# CENTRE FOR OPEN AND DISTANCE LEARNING

**TEZPUR UNIVERSITY: NAPAAM: SONITPUR**

**SELF-LEARNING MATERIAL**

# COMPENSATION MANAGEMENT

# DHR 203

# SELF-LEARNING MATERIAL

Course Code: DHR 203

Course Title: COMPENSATION MANAGEMENT

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# UNIT 4: WAGE COMPONENTS

## UNIT STRUCTURE



## 4.0 OBJECTIVES

After going through this unit, you will be able to:

- Understand the Various wage/salary components
- Understand the Wages Incentives
- Understand the Pay structure: basic and allowances

## 4.1 WAGE/SALARY COMPONENTS

### 4.1.1 INTRODUCTION:

Wage and salary administration affect levels of employee commitment to theorganisation. However, fascinating the individual‘s job assignment is, theemployee must be paid. Pay affects the way people work-how much and howwell. A large part of the compensation that people receive from work ismonetary. Although managers are expected to conserve money and distribute itwisely, many employees feel that they should get more of it for what they do.Wages, salaries and many employee benefits and services are form of compensation.Contemporary employment reward systems attach great prominence to wagesand salaries. In the evolution of economics, the role of financial rewards hasgrown. The sophistication of wage and salary administration has increased asindustrialized economies have become more complex. New suggestions formanaging compensation systems are constantly emerging.

### 4.1.2 MEANING OF WAGE AND SALARY

Wage and Salary administration, also known as Compensation management, remuneration management, or reward management, is concerned with designing and implementing total compensation package. The traditional concept of wage and salary administration emphasised on only determination of wage and salary structures in organisational settings. However, entered the business field which necessiated to take wage and salary administration in comprehensive way with a suitable change in its nomenclature. Beach has defined wage and salary administration as follows:

*"wage and salary administration refers to the establishment and implementation of sound policies and practices of employee compensation. It includes such areas as job evaluational, surveys of wages and salaries, analysis of relevant organisational problems, development and maintenance of wage structure, establishing rules for administering wages. wage payments, incentives, profit sharing, wage changes and adjustments, supplementary payments, control of compensation costs and other related items"*

### 4.1.3 CONCEPT OF WAGE AND SALARY

Wage and salary are the most important component of compensation and these are essential irrespective of the type of organisation. Wage is referred to as remuneration to workers particularly, hourly-rated payment. Salary refers to as remuneration paid to white-collar employees including managerial personnel. Wages and salary are paid on the basis of fixed period of time and normally not associated with productivity of an employee at a particular time.

### 4.1.4 OBJECTIVES OF WAGE AND SALARY ADMINISTRATION

A sound plan of wage and salary administration seeks to achieve the following objectives :

1. To establish a fair and equitable compensation offering similar pay for similar work.
2. To attract competent and qualified personnel.
3. To retain the present employees by keeping wage levels in tune with competitive units.
4. To keep labour and administrative costs in line with the ability of the organisation to pay.
5. To improve motivation and morale of employees and to improve union management relations.
6. To project a good image of the company and to comply with legal needs relating to wages and salaries.
7. To establish job sequences and lines of promotion wherever applicable.
8. To minimize the chances of favoritisms while assigning the wage rates.

According to D.S. Beach, was and salary administration has four mainpurposes.

1. To recruit persons for a firm
2. To control payroll costs
3. The satisfy people, to reduce the incidence of quitting, grievances andfractions over pay and
4. To motivate people to perform better.

### 4.1.5 PRINCIPLES OF WAGE AND SALARY ADMINISTRATION:

The following principles should be followed for an effective wage and salaryadministration ;

1. Wage policy should be developed keeping in view the interests of allconcerned parties viz., employer, employees, the consumers and thesociety.

2. Wage and salary plans should be sufficiently flexible or responsive tochanges in internal and external conditions of the organisation.

