to employees who entertain a feeling that their skills are recognized. Employees at senior and middle levels who prefer to work on high end technology, desire empowerment. Besides recognition awards and service awards there are also other important non-financial compensations given to employees by contemporary employers.

They are:

1. Awards – Awards include cash, gift certificates, movie tickets, parties and dinner coupons for family members, travel concessions to famous destinations, etc.

2. Recognition awards – Felicitation award for employee of the month and employee of the year given at a colourful event have the potential to motivate the employees for better performance. Individuals who make contribution to society, work beyond the call of duty or whose ideas have impact on business are given suitable awards.

3. Service awards – Employees who have completed a certain number of years become eligible for loyalty award.

4. Appreciation – When an employee performs the job to the full satisfaction of superiors, appreciation of superior in the presence of colleagues is a sure-fire reward for the employees.

5. Challenging task – Assignment of a challenging task to the promising employees has the potential to unlock latent talent in the employees concerned.

6. Deputation for foreign assignment – Selection of best performing employees for

training and for important overseas assignment would certainly trigger their motivation and it adds to their value and prestige among their colleagues.

7. Seeking consultation – Consulting key employees on strategic issues and seeking their honest opinion has a tremendous bearing on their morale and positive energy.

8. Participatory opportunity – Employees participation in decision-making, in the form of joint decision-making autonomous workgroup, consultative committees, kaisen management, collective bargaining, quality circles, suggestion committees and so on would indubitably kindle their enthusiasm and impel them to contribute positively towards the goal of the organization.

9. Power delegation and decentralization – Decentralization of power to employees, fixation of accountability, delegation of authority have the power to enable the employees to unleash their otherwise dormant potentials.

10. Conducting of refresher training – Conducting frequent training to freshen up the knowledge skill, competency of employees has the potential to empower the employers and recharge their energies.

11. Provision of congenial work environment – Provision of congenial work environment like separate cubicles, latest electronic communication gadgets, air conditioned rooms, secretarial facilities, comfortable desk & chair, pleasant interior decoration, clean drinking water, relaxation facility, etc., can help the employees in sustaining pleasant mood and creates a mind-set for churning out quality works.

12. Alternate work schedule – Alternate work schedule like part time work, job sharing, flexi time, annulated work hours, work from home, option to work in day shift, etc., go a long way towards sustaining the loyalty of employees.

13. Provision of leadership development career development opportunities – These opportunities are sure to attract and retain challenge-loving employees.

14. Liberal holidays – Providing various type of holidays and sabbatical is one of the powerful motivations for employees.

15. Career counselling and mentoring Facilities – Provision of career counselling and guidance mentoring have power to inspire the contemporary employees to unearth their potential.

16. Conducting events – Conducting various events like founders day independence day, festivals, new year's day, sports events, literary events, carnival day, etc., ensure a feeling of oneness among the employees.

17. Transparency dealing – Transparent performance appraisal reward system, award system, transfer system, promotion on career advancement practice, etc., help in positive inclination towards the employer.

18. Well-developed communication system – Conduct frequent town hall meetings, barrier free flow of communication, fixation of deadlines, clear-cut rules, well defined policies, processes and strategies, in-house news enlightening the dynamics in the

company and in the industry stop spread of rumours, breed a conducive and healthy work environment and help employees stay positive in the facility.

Components of compensation

An employee's total compensation comprises of four components. The relative proportion of each constituent in the total compensation varies from firm to firm. The first and generally the major component is base compensation which means the fixed pay an employee receives on a regular basis, either in the form of a salary or as wages. The second component is allowances such as house rent allowance (HRA), dearness allowance (DA) and city compensatory allowance (CCA). The third component is incentive pay planned to reward employees for good performance, such as performance-linked bonus, share in profit, etc. The fourth component is benefits or indirect compensation or perquisites such as company accommodation, company car, paid holiday, club membership, stock options. Compensation is evenly important for the employee as it determines life standard and position in society. In other words, compensation has great impact on employees economically, socially and psychologically.

Financial compensation package of employees comprises of the following components:

1. **Basic Pay.** The main part of pay package is basic pay. For blue-collar workers basic wage may be based on work done (price wage system) but for white-collar employees, supervisory staff and managers, basic salary is generally time bound. Basic pay is generally determined through job evaluation which is the process of systematically ascertaining the relative worth of a job.
2. **Allowances.** Several allowances are paid in addition to basic pay. Some of these allowances are given below:
 - o **Dearness Allowance:** This allowance is given to protect real income against inflation. Generally, dearness allowance (DA) is paid as a percentage of basic pay.
 - o **House Rent Allowance:** Employers who do not provide living accommodation and pay house rent allowance (HRA) to employees. This allowance is calculated as a percentage of basic pay (Percentage varies according to Class of city from 10% to 35% of basic pay in case of government employees).
 - o **City Compensatory Allowance:** This allowance is paid generally to employees in metros and other big cities where cost of living is comparatively high. City compensatory allowance (CCA) is generally a fixed amount per month.
 - o **Transport Allowance/Conveyance Allowance:** Some employers pay transport allowance (TA) to their employees. A fixed sum is paid every month to cover a part of traveling charges.

