

WAGES AND SALARY ADMINISTRATION

Chapter 1 – Wages – An Overview

Chapter 1

Multi-Dimensional Approach

- Wages have ethical, social, economic political and psychological ramifications in organizational life
- The employer as an institution is also concerned with his status as a wage leader or a benevolent employer
- Studies of organizations suggest that in the early stages of development of wage systems, demographic, technological, social, and economic forces had played a major role in determining wage levels and structures

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Earnings And Motivation

- The compensation paid to workers has two functions:
 - The equity function
 - The motivation function
- Employee motivation is closely related to the types of rewards offered and their method of disbursement
- Earnings satisfaction is critically linked with perceptions of fairness
- With the awareness of skills differentiation in occupational groups, there is need for reward systems based on different inputs and outcomes for different occupational groups and professionals

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Wage Issues

- The wage issues commanding most interest today center around questions of wage-rate levels and wage-rate structures
- There is also the broad question of the determinants of wage relationships
- A decision about wage rates in a given situation has to be reconciled with a variety of considerations
- A major task of wage theory is to help explain what alternatives confront parties to wage settlements and what considerations enter into making a choice or combination of choices

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Wage Problems

- One of the most basic pay problems is the question of pay relationships within the company
- Where employees believe they see inequities in internal relationships, they will tend to feel that they are underpaid, they will suspect favouritism, and will generally lose confidence in the company
- Employees are also sensitive about how their pay compares with that received by employees in other companies who do comparable work

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Wage Administration

- It deals with techniques and procedures for designing and maintaining salary structure, rewarding staff, and exercising wage control
- Its basic aim 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

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- The operation of wage progression systems
- The provision of employee benefits and other allowances
- The development of total remuneration policy
- Beach visualised four objectives of wage and salary administration
 - Compensation seeks to accomplish a labour market function of allocating human resources among different enterprises in terms of perceived attractiveness of jobs as revealed in the rate of pay and related wage supplements

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- Carefully designed compensation systems facilitate control of wages and salaries and labour costs
- The financial compensation system seeks to maintain satisfaction of human resources reducing voluntary separations and complaints and grievances stemming from inadequate wages, as perceived by the employees
- The financial compensation system purports to induce and reward improved performance and forms an effective motivator

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- Beach provided seven principles of wage and salary administration:
 - The enterprise should have a clear-cut plan to determine differential pay levels in terms of divergent job requirements involving varied skill, effort, responsibility and working conditions
 - An attempt should be made to keep the general level of wages and salaries of the enterprise in line with that obtained in the labour market
 - Adequate care should be taken to distinguish people from the jobs

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- Irrespective of individual considerations, care should be taken to ensure equal pay for equal work, depending upon the flexibility of job
- There should be a plan to adapt equitable measure for recognising individual differences in ability and contribution
- An attempt should be made to provide some procedure for handling wage grievances
- Adequate care should be taken to inform the employees and the union, if any, about the procedure followed in determining wage rates

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- There is a wide range of pay problems that are essentially administrative in nature
- Several factors which are responsible for high dispersal across occupations, industries, and regions in differing measures are:
 - The supply of and the demand for labour
 - The capacity of the employer to pay
 - The minimum needs of the workers
 - The collective bargaining with or without government intervention
 - The changes in the price level and national income of the country
 - The stage of development of the industry, or firm

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Wage Rigidities and Flexibilities

- The wage system consists of a set of rules and procedures to determine the entitlement of workers to pay and benefits
- Rigidities in wage systems are those which impede these necessary adjustments to the changing context
- Nothing could be worse than radical changes and arbitrary decisions
- In determining the basic wage of individual workers, there are three basic elements to take into account
 - The tasks to be performed

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- The occupational skills of the workers
- Their personal characteristics
- Skills qualification based wages system is widely used for the purpose of wage determination in many countries
- It is important to know that skills today are no longer stable and need to be constantly updated

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Wage Criteria

- Lester in his study listed some wage criteria namely:
 - Wage rates paid by other firms in the area or industry
 - Union pressure
 - Changes in cost-of-living
 - Shortages of qualified labour
 - Employee unrest
 - The company's financial position
 - Profits of the company