3. Efforts should be made to ensure that differences in pay for jobs arebased on variations in job requirements such as skill, responsibility,efforts and mental and physical requirements.

4. Wage and salary administration plans must always be consistent withoverall organizational plans and programmes.

5. Wage and Salary administration plans must always be in conformity withthe social and economic objectives of the country like attainment of equality in income distribution and controlling inflation, etc.

6. These plans and programmes should be responsive to the changing localand national conditions.

7. Wage and salary plans should expedite and simplify administrativeprocess.

8. Workers should be associated, as far as possible, in formulation andimplementation of wage policy.

9. An adequate data base and a proper organizational set up should bedeveloped for compensation determination and administration.

10. The general level of wages and salaries should be reasonably in line with that prevailing in the labour market.

11. There should be a clearly established procedure for hearing and adjusting wage complaints. This may be integrated with the regular grievance procedure, if it exists.

12. The workers should receive a guaranteed minimum wage to protect them against conditions beyond their control.

13. Prompt and correct payments to the employees should be ensured and arrears of payment should not accumulate.

14. The wage and salary payments must fulfil a wide variety of human needs including the need for self-actualization.

15. Wage policy and programme should be reviewed and revised periodically in conformity with changing needs. For revision of wages, awage committee should also be preferred to the individual judgment however unbiased of a manager.

**4.1.6 WAGE STRUCTURE**

According to economic theory, wages are defined broadly as any economic compensation paid by the employer to his labourers under some contract for the services rendered by them. In its actual sense which is prevalent in the practice, wages are paid to workers which include basic wages and other allowances which are linked with the wages like dearness allowances, etc. Traditionally, in the absence of any bargaining power possessed by labourers, they did not have any say in the determination of wages paid to them. This has led to the development of several theories of wages such as subsistence theory by Ricardo, wage fund theory by Adam Smith, surplus value theory by Karl Marx, residual claimant theory by Frascis Walker, marginal productivity theory by Philip Wickstted and John Clark, bargaining theory by John Davidson. andbehaviouraI theory by James March and Herbert Simon. Each theory tries to explain how wages are determined. In the Indian context, soon after the independence, Government of India set up a Committee on Fair Wages in 1948 which has defined various concepts of wages which govern the wage structure in the country specially in those sectors which can be termed as underpaid and where workers do not have bargaining power through unions. These concepts are: i) minimum wage,

ii) living wage, and

iii) fair wage.

Later, the concept of need-based minimum wage was added. Let us have a brief look at these concepts.

**Minimum Wage**

A minimum wage is one which has to be paid by an employer to his workers irrespective of his ability to pay. According to the above committee,

*"Minimum wage is the wage which must provide not only for the bare sustenance of life, but for the preservation of the efficiency of the workers. For this purpose, minimum wage must provide some measure of education, medical requirements and amenities. "*

Subsequent to the committee's report, Government enacted legal provisions regarding minimum wages under the Minimum Wages Act. 1948. This Act does not define the concept of minimum wages but empowers the Central Government as well as State Governments to fix minimum wages from time to time. Wherever this Act applies, the payment of minimum wages is mandatory. In 1957, Indian Labour Conference elaborated the concept of fixation of minimum wars which were termed as need-based minimum wages.

For the calculation of wages, the Conference suggested the following guidelines:

1. The standard working class family should be taken to consist of three consumption units for the earner; the earnings of women, children and adolescents should be disregarded.
2. The minimum food requirements should be calculated on the basis of the net intake of2.700 calories per adult.

3. The clothing requirements should be estimated at a per capita consumption of 18 yards per annum per person.

4. In respect of housing. the norms should be the minimum rent charged by the Government in any area for houses provided under subsidizedhousing scheme for low-income groups.