In some cases, medical allowance, education allowance for children, Tiffin allowance are also paid.

3. **Incentives:** Incentive compensation is performance-linked remuneration paid with the aim to encourage employees to work more and perform better. Both individual incentives and group incentives are used. Bonus, profit-sharing, commissions on sales are some examples of incentive compensation.
4. **Fringe Benefits/Perquisites:** Different types of benefits are paid particularly to

senior managers. Provident funds, pensions, gratuity, encashment of earned leave, company house, company car, leave travel concession (LTC), medical aid, interest free loan, holiday homes, entertainment, stock options, etc. are examples of such benefits.

Factors influencing compensation levels:-

Job Needs:-

Jobs vary greatly in their difficulty complexity & challenge. Some need high level of skills and knowledge while others can be handled by almost anyone. Simple, routine tasks that can be done by many people with minimal skills receive relatively low pay. On the other hand, complex, challenging tasks that can be done by few people with high skill levels generally receive high pay.

Ability to pay:-

Project determine the paying capacity of a firm. High profit levels enable companies to pay higher wages. This partly explains why computer software industry pays better salaries than commodity based industries. Salaries than commodity based industry pays better salaries than commodity based industries. (Steel, cement, aluminum etc.) Likewise multinational companies also pay relatively high salaries due to their earning power.

Cost of living:-

Inflation reduces the purchasing power of employees. To overcome this, union & workers prefer to link wages to the cost of living index. When the index rises due to rising prices wages follows suit.

Unions (Labor):-

Highly unionized sectors generally have higher wages because well organized unions can exert pressure on management and obtained shorts of benefits and concessions to workers.

Productivity of workers:-

This is the current trend in most private sector companies when workers wages are linked to their productivity levels. If your job performance is good, you get good wages.

State regulation:-

The legal stipulations in respect of minimum wages, bonus, dearness, allowance, allowances, etc. determine the wage structure in an industry.

Prevailing wage rates:-

Prevailing wage rates in competing firms within an industry are taken into account within fixing wages. A company that does not pay comparable wages may find it difficult to attract and retain talent.

Wage policy in India:-

Minimum wage, fair wage, living wage;

Minimum Wage:-

Minimum wage is that wage which must invariably be paid whether the company big or small, makes profit or not. It is the bare minimum that a worker can expect to get for services rendered by him. The 15th Indian Labor conference (1957) formally qualified the term minimum wage.

Fair Wage:-

It is that wage which is above the minimum wage but below the living wage.

Living Wage:-

According to the committee of fair wage the living wage is the highest among the here. It must provide (i) Basic amnesic of life, (ii) efficiency of workers and (iii) satisfy social needs of workers such as medical, Education, retirement etc. Living wage of a dynamic concept, which grows in line with growth of the national economy.

Supplementary Compensation:-

Fringe Benefits

Fringe benefits are supplementary compensation made in addition to wages, the object being to stimulate the interest of the workers and to make the job more attractive and conducive. They are, as a matter of fact, indirect benefits. Fringe benefits include status (cars, entertainment facilities, holidays, foreign travel, telephone); security (insurance, medical facilities, children's education), and work benefits (office ac-commodation, secretarial services, management training, company scholarships etc.). Key benefits are benefits such as share schemes, profit sharing, and retirement counseling.

The important objectives of fringe benefits are:

1. To recruit and retain the talented personnel in the organisation.
2. To maintain sound industrial relations and avoid unrest in the organisation.
3. To identify unsatisfied needs of the employees and convert those into satisfying needs by utilizing appropriate steps.
4. To protect social security of the employees during old age by providing provident fund, gratuity and pension.
5. To develop a sense of belongingness among employees of the organisation.
6. To comply various legislations related with fringe benefits which are formulated by central and state Government.
7. To ensure cooperation, loyalty and faithfulness among employees of the organisation.
8. To develop Brand Image of the organisation in the eyes of public.

Types of supplementary compensation:-

According to Edwin B. Flippo fringe benefits are:-

The fringe benefits are classified under five heads as given here:

1. Employment Security:

Benefits under this head include unemployment, insurance, technological adjustment pay, leave travel pay, overtime pay, level for negotiation, leave for maternity, leave for grievances, holidays, cost of living bonus, call-back pay, lay-off, retiring rooms, jobs to the sons/daughters of the employees and the like.

2. Health Protection:

Benefits under this head include accident insurance, disability insurance, health insurance, hospitalization, life insurance, medical care, sick benefits, sick leave, etc.

3. Old Age and Retirement:

Benefits under this category include deferred income plans, pension, gratuity, provident fund, old age assistance, old age counseling, and medical benefits for retired employees, traveling concession to retired employees, jobs to sons/daughters of the deceased employee and the like.