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- Sumner Slichter, lists seven wage criteria:
 - The minimum necessities of workers
 - The changes in the cost of living
 - The maintenance of take home pay in the face of reductions in hours
 - The changes in the productivity of labour
 - The ability of the employer to pay
 - The alleged effect of higher or lower wages upon consumer purchasing power and employment
 - The wages paid in other industries or places

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- Jules Backman divided wage criteria into six categories:
 - Economic development
 - Wage comparisons
 - Cost of living
 - Workers' budgets
 - Productivity and ability to pay
- The very existence of trade unionism influences wage level decisions

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- In unionised organizations wage levels are set through the mechanism of collective bargaining
- The general wage level should be:
 - High enough to enable to workers to meet the basic needs and improve efficiency
 - Ensure worker, over a period of time, a fair share in the fruits of economic progress
 - Take due account of capacity to pay, capacity to meet foreign competition in home and export markets and capacity to provide productive work for a rapidly growing labour force
 - High enough to call forth a significant supply of manpower for industrialisation

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Wage Factor in Labour Market

- People generally believe that wage rates, like other prices, are determined in the market by demand and supply
- The labour market is essentially a local market
- The nature of labour market can be best explained by contrasting that market with what has come to be called a 'perfect market'

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Characteristics of perfect market:

- In a perfect competitive market, the commodity be homogenous, so that no buyer will prefer any particular seller or no seller will prefer any particular buyer
- With pure or perfect competition, there is but one price for a given article in a market at any one time
- In a perfect market the number of buyers and sellers is so large that any one seller or buyer will have a negligible effect upon the total supply or demand

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- In a perfect market both buyers and sellers must possess full knowledge of market conditions and opportunities in other markets
- In this type of market there would be no cooperation nor conclusion among sellers or among buyers
- Both the buyers and the sellers must have free entry and access to the market

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Wage Rate Analysis

- The nature of the market is the most important factor in any wage rate analysis
- Labour markets are by their very nature most imperfect markets in our economy
- In any imperfect market, the economic power of persons may affect the price
- Wages are influenced not only by economic factors but also by custom, public opinion, legislation and certain institutions

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The wage information should provide the following:

- It must cover all employees in the job population under review
- It must cover a sufficiently long period
- It must distinguish clearly between the major components of gross earnings

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Wage-Price Spiral

- In an organized sector, 75-80% undertakings have linked D.A to CPI
- Automatic adjustment to D.A. linked to CPI has no relation either to productivity or profitability
- The payment of D.A. is linked with the rise in prices of feed and other essential consumer items and unless the prices of these commodities are stabilized at a reasonable level, it may be possible to find satisfactory solution

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- It may be possible to abolish the system of dearness allowance altogether till such time the prices are rising

Wages and Network Product

- From the standpoint of owners property the prime cost under a wage system will consist of the wages which have to be paid to procure the necessary labour supply

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- The labour cost comprises of various components like wages and salaries, all types of incentives and bonuses, allowances, fringe benefits and welfare expenses
- The surplus which is obtained after the part of the gross product has been set aside to repair the wear and tear of the machinery and wear and tear of labour, will represent the income of employers

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Wage Equity

- The job, defined as a stable configuration of organizational tasks and responsibilities, has traditionally formed the essential building block for the development of wage and grading structures
- Job evaluation is the principal mechanism used to evaluate internal job worth
- It is concerned with job size, not with the performance of individuals in the job
- It seeks to evaluate job sites in relation to other jobs in the organization

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Wage Survey

- A wage survey is a way of collecting and analysing information on the policies, practices, and methods of wage payment for selected organizations in a given geographical location or particular type of industry so that comparisons can be made
- The purpose of survey is to examine the competitiveness of starting pay rates for entry level jobs, and to compare pay levels for higher level jobs with those in other organizations

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- A survey may be conducted for a variety of uses:
 - To keep abreast of wage-rate trends which bear on product
 - To attract new employees by establishing a hiring rate favourably comparable to community rates
 - To minimise minimum turnover caused by poor compensation practices
 - To minimise employee dissatisfaction and poor morale caused by low wage rates
 - To gain information on fringe benefits

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- To determine what community practice will be in the event of a situation for which there is no precedent
- There are many other reasons for an organization to conduct a survey of pay and benefits:
 - To gain more information about one or more particular jobs for which there is a great demand
 - To test whether the company's entire pay structure may be too low
 - To find out more about starting rates for entry level jobs