5. Fuel. lighting and other miscellaneous items of expenditure should constitute 20 per cent of the total minimum wage.

**Living Wage**

Along with the minimum wage the Committee on Fair Wages has given the concept of living wage which has been defined as follows:

*"A living wage is one which should enable the earner to provide for himself and his family not only the bare essentials of food, clothing and shelter but a measure of frugal comfort including education for his children, protection against ill-health, requirements of essential social needs and a measure of insurance against the more important misfortunes including old age. "*

Living wage is more than the concept of minimum wage. Such a wage is determined keeping in view the national income and paying capacity of industrial sector. The Committee also observed that since the national income did not support the payment of living wage. it should be implemented in three phases.

In the initial stage the wages to be paid to the entire working class were to be established and stabilised. In the second phase fair wages were to be established in the community and industry. In the final phase the working class was to be paid the living wage.

**Fair Wage**

The concept of fair wage is linked with the capacity of the industry to pay. The Committee has defined fair wage as follows:

*"Fair wage is the wage which is above the minimum wage but below the living wage. The lower limit of the fair wage is obviously the minimum wage: the upper limit is to be set by the capacity of the industry to pay. "*

Thus, fair wage depends on different variables affecting wage determination. Such factors are labour productivity prevailing wage rates, the level of national income and its distribution and the capacity of industry to pay. At present, the concept of fair wages is followed by the most business organisations.

### 4.1.7 COMPONENTS OF WAGE AND SALARY:

An average employee in the organized sector is entitled to several benefits-bothfinancial as well as non-financial. To be specific, typical remuneration of anemployee comprises:

**Wages and Salary:**

Wages represent hourly rates of pay, and salary refers to the monthly rate of pay,irrespective of the number of hours put in by an employee. Wages and salariesare subject to annual increments. They also differ from employee to employee,and depend upon nature of job, seniority, and merit.

**Incentives:**

Also called ―payments by results‖, incentives are paid in addition to wages andsalaries.

Incentives depend upon productivity, sales, profit or cost reduction efforts. There are:

i) Individual incentive schemes and
ii) Group incentive programmes.

Individual incentives are applicable to specific employeeperformance.Where a, given task demands group effort for completion, incentives are paid to the group as a whole. The amount is later divided among group members on an equitable basis.

**Fringe Benefits:**

These include such motley crowd of employee benefits as provident fund,gratuity, medical care, hospitalization, accident relief, health and groupinsurance, canteen, uniform, recreation and the like.

**Perquisites:**

These are allowed to executive and include company car, club membership, paidholidays, furnished house, stock option scheme and the like. Perquisites areoffered to retain competent executives.

**Non-monetary Benefits :**

These include challenging job, responsibilities, recognition of merit, growthprospects, competent supervision, comfortable working conditions, job sharingand flexi time.

### 4.1.8 FACTORSINFLUENCING WAGES AND SALARIES

A number of factors, thus, influence the remuneration payable to the employees. These factors can becategorized into

(i) External Factors and

(ii) Internal Factors.

**External Factors**

External factors influencing wages and salaries are as discussed below:

1. **Demand and Supply:** The labour market conditions or demand and supply forces operate at the national and local levels and determine organizational wage structure. When the demand of a particular type of labour is more and supply is less then the wages will be more. On the other hand, if supply of labour is more demand on the other hand, is less then persons will be available at lower wage rates also. In the words of Mescon, _the supply and demand compensation criterion is very closely related to the prevailing pay, comparable wage and on-going wage concepts since, in essence all of these remuneration standards are determined by immediate market forces and factors.

2. **Cost of Living:** The wage rates are directly influenced by cost of living of a place. The workers will accept a wage which may ensure them a minimum standard of living. Wages will also be adjusted according to price index number. The increase in price index will erode the purchasing power of workers and they will demand higher wages. When the prices are stable then frequent wage increases may not be undertaken.

3. **Trade Unions 'Bargaining Power :** The wage rates are also influenced by the bargaining power of trade unions. Stronger the trade union higher well be the wage rates. The strength of a trade union is judged by its membership, financial position and type of leadership. Union's last weapon is strike which may also be used for getting wage increases. If the workers are disorganized and disunited then employers will be successful in offering low wages.