4. Personnel Identification, Participation and Stimulation:

This category covers the benefits like anniversary awards, attendance bonus, canteen, cooperative credit societies, educational facilities, beauty parlor services, housing, income tax aid, counseling, quality bonus, recreational programs, stress counselling, safety measures, etc.

Other Miscellaneous Categories:

i. Payment for Time Not Worked:

Benefits under this category include sick leave with pay, vacation pay, paid rest and relief time, paid lunch periods, grievance time, bargaining time, travel time, etc.

ii. Extra Pay for Time Worked:

This category covers the benefits such as premium pay, incentive bonus, shift premium, old age insurance, profit sharing, unemployment compensation, Christmas bonus, Deewali or Pooja bonus, food cost subsidy, housing subsidy, recreation.

iii. Retrenchment Compensation:

The Industrial Disputes Act, 1947 provides for the payment of compensation in case of lay-off and retrenchment. The non-seasonal industrial establishments employing 50 or more workers have to give one month's notice or one month's wages to all the workers who are

retrenched after one year's continuous service.

The compensation is paid at the rate of 15 days wage for every completed year of service with a maximum of 45 days wage in a year. Workers are eligible for compensation as stated above even in case of closing down of undertakings.

iv. Lay-Off Compensation:

Layoff is the temporary suspension or permanent termination of employment of an employee or a group of employees for business reasons, such as the decision that certain positions are no longer necessary or business slow-down or interruption in work.

Originally the term 'layoff' referred exclusively to a temporary interruption in work, as when factory work cyclically falls off. In case of lay-off, employees are entitled to lay-off compensation at the rate to 50% of the total of the basic wage and dearness allowance for the period of their lay-off except for weekly holidays. Lay-off compensation can normally be paid up to 45 days in a year.

THE WAGE DETERMINATION PROCESS:

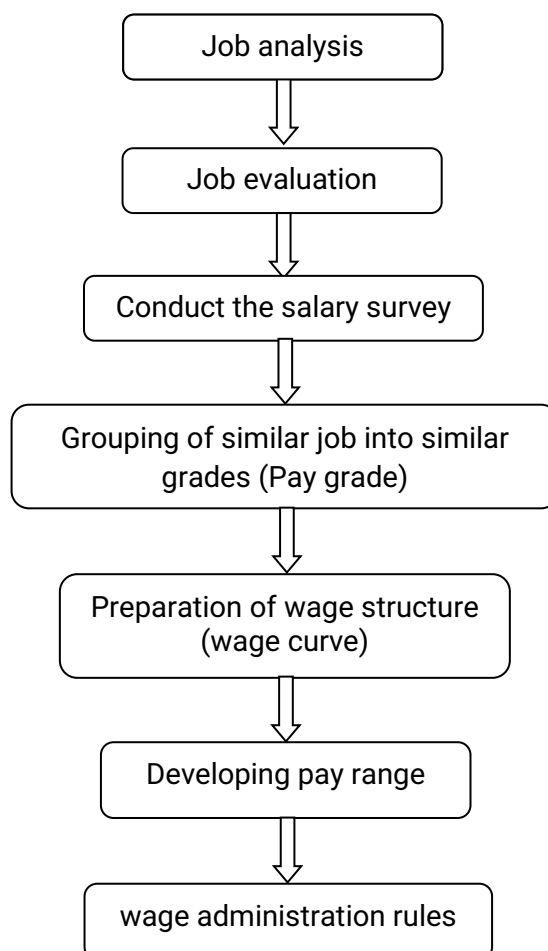


Fig. 5.1

1. Job Analysis:

It involves the identification and precisely identifying the required tasks, the knowledge and

skills necessary for performing them and the conditions under which they must be performed. It is the basic technical procedure that is used to define the duties, responsibilities and accountabilities of a job. It involves determination of methods and equipments used and the skills and attitude required for successful performance of the job.

2. Job Evaluation:

It is the formal process used to assign wage and salary rates to job. A variety of systems and products exist to guide this process, each different from the other in packaging, pricing, philosophy, procedures and utility. It is a systematic technique determining the worth of a job. Once the worth is determined, it becomes easier to fix the wage structure that will be fair and remunerative.

3. Conduct the Salary Survey:

Once the process of job evaluation has determined the relative worth of jobs, the actual amounts to be paid must be determined. This is done by making wage or salary surveys in the area concerned. Employers use this surveys in three ways.

- (i) They use survey data to price 'benchmark jobs', which are usually known as good indicators on the basis of this, the firm then slots its other jobs, based on their relative worth to the firm.
- (ii) The employers typically price 20% or more of their positions directly in the market place based on a formal or informal survey of what comparable firms are paying for comparable jobs.
- (iii) The surveys also collect data on benefits like insurance, sick leave and vacations to provide a basis for decisions regarding employee benefits.

There are various ways to make such a survey. Most firms either use the results of 'packaged surveys' available from the research bodies, employers' association, Government Labor Bureaus etc. Also may employers use surveys published by consulting firms or professional associations. Around 200 annual area wage surveys provide data for a variety of clerical and manual occupations ranging from secretary to messengers to office clerk.