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- To look at pay differentials for selected jobs
- To get more information about employee benefits
- To get more facts about related matters
- What is regarded as a fair rate of pay for a specific job depends upon norms concerning relativities and upon the rates of pay prevailing in some comparative reference sets of employees or jobs
- Wage surveys actually take many forms and vary considerably depending upon their purpose
- The three basic methods of collecting wage data are personal interviews, telephone interviews, and mailed questionnaires
- A wage survey is a multi-purpose tool

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Steps involved in wage survey procedure:

- Planning the Survey
 - Determining purpose of the survey
 - Determining the area to be surveyed
 - Determining the firms to be included in the survey
 - Determining the jobs to be included in the survey
 - Developing a method of insuring job comparability
 - Determining information to be obtained
 - Making the schedules
 - Determining the survey methods

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- Selecting a staff
- Conducting the Survey
 - Insuring job comparability
 - Collective information
- Analysing and Presenting Results
 - Specify purpose of the survey
 - Specify jobs to be surveyed and information needed from survey participants
 - Select comparable employers for inclusions in the survey
 - Select survey method and design survey instrument
 - Administer the survey
 - Analyse and display survey data

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Wage Comparison

- They provide the key facts relied upon by labour and management in many negotiations
- They are important to the employer, to the employee, and to the union
- They involve a number of problems
- The wage comparison criterion plays a major role in collective bargaining

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- Statistical comparisons indicate that an industry is likely to have relatively high average hourly earnings if:
 - It has large capital investment per worker
 - The labour costs are a low percentage of its total production costs
 - The employment in the industry has been expanding rapidly
 - The productivity has been increasing more than the average of all industry
 - The industry is highly unionized
 - The skill requirements are fairly high

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- Comparison of levels of wages is often made by indicating the changes in the relative ranking of the given company as compared with other companies
- Geographical wage differentials implies different rates for the same job in a company and differences in the average wage among regions because of the type of industries located in each

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Methods of Remuneration Labour

- The methods of remunerating labour in return for work performed may be classified according to the form of payment or according to the basis for measuring the amount of remuneration
- In the economy of the ancient world after the development of coinage, wages were paid partly in money and partly in commodities

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- With regard to the classification of methods of remuneration according to the basis for determining the amount of money to be paid there are three principle types:
 - Time wage
 - Piece wage
 - Efficiency wage
- To hold his job, a worker on time wage must maintain some minimum quality, a worker on piece wage must maintain some minimum output per unit of time, and in all efficiency wage systems both time and output are major factors

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- The early difficulty with piece rates stimulated search for some other form of wage payment would have incentive value
- Although the attitude differs from industry to industry, organized workers are in general opposed to piece rates especially in industries in which production standards have not been developed

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Wage Studies – Indian Context

- In spite of the considerable interest and concern expressed by various interest groups, scientific and systematic studies on different dimensions of wages so far reported in our country are few
- The National Council of Applied Economic research has studied the occupational wage differentials in some of the industries

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- The study of Johri and Misra attempted to validate the hypothesis that the variables associated with the supply side of the labour market could explain the wage differentials
- Papola and Subrahmanian found that skill, education, and training, predominantly contributed to occupational differentials
- The studies relating to inter-industry wage structure by different researchers have emphasised the various facets of the problem
- Researchers seem to agree that the inter-industry wage structure is characterised by flexibility rather than stability

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- A number of studies on inter-industry wage differentials hypothesise that a systematic relationship exists between wage levels and the wage structure
- The Labour Bureau conducted a wage survey during 1958-59 in forty four selected plantation, mining and manufacturing industries
- In the Third Occupational Wage Survey, 81 different industries belonging to the manufacturing, mining and plantation sectors were covered in phases and the results were also being brought out likewise

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- A study on wages and perquisites analysis in select Indian industries was carried out by EFI Solar Foundation, Mumbai to provide data on the minimum and maximum pay packets of unionized employees in eight sectors of the economy namely:
 - Cement
 - Chemicals
 - Coal
 - Cotton textiles
 - Engineering
 - Hotel
 - Pharmaceuticals
 - Plantations

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- The eight industries represent a variety of models in respect of levels of bargaining
- The study covers the unionized workers in the organized sector, but does not speak about the differences between the public and the private sectors; large, medium and small enterprises; and differentials among firms of same group in units located in different parts of even one region