4. **Government Legislation:** To improve the working conditions of workers, government may pass legislation for fixing minimum wages of workers. This may ensure them a minimum level of living. In under developed countries bargaining power of labour is weak and employers try to exploit workers by paying them low wages .In India, Minimum Wages Act, 1948 was passed to empower government to fix minimum wages of workers.

5. **Psychological and Social Factors :** Psychological the level of compensation is perceived as a measure of success in life. Management should take into consideration the psychological needs of the employees while fixing the wage rates so that the employees take pride in the irwork. Sociologically and ethically, the employees want that the wage system should be equitable, just and fair. These factors should also be taken into consideration while devising a wage programme.

6. **Economy:** Economy also has its impact on wage and salary fixation. While it may bepossible for some organisations to thrive in a recession, there is no doubt that economy affects remuneration decisions. A depressed economy wills probablyincrease the labour supply. This, in turn, should lower the going wage rate.

7. **Technological Development:** With the rapid growth of industries, there is a shortage of skilled resources. The technological developments have been affecting skills levels at faster rates. Thus, the wage rates of skilled employees constantly change and an organization has to keep its level upto the mark to suit the market needs.

8. **Prevailing Market Rates:** No enterprise can ignore prevailing or comparative wage rates. The wage rates paid in the industry or other concerns at the same place will form a base for fixing wage rates. If a concern pays low rates then workers leave their jobs whenever they get a job somewhere else. It will not be possible to retain good workers for long.

**B. Internal Factors**

The important internal factors affecting wage and salary decisions are as follows:

1. **Ability to Pay:** The ability to pay of an enterprise will influence wage rates to be paid. If the concerns is running into losses then it may not be able to pay higher wage rate. A profitable concern may pay more to attract good workers. During the periodof prosperity, workers are paid higher wages because management wants toshare the profits with labour.

2. **Job Requirements:**Basic wages depend largely on the difficulty level, and physical and mentaleffort required in a particular job. The relative worth of a job can be estimatedthrough job evaluation. Simple, routine tasks that can be done by many peoplewith minimum 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.

3. **Management Strategy:**The overall strategy which a company pursues should determine to remunerationto its employees. Where the strategy of the organisation is to achieve rapidgrowth, remuneration should be higher than what competitors pay. Where thestrategy is to maintain and protect current earnings, because of the decliningfortunes of the company, remuneration level needs to be average or even below average.

4. **Employee:**Several employee related factors interact to determine his remuneration.
   (i) Performance or productivity is always rewarded with a pay increase.Rewarding performance motivates the employees to do better in future.
   (ii) Seniority. Unions view seniority as the most objective criteria for payincreases whereas management prefer performance to effect payincreases.
   (iii) Experience. Makes an employee gain valuable insights and is generally rewarded.
   (iv) Potential. Organisation do pay some employees based on their potential.Young managers are paid more because of their potential to performeven if they are short of experience.
   (v) Luck. Some people are rewarded because of their sheer luck. They havethe luck to be at the right place at the right time.

## 4.2 INCENTIVES

### 4.2.1 MEANING OF INCENTIVE

„Incentive‟ may be defined as any reward of benefit given to the employee over and above his wage or salary with a view to motivating him to excel in his work. Incentives include both monetary as well as non-monetary rewards. A scheme of incentive is a plan to motivate individual or group performance.

### 4.2.2 DEFINITIONS OF INCENTIVE

The following are some of the definitions of the term „Incentive‟:

1. Wage incentives are extra financial motivation. They are designed to stimulate human effort by rewarding the person, over and above the time rated remuneration, for improvements in the present or targeted results" – **The National Commission on Labour.**

2. "It refers to all the plans that provide extra pay for extra performance in
addition to regular wages for a job" – **Hummel and Nickerson**.