These surveys may be carried out by mailed questionnaires, telephone, and personal interviews with other managers and personnel agencies and Internet sites . Some of the private consulting or executive recruiting companies are Hay Associates, Hewitt Associates. Hedrick and struggles etc. In addition to the average wage level for specific job, other information frequently requested includes entry- level and maximum wage rates, shift differentials, overtime pay practices, vacation and holiday allowances, the number of pay periods and the length of the normal work-day and work-week.

4. Grouping of Similar Jobs into Similar Grades – Pay Grades:

Once the relative worth of each job is determined, the task of assigning pay rate to each job is done which is possible only by first grouping jobs into pay grades. It comprises of jobs of approximately equal nature or importance, as established by job evaluation. The committee used various techniques for pay grades such as point method (Job falling within a range of points). Ranking method, where the grade consists of all jobs that fall within two or three ranks and the classification method categories jobs into classes or grades.

5. Preparation of Wage Structure- Wage Curves:

The next step is to determine the wage structure. For this, several decisions need to be taken, such as:

- (a) Whether wage ranges should provide for merit increases or whether there should be single rates.
- (b) Whether the organization pays around above, below or equal to the averages in the community or industry.
- (c) The number and width of the 'pay grades' and the extent of overlap. The employees are to be informed of the details of wage and salary program. Finally, the employee is appraised and the wage fixed for the grade he is found fit.

METHODS OF WAGE FIXATION:

There are several methods employed in fixing the workers' wages. Different bodies such as the pay Commissions, Wage boards, Industrial Tribunals and Labor Courts' as well as the High Court and the Supreme Court can fix the wages. Wages are also fixed through Collective bargaining and Job Evaluation.

Some of the popular methods are:

- Legislation.
- Wage boards.
- Pay Commissions.
- Job Evaluation.
- Collective Bargaining.
- Arbitration and Adjudication.

1. Legislation:

The major wage laws include the Payment of Wages Act, 1936 and its subsequent amendments, the Minimum Wages Act, 1948 and the Equal Remuneration Act, 1979. (Discussed in detail in chapter 10.)

The terms, which have acquired currency in discussing wage problems since 1948 are:

- (i) Statutory minimum wage;
- (ii) Bare or basic minimum wage;
- (iii) Fair wage;
- (iv) Living wage; and
- (v) Need based minimum wage.

The first term owes its origin to the provisions of the Minimum Wages Act, 1948. The second

is used in awards and judicial pronouncements. The other three terms are introduced in the report of the Committee on Fair Wages (CFW) and the last named one in the resolution of the 15th session of the Indian Labor Conference in July 1957. There is need for amplification, rationalization and consolidation of the laws relating to the wages. The wages fixed under the minimum Wages Act were also to be revised every 3 years. Also there is a need of constant adjustments, taking into account changes in the value of money and workers' productivity. There is a proposal by the Association to make a provision in the law for the establishment of a wage guarantee fund to ensure the payment of wages and other statutory dues of the employees in case if employer fails to pay the same due to closure or insolvency. On further consideration, it has been decided to incorporate such provisions in social security legislation.

2. Wage boards:

This is another method of fixing wages. The history of wage boards in India dates back to the 1930s'. The Royal Commission on Labor recommended the setting up of wage boards for the determination of wages. Wage boards are also known as Trade boards, Wage councils, wage committee, wage commission etc. the first wage boards were set up in 1957 for the cotton textile industry.

Composition of Wage Boards:

A wage board is tri-partite in character, and is a non-statutory body. It consists of representative of employers and workers and is headed by an independent Chairman. The labor and management representatives are nominated in equal numbers by the government, after consultation with the major central organizations. Usually, the Chairman is a Judge serving or retired and is nominated by the Government as well as an economist and a consumers' representative, both being independent also. The consumer representative is a Member of Parliament, who is expected to safeguard Consumers' interests. The total number of members of wage boards constituted so far has varied from 7 to 9.

Objectives of Wage Boards:

The objective of Wage Board include more durable results, improved climate for industrial relations, promotion of interests of consumers and community, safeguard the interests of the community, derived standardized wage structure for the concerned industry, suggest a and support to social and economic policies of the Government.

Functioning of wage Board:

The procedure adopted by a wage board to make recommendations is as follows:

- (i) To prepare a comprehensive questionnaire designed to collect information on the prevailing wage rates and skilled differentials and related issues and is sent out to labor unions, employers' association, interested individuals, academic organization and Government agencies.
- (ii) Making an assessment of the views of the parties.
- (iii) It involves recommendations regarding wage structure and convenes secret sessions at which members of the board make proposals and counter-proposals, regarding the related issues. Finally, the decision of the board is written down and submitted to the Government, which can be modified if found necessary. The wage

structure recommended by a wage board is in operation for 5 years. The wage structure recommended may not always be implemented by the management.

3. Pay Commission:

Wage boards were set up to deal with the pay structure in different industries outside the Government whereas the pay structure of Government employees is based on the recommendations of pay commissions. It covers a wide range of employees in the public sector as compared to wage board, which is concerned, with limited range of employees. The Central Government has to far set up size pay commissions, which reported in 1947, 1959, 1973, 1984 and 1995, respectively. They are set up at regular intervals and function non-statutorily. They make recommendations to the Government after inquiring problem in their own way. Though, these recommendations are given much weight age, the ultimate responsibility lies with the Government whether to accept, reject, or modify the plan.

The First Central Pay Commission (1947) asserts that the "living wage" should form the basis for determining the minimum wage which should not be too low to cause under nourishment.

The Second Central Pay Commission (1957) also referred to the belief that "minimum wages or salary should not be determined merely an economic considerations, but should satisfy also a social test- both because of its intrinsic validity and because of its bearing on efficiency. The lowest rate of remuneration should not be lower than a 'living wage' and the highest salaries also should be kept down, consistent with the essential requirements of recruitment and efficiency. The commission further states "If the Governments were to function as a model employer, in the sense that they paid higher wages and salaries than other good employers for comparable work, the community would be required to pay a price which the efficiency of the public service did not demand and which should not in fairness be asked of the community. The Government cannot, therefore, in our opinion be a model employer in this sense".

The Third Central Pay Commission (1973) viewed that the minimum wage fixed should be realistic and should match the conditions prevailing in the economy, if paid considerable attention to fair comparison under the principle of 'equal pay for equal work'. A sound pay system should be inclusive and comprehensible providing the true picture of the total remuneration system. The commission denied the role of the model employer to the Government. It observes" we should be laboring under a delusion if we were to suggest that the Central Government should now take upon itself the responsibility of being a pace-setter, and of bettering the wages paid by reputable concerns in the private sector". The commission concluded "the adoption of the minimum remuneration based on the 15th ILC norms at this stage would be tantamount to a misdirection of resources.

The Fourth Central Pay Commission observed that the capacity of the employer to pay the employees is a factor to be given due consideration. The report of the commission relates to structure of emoluments, conditions of services of Central Government employees and also deals with the pension structure of pensioners. The commission said that the fairness of the payments has to satisfy a double test, in the sense that it has to be fair from the point of view of the employees as well as the people they serve. According to this commission, a model employer need not necessarily pay higher wages than other good employers. A model is above the ordinary or higher than what others are content with or what is good enough to serve their purpose.

The Fifth Pay Commission underlined the need to have competent, professional,

productive and motivated employees in the Government sector. There is recommendation for increasing the pay of lower level employees by 20 to 40 percent and that of senior level rates by almost 130 percent. There is also a proposal to reduce hiring, abolish currently vacant posts and restructure government department. The commission also made suggestions for creating a modern non-feudal style of administration.

4. Job Evaluation:

It is the systematic method of appraising the value of each job in relation to other jobs in the organization. It helps to identify with precision the key tasks, especially in measurable, output oriented jobs.

The first requirement of job evaluation is to gather relevant data about the jobs in the organization, to be obtained from job descriptions. For this, the compensable factors are classified as skills, efforts, responsibilities and working conditions. Each organization will have to decide the weight age it desires to give each of these factors and then to translate this data into a pay structure with grades and pay rates. The committee of job evaluation performs this task which comprises of representatives of the personal department, industrial engineers and the union representatives. Before the committee fixes salaries, a number of issues have to be decided.

- (i) Should the wage structure be formulated after determining the highest and lowest rates?
- (ii) Should it be determined after an industry-cum-regional community survey?
- (iii) Whether there should be single rates for job or should be 'wage spreads' within each job grade.

5. Collective Bargaining:

It is a process of negotiation and other related pressure tactics adopted by the employers and the organized workers represented by their union in order to determine the terms and conditions of employment. The main objective is of reaching an agreement by specifying the rules pertaining to employment relationship. It is, moreover, a technique by which an attempt is made to reconcile the needs and objectives of workers and employers and is, therefore, an integral part of an industrial society.

The agreement in collective bargaining brings both labor and management together to determine the conditions of employment and lays down fair rates of wages and norms of working condition. It is which influences the distribution of economic ills.

6. Arbitration and Adjudication:

These methods are not generally successful in India. For some time wage fixation through arbitration used to take place in the cement industry when the president of the Indian National Trade Union Congress and the President of the Indian Cement Manufacturers' Association together used to arbitrate over wage revision. However, this does not continue because of the existence of multiple unions in the industry. Also wage issues are best settled through collective bargaining rather than through adjudication.

THEORIES OF WAGES:

(i) Wage Fund Theory:

Adam Smith (1723-1790), developed this theory. His basic assumption was that wages are paid out of a predetermined fund of wealth to the workers. This fund is created as a result of savings and could be utilized for employing laborers for work. The demand for labor and rate of wages depend on the size of the wage fund. If the fund was large, wages would be high; if it was small, wages would be reduced to the subsistence level. It was held that the lump sum had been distributed equally among the workers obtained in the labor market.