3. "It is any formal and announced programme under which the income of an

individual, a small group, a plant work force or all the employees of a firm are partially or wholly related to some measure of productivity output" – **Scott.**

### 4.2.3 NEED FOR INCENTIVE

It is true that monetary compensation does constitute very important reason for the working of an employee. But this compensation alone cannot bring job satisfaction to the workers. One cannot expect effective performance from a worker who is dissatisfied with its job, even if he is well paid. Sociologists and industrial psychologists also view that the financial aspect is not the only dominant motivating force. Confidence in the management, pride in the job and in firm and concern for the overall good cannot be brought by a bonus. Hence the modern authorities on management science have recognized the need for the provision of incentives to build up good morale.

### 4.2.4 INCENTIVES FOR WORK

Incentives can take any form. According to Z. Clark Dickinson the important incentives for work can be listed as follows:

1. Desire for livelihood and fear of want.
2. Desire for approval of master and fear of punishment.
3. Desire for praise and fear of being dismissed.
4. Impulse to activity or joy in work and dislike of inactivity.
5. The moral command and fear of conscience.

**Robert E. Salton** has mentioned the following nine factors as the Motives for work.

1. Doing something worthwhile (Good).
2. Trust in leadership.
3. Doing my share (Participation)
4. I count for something (Recognition).
5. A decent living (Fair Wages).
6. A chance to get somewhere (Opportunity).
7. A safe future (Security).
8. Know what‟s going on (Communication).
9. Conditions at work (Environment)

## 4.2.5 CLASSIFICATION OF INCENTIVES

All forms of incentives can be broadly classified into two kinds namely,

(i) Financial Incentives, and (ii) Non-financial Incentives.

These incentives can be further sub-divided into various kinds. These kinds can be explained with the help of the figure below:

**Types of Incentives**

**Financial or Pecuniary Incentives** **Non-financial Incentives**

| | |
|---|---|
| 1. Wages | 1. Job Security |
| 2. Salary | 2. Recognition |
| 3. Premium | 3. Participation |
| 4. Bonus | 4. Pride in Job |
| | 5. Delegation of Responsibility |
| | 6. Quick Promotion |
| | 7. Facilities for Development |
| | 8. Labour Welfare Amenities |

Now we shall briefly discuss the various kinds of incentives.

**1. Financial Incentives**

Financial incentives or pecuniary incentives are the most original of all the incentives. It is given in the form of money. The financial incentives still form the most important influencing and motivating factor up to a certain limit. Because it is only by virtue of the monetary compensation that the workers can satisfy their fundamental needs such as food, clothing, shelter etc. The financial incentives may be either direct or indirect. Direct incentives include wages, bonus and other incentives directly given to the workers in the form of cash. Indirect financial incentives include subsistence allowance expenses, medical expenses etc.

**2. Non-financial Incentives**

Non-financial or non-pecuniary incentives include all other influences planned or unplanned, which stimulate exertion. Mere monetary incentive cannot help the management in solving all the problems of industrial unrest. Further additional cash wage may also tempt the workers to misuse the money in vices like gambling, drinking etc. Under such circumstances, the non-financial incentives have a significant role to play. Such incentives create a healthy atmosphere and change the mental outlook of the workers. They make the working class more stabilized and economically sound. Thus, in short, the workers by virtue of the non-financial incentives are enabled to enjoy a richer and fuller life. Experiences of foreign countries particularly countries like Britain, America and Japan have shown that there is a high degree of positive correlation between non-financial benefit schemes and labour productivity.

**Examples of Non-Financial Incentives**

Non-Financial Incentives can take a variety of forms. Some of the popular ones are given below:

**1. Job Security:** The management must try its best to create a sense of job security. There should be no risk of retrenchment, demotion and termination. Experiences have also shown that the productivity is less in those concerns where workers have no feeling of safe and secure. But it is high in those concerns where they have a feeling of job security.

**2. Recognition:** Recognition of work is the essence of securing good work. Efficient people would naturally like to get recognition for their skill and excellence in their work. Such recognition can do many things that what a cash reward can do. Of course it is not practicable for the superiors to praise everybody for everything done by them. But the technique of praise must be practiced as far as possible.

**3. Participation:** Workers feel more satisfied when they are given an opportunity to raise their voice in handling the affairs of the enterprise. Since they actually take part in the decision-making their co-operation is assured.

**4. Sincere Interest in Subordinates as Individual Persons:** The workers must be made to feel pride in their job. Various techniques can be employed to develop pride to work. Food products, dynamic leadership, fair treatment, ethical conduct etc. can effectively stimulate the workers‟ pride in their job and in the firm.

**5. Pride in job:** The workers must be made to feel pride in their job. Various techniques can be employed to develop pride to work. Food products, dynamic leadership, fair treatment, ethical conduct etc. can effectively stimulate the workers pride in their job and in the firm.

**6. Delegation of Responsibility:** Delegation of rights and responsibilities to execute a given task often proves to be a strong motivating factor. By delegation the superior trusts his workers and stimulates them to show better results.

**7. Other Incentives:** Other incentives like quick promotion, provisions of facilities for development and training, provision of labour welfare amenities etc. also have a significant role to play in motivating the employees.

### 4.2.6 MERITS OF INCENTIVES

The following are the advantages derived by providing incentives to employees:

*1.* **Higher output:**By providing incentives to his employees, the employer is able to induce them to work better. This leads to higher output.

*2.* **Greater profits:**Needless to say, higher output results in greater profits for the business. This happens in two ways. First, the cost per unit becomes less and second, the enterprise is able to keep the selling price low and this results in greater sales.

*3.* **No problem of idle time:**In an organisation where no proper incentives are available for the workers, the tendency will be to while away the time. When suitable incentives are available, the workers become time conscious. They begin to see every minute in terms of money.

*4.* **Supervision does not pose any problem**:When suitable incentives are available, the workers become duty conscious. The need for close supervision, thus, does not arise.

*5.* **Efficient workers are able to earn more:**Such of those workers who are highly efficient are able to earn more by way of performance bonus, higher commission and so on.

*6.* **Possible to identify inefficient and dull workers:**If, in spite of the incentive schemes, some workers are able to earn only their normal wage, it should mean that they are basically dull. The employer, therefore, has to decide whether to retain them or subject them to rigorous training.

*7.* **Rate of labour turnover is bound to be low:**If adequate incentives are available to the workers, they may not have a feeling of dissatisfaction. Such workers are sure to have greater work commitment and therefore may not leave the organisation. The rate of labour turnover, as a result, is bound to be low.

*8***. Reduction in complaints and grievances:**As the organization makes available suitable incentives to the workers, they may not have anything to complain about. This leads to reduction in complaints and grievances.

### 4.2.7 PROBLEMS ARISING OUT OF INCENTIVES

The following problems are bound to arise while implementing an incentive plan:

**1. Quality of work may suffer:**The workers, those in the production department in particular, may give undue importance to the quantity of output produced neglecting the quality of output. Such a problem can be overcome only if the organization has a perfect system of quality control.

**2. Inter-personnel relationships may suffer:**Only those employees who are really efficient will be benefited out of incentives. This may promote ill-feelings among the employees of an organization.

**3. Wear and tear of machines may be more:**As the employees are keen on increasing the output all the time, they may handle the machines carelessly. This increases the wear and tear of machines.

**4. Health of the workers may get affected:**Some workers tend to overwork in order to earn more and this may affect their health.

**5. Increase in accidents:**There is always a preference to step up output disregarding even safety regulations and this may increase the rate of accidents in the workplace.

**6. Increase in paper work:** Proper administration of any incentive scheme involves lot of paper work. It necessitates the maintenance of proper records and books.