(ii) The Subsistence Theory:

David Ricardo (1772-1823), developed this theory. Also known as “Iron Law of Wages” was of the opinion that “laborers are paid to enable them to subsist and perpetuate the race without increase or diminution”. If the workers are paid wages more than subsistence level,

WAGE DIFFERENTIAL:

Wage Differentials: Industrial enterprises employ various types of personnel, workers, supervisors, technical, managerial & clerical personnel. The personnel may belong to different occupations & functional areas carrying different grades of skill, knowledge, duties, responsibilities, assignments & workload. They have to be remunerated differently according to various considerations. Hence differentials in pay for various jobs constitute the core of wage & salary administration.

Differentials reflect not only job content & difficulty but numerous other factors also such as occupational, geographical, shift, age, handicapped worker, method of payment, size of the organization etc. for example skilled workers are paid more than the unskilled. Managers are paid more than the supervisors. Now let us discuss each point in details.

Employees are remunerated differently according to their occupation & function, which has to carry different skills, knowledge, duties. Responsibilities, assignments and workload.

Examples are workers, supervisors, professionals; technical, managerial and clerical personnel.

They have to be remunerated differently according to various considerations, which lead to wage differential.

Purpose-

- a) To induce employees to change jobs.
- b) To get employees to learn and acquire new skills.
- c) To shift employees from declining industries to new industries.
- d) To get employees to accept more responsible position.
 - Wage differentials must be based on sound principles and rationalism.
 - Wage differentials may be established on the basis of certain consideration.
 - The wage differential gives rise to a Pyramid type Structure of wages in any organization.

The common types of prevalent wage differential are-

a) **Occupational wage differential-**

- i) Based on conventions and convenience.
- ii) Differences in technology, managerial efficiency, structure of product market, finance, transport etc. are the reasons in difference in wage rates.
- iii) Working in different industries, firms or localities.

b) **Skill differential-** Based on the capability to do a job efficiently, company's attract higher skilled people and pay more.

c) **Inter–Industry Wage differential-** Different factors responsible for differences in the firm. They are

Technological advance

Managerial efficiency

Financial capacity

Age & size of firm.

d) **Regional wage differential** – Not only wages differ among occupations, but these also differ in case of workers working in the same occupations at different geographical regions. For example, the central Govt. employees serving in remote/ rural areas in India are paid additional remuneration in the form of remote area allowances. Such wage differentials are used to attract people to serve in a particular region.

Capacity to pay, profitability, nature of product market are important factors in determining regional wage differential. Other reasons are raw material availability, difference in labor productivity, difference in cost of living, the extent of unionization etc.

e) **Gender differential-** It is the gap between male and female earnings- it is throughout the world. Lack of organization, mobility and weak constitution are some of the reasons.

f) **Sector differential-** Underdeveloped economy in India has the wage differential between agricultural and industrial sector, as agricultural labor are unorganized.

g) **Personal wage differentials-** These differences arise because of the differences in the personal characteristics (age of sex) of workers working in the same unit & occupation. Though provision of **equal pay for equal work** is certainly there, but it is still not the reality. In many sectors women are getting less than what they deserve to be. It is mainly due to

1. Lack of consciousness regarding rights & duties.
2. Lack of organization / unions

Job Evaluation

It is the process of analysis and assessing various jobs systematically to ascertain their relative worth in an organization. The purpose is fixing satisfactory wage differential among various jobs. In this, jobs are ranked not the holders.

Job evaluation is the evaluation or rating of jobs to determine their position in a job hierarchy. The evaluation may be achieved through the assignment of point or the use of some other systematic rating method for essential job requirements such as skill experience, & responsibility.

The basic objective of job evaluation is to ascertain the relative worth of each job through an evaluation so that relative remuneration may be fixed for different jobs.

Job evaluation is a systematic procedure for determining the relative worth of job. Once the worth of job is determined, it becomes easier to fix the wage structure that will be fair & equitable. Thus job evaluation is an important tool in fixing the scales of wages for different grades of jobs.

Objectives of Job evaluation:

1. Establishment of sound wage foundation for incentive & bonus programs.
2. It classifies function, responsibility, authority etc.
3. It improves management & employee relationship.
4. Equitability wage structure within the organization or it tend to eliminate the wage inequalities which the organization.
5. To minimize wage discrimination based on Gender age, caste, religion etc.
6. Equal wages are fixed to the equal worth or value.
7. To determine the ranks or grades of various jobs.

Differences between Job evaluation & performance Appraisal.

Job evaluation

1. Job is rated on factors- responsibility, skill, effort working condition for job.
2. The job is rated before employee is appointed and placed.
3. The purpose is to establish a satisfactory wage differential.
4. Not compulsory but mainly for lower jobs.
5. JE committee carries on the function.

Per. Appraisal

1. Employees rated on his/ her performance.
2. Assessment only after hiring and placing employee on the job.
3. Purpose is for promotion, reward, punishment, assess training needs transfer, lay off.
4. Compulsory, regularly done for all jobs.
5. By employees, peers, supervisors, customers or combination of these.

Principles of job evaluation:

It establishes the systematic approach to measuring job worth; there are certain principles which must be followed. They are discussed below.

- (A) **Consideration of job:** The job evaluation must rate the job & not the employee.
- (B) **Clarity of job information:** Clear and accurate job description & specification must be available to provide data.
- (C) **Grouping of jobs:** A decision must be made concerning what jobs are to be covered by a single evaluation system.
- (D) The different elements selected for rating should be easily understood.
- (E) The elements should be defined clearly & properly selected.

Job Evaluation & Job Analysis:

Job Analysis (JA) is concerned with collection of all relevant data concerning a particular job. Outputs from JA are a) Job Description and b) Job Specification. JE aims at measuring the value of the content of job description. The value then is translated in terms of money according to some basis to have balanced wage structure in the organization. Thus the process of JE starts from job analysis and ends with the classification of jobs according to their worth.

Job analysis is a detailed & systematic study of jobs. It provides the analyst with basis data

pertaining to specific jobs in terms of duties, responsibility, skills, knowledge, degree of risk etc. This data may be classified as follows.

- ❖ Job identification
- ❖ Nature of job
- ❖ Operations involved in doing the job.
- ❖ Materials & equipments to be used in doing the job
- ❖ Relation with the other jobs.

Objective of job analysis: The objectives of job analysis are to study processes simply methods, measure work for establishing job & time standards.

- ❖ Work simplification.

Job description:

It describes both work & authority etc. The content of job description have been discussed below:

- ❖ Job title
- ❖ Job location / Area
- ❖ Job summary
- ❖ Duties to be performed
- ❖ Machines, tools, materials
- ❖ Nature of supervision
- ❖ Working environment

Job specification:

The state that the minimum acceptable human qualities necessary to perform a job properly.

- ❖ Education
- ❖ Experience
- ❖ Psychological attitude
- ❖ Physical measurement

Wage Survey- After job hierarchy is established with the help of evaluation method, it is necessary to fix wage and salary differential. Before this wage rate must be ascertained where survey assumes relevance. Steps are:

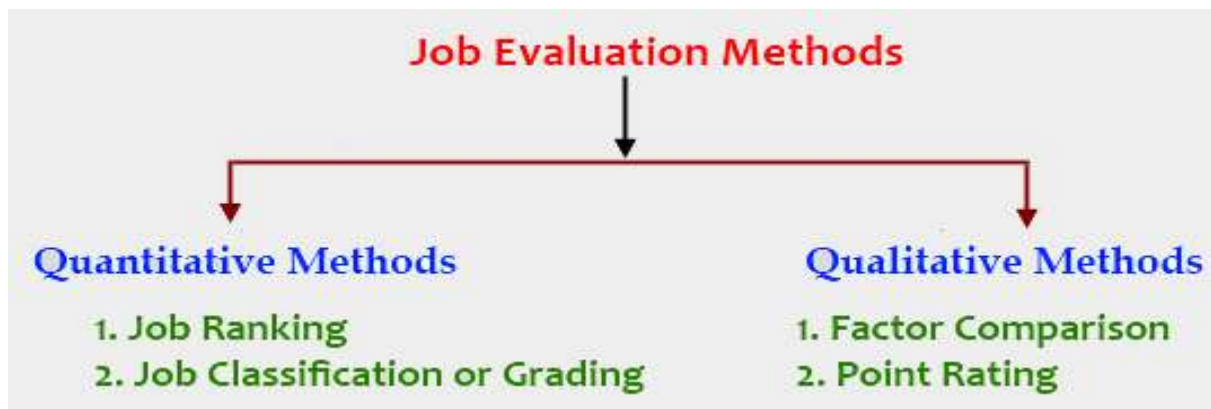
- a) Select key jobs for all level of jobs.
- b) Choose a sample of Firms in the labor market area.
- c) Obtain appropriate wage information for all the key jobs from the Firms.

- d) Analyses compare and equate job content, quality job personnel on these jobs and total compensation programme.
- e) Arrive of proper wage structure for different categories of jobs.

Employee classification- It is the process of assuming a job title to every employee in the organization.

METHOD AND TECHNIQUES OF JOB EVALUATION:

There are four basic **methods of job evaluation**: ranking method, job grading method, point method and factor comparison method. Out of these, first two methods are non-quantitative and also known as traditional, non-analytical or summary methods. The last two **methods of job evaluation** are quantitative, also known as analytical methods, and use various quantitative techniques in evaluating a job.



1. Ranking Method:

The ranking method is the simplest form of job evaluation. In this method, each job as a whole is compared with other and this comparison of jobs goes on until all the jobs have been evaluated and ranked. All jobs are ranked in the order of their importance from the simplest to the hardest or from the highest to the lowest.