### 4.2.8 REQUIREMENTS OF A SOUND INCENTIVE PLAN

A good incentive plan shall fulfill the following requirements:

**1. Trust and confidence** – The success of any incentive plan depends on the existence of an atmosphere of trust and confidence between the workers and the management. In the absence of such an atmosphere, the workers may resist any such proposal by the management.

**2. Consensus required** – The management should not take a unilateral decision while evolving an incentive scheme. Consensus between the workers and the management is necessary for the success of the plan.

**3. Assured minimum wage** – Payment to any worker should not be totally related to his performance. Every worker should be assured of a minimum wave notwithstanding performance. Only then the workers would have a sense of security.

**4. No scope for bias or favouritism**- The standards set under the incentive plan should be based on objective analysis. It should not expect too much out of the employee nor should it give scope for bias or favouritism.

**5. Simple to operate** - The incentive plan should not involve tedious calculations. It should be so simple that the worker will be in a position to work out his total earnings himself.

**6. Beneficial to both the workers and the management** - The incentive plan should be beneficial to both the workers and the management. From the management's point of view, it should be cost effective. From the workers' point of view, it should offer return, at a rate higher than the normal rate of wages, for the extra efforts made by them.

**7. Sound system of evaluation -** A perfect system of evaluating the employees performance should be created in the organisation. The results of evaluation should be made known to the employees at the earliest.

**8. Redressing grievances** - Grievances and complaints are bound to arise whenever any incentive plan is in vogue in the organisation. Proper machinery should be installed for the quick handling of all such complaints.

**9. Review -** The progress of the incentive scheme should be periodically reviewed. Only then it would be possible to notice and remove defects, if any, in the plan.

## 4.2.9 CATEGORIES OF INCENTIVE PLANS

Incentive Plans are two types. These are

1) Individual Incentive Plans
2) Group Incentive Plans

Individual Incentive Plans also two types. These are

| (i) Time- based Plans | (ii) Output-based Plans |
|---|---|
| 1. Hasley's Plan | 1. Taylor's Differential Piece Rate Plan |
| 2. Rowan's Plan | 2. Merrick's Multiple Piece Rate Plan |
| 3. Emerson's Plan | 3. Gnatt's Task Plan |
| 4. Bedeaux's Plan | |

## 4.2.10 TIME-BASED INDIVIDUAL INCENTIVE PLANS

**Halsey's Plan**

F.A.Halsey, an American engineer, introduced this plan. Under this plan, standard time is determined for each job. A worker who completes the job by taking the standard time or even exceeding it is paid normal wages calculated at the time rate. In case, he completes the job in less than the standard time, he is given bonus equal to 50% of the money value of the time saved.

The bonus payable to the worker and his total earnings, under the Halsey's plan, are calculated as follows:

Bonus = 50% (Time Saved x Time Rate)
Total Earnings = Time Rate x Time Taken + Bonus

**Merits of Halsey's Plan**

The following are the plus points of Halsey's plan:
1. It is simple to understand.
2 The workers are assured of a minimum wage.
3. The employer and the worker share equally the benefit resulting from savings in time.
4. The plan encourages workers to be more efficient in their work.

**Demerits**

Halsey's plan, however, suffers from the following limitations:
1. The efficiency of the worker is rewarded to the extent of50% only.
2. The time saved is wholly due to the efficiency of the worker but the management grabs 50% of the resulting benefit.

3. The plan does not say anything about, the quality of the work done.

**Rowan's Plan**

Under Rowan's plan, the manner of calculating bonus is slightly different from that under the Halsey's plan. Bonus, under Rowan's plan is calculated as follows:

Bonus = % of Timesaved x Time Wage
Standard Time
Total Earnings of the worker = Time Wage + Bonus

**Merits**

The following are the positive aspects of Rowan's plan:
1. Minimum wage is guaranteed to all workers.
2. When compared with Halsey's plan, bonus under Rowan's plan is more although the basic time wage is the same under both the plans.
3. The plan provides a check against over-speeding by workers. As the worker saves more time, his bonus and total earnings only begin to decline. In the above illustration, suppose, the worker completes his task within one hour, i.e. he saves 4 hours, his bonus will only be Rs.16. He earns the same bonus of Rs.16 by completing the task in 4 hours, saving just one hour.