The importance of order of job is judged in terms of duties, responsibilities and demands on the job holder. The jobs are ranked according to “the whole job” rather than a number of compensable factors. The ranking of jobs in a University, based on Ranking Method, may be like this:

Table 14.2: Ranking of University Jobs:

Ranking Order	Pay Scale
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Professor/Registrar	Rs. 16,40(M50-20,900-500-22,400
Reader/Dy. Registrar	Rs. 12,000-420-18,300
Lecturer/Asst. Registrar	Rs. 8,000-275-13,500

The application of the Ranking Method involves the following procedure:

1. Analyse and describe jobs, bringing out those aspects which are to be used for purpose of job comparison.
2. Identify bench-mark jobs (10 to 20 jobs, which include all major departments and functions). The jobs may be the most and least important jobs, a job midway between the two extremes, and others at the higher or lower intermediate points.
3. Rank all jobs in the organisation around the bench-mark jobs until all jobs are placed in their rank order of importance.
4. Finally, divide all the ranked jobs into appropriate groups or classifications by considering the common features of jobs such as similar duties, skills or training requirements. All the jobs within a particular group or classification receive the same wage or range of rates.

Ranking method is appropriate for small-size organisations where jobs are simple and few. It is also suitable for evaluating managerial jobs wherein job contents cannot be measured in quantitative terms. Ranking method being simple one can be used in the initial stages of job evaluation in an organisation.

2.Grading Method:

Grading method is also known as 'classification method'. This method of job evaluation was made popular by the U.S. Civil Service Commission. Under this method, job grades or classes are established by an authorised body or committee appointed for this purpose. A job grade is defined as a group of different jobs of similar difficulty or requiring similar skills to perform them. Job grades are determined on the basis of information derived from job analysis.

The grades or classes are created by identifying some common denominator such as skills, knowledge and responsibilities. The example of job grades may include, depending on the type of jobs the organisation offers, skilled, unskilled, account clerk, clerk-cum-typist, steno typist, office superintendent, laboratory assistant and so on.

Once the grades are established, each job is then placed into its appropriate grade or class depending on how well its characteristics fit in a grade. In this way, a series of job grades is created. Then, different wage/salary rate is fixed for each grade.

3.Points Rating:

This is the most widely used method of job evaluation. Under this method, jobs are broke down based on various identifiable factors such as skill, effort, training, knowledge, hazards, responsibility, etc. Thereafter, points are allocated to each of these factors.

Weights are given to factors depending on their importance to perform the job. Points so allocated to various factors of a job are then summed. Then, the jobs with similar total of points are placed in similar pay grades. The sum of points gives an index of the relative significance of the jobs that are rated.

The procedure involved in determining job points is as follows:

Determine the jobs to be evaluated. Jobs should cover all the major occupational and levels of responsibility to be covered by the method.

Decide on the factors to be used in analysing and evaluating the jobs. The number of factors needs to be restricted because too many factors result in an over-complex scheme with overlap and duplication between factors.

Define the factors clearly in written. This is necessary to ensure that different job raters interpret a particular factor in the same sense.

Determine degrees of each factor and assign point value to each degree.

Point values are assigned to different degrees on the basis of arithmetic progression.

Finally, money values are assigned to points. For this purpose, points are added to give the total value of a job. Its value is then translated into money terms with a predetermined formula.

4.Factor Comparison Method:

This method is a combination of both ranking and point methods in the sense that it rates jobs by comparing them and makes analysis by breaking jobs into compensable factors. This system is usually used to evaluate white collar, professional and managerial positions.

The mechanism for evaluating jobs under this method involves the following steps:

1. First of all, the key or benchmark jobs are selected as standards. The key jobs selected should have standards contents, well accepted pay rates in the community, and should consist of a representative cross-section of all jobs that are being evaluated—from the lowest to the highest paid job, from the most important to the least important—and cover the full range of requirements of each factor, as agreed upon by a Committee representing workers and management.

2. The factors common to all jobs are identified, selected and defined precisely. The common factors to all jobs are usually five, viz., mental requirements, physical requirements, skill requirements, working conditions and responsibility.

3. Once the key jobs are identified and also the common factors are chosen, the key jobs are, then, ranked in terms of the selected common factors.

4. The next step is to determine a fair and equitable base rate (usually expressed on an hourly basis) and, then, allocate this base rate among the five common factors as mentioned earlier. Following is a specimen of base rate and its allocation scheme:

Key Job	Base Rate (Daily)	Mental Requirements	Physical Requirements	Skills	Working Conditions	Responsibility
Electrician	60	13	12	5	12	18
Welder	50	10	19	5	4	12
Mechanist	80	25	5	23	24	3

6. The final step in factor comparison method is to compare and evaluate the remaining jobs in the organisation. To illustrate, a 'toolmaker' job is to be evaluated. After comparison, it is found that its skill is similar to electrician (5), mental requirements to welder (10) Physical requirements to again electrician (12), working conditions to mechanist (24) and responsibility also to mechanist (3). Thus, the wage rate for the job of toolmaker will be Rs. 54 (Rs.5 + Rs. 10 + Rs. 12 + Rs.24 + Rs.3).