**Demerits**

The drawbacks of Rowan's plan are given below:
1. It is not as easy as Halsey's plan is.
2. The earnings of the worker become less as he saves more time. This discourages efficient workers.

**Emerson's Efficiency Plan**

Under Emerson's plan too minimum wage is guaranteed to all workers. Payment of bonus, however, is related to the efficiency of the workers. Efficiency is determined by the ratio of time taken to standard time. Usually, a worker is given bonus only when his level of efficiency, in terms of percentage, is above 66.67%.

**Merits**

The following are the advantages of Emerson's efficiency plan:
1. Minimum wage is guaranteed.
2. It pays bonus to workers based on their level of efficiency.
3. The 66.67% or two-third efficiency criterion is within the reach of many workers.

**Demerits**

The disadvantages of the plan are as follows:
1. It is not a straight-forward approach to determining bonus.
2. If the standard time allowed itself is low, it may not be possible for many workers to fulfil the efficiency criterion laid down under the plan. .

**Bedeaux's Plan**

Under this plan, the standard time and time taken for each job is reduced to minutes, and each minute is referred to as "B", i.e., one hour is the same as 60 B's. The bonus and total earnings of the worker, under the plan, are calculated as follows:

Bonus = 75% (Standard Time - Time Taken) x Time Rate
Total Earnings = Time Wage + Bonus

**Merits**
The benefits of Bedeaux's plan are:

1. It guarantees minimum wages to the workers.
2. It enables efficient workers to earn more.
3. The benefit of three-fourth of the time saved is given to the worker.

**Demerits**
The weaknesses of the plan may be stated as follows:
1. The unit name of 'B' in place of the 'minute' does not make the plan altogether different.
2. The entire benefit of time saved by the worker is not passed on to him.

### 4.2.11 OUTPUT-BASED INDIVIDUAL INCENTIVE PLANS

**Taylor's Differential Piece Rate Plan**
F. W.Taylor, who is known as the *Father of Scientific Management*, developed the differential piece rate plan. Under the plan, two piece rates are laid down –

(i) A lower rate for those workers who are not able to attain the standard output within the standard time; and

(ii) A higher rate for those who are in a position to produce the standard output within or less than the standard time.

Under the plan, minimum daily wage is not guaranteed.

Taylor's differential piece rate plan has the following components:
(i) Standard Output.

(ii) Standard Time

(iii) A Lower Piece Rate and

(iv) A higher Piece Rate

**Merits**
The following are the merits of Taylor's differential piece rate plan:

l. It is easy to understand and simple to operate.
2. It enables efficient workers to earn more.
3. Workers not reaching the standard are paid at a lower rate. Such people, thus, are punished for their inefficiency. This protects the interests of the organisation.

**Demerits**
The limitations of Taylor's plan are given below:
l. It does not guarantee minimum wage. This creates a sense of insecurity for the workers. .
2. There may be ill-feelings among workers in view of the differential piece rates.
3. The quality of the output is ignored.

**Merrick's Multiple Piece Rate Plan**
Under this plan too a standard task is set for the workers. But unlike Taylor's plan that provides for two differential rates, Merrick's plan contemplates three rates as shown below:

(i) Workers producing less than 83% of the standard output are paid at a basic rate.

(ii) Workers producing between 83 % and 100% of the standard output will be paid 110% of the basic piece rate.

(iii) Those producing more than the standard output will be paid at 120% of the basic piece rate.

**Merits**
The merits of the plan may u~ stated as follows:

1. It is an improvement over Taylor's plan.
2. It has greater flexibility.
3. It offers greater scope for efficient workers to earn more.

**Demerits**

The following are, probably, the drawbacks of the plan:

1. It is a complicated plan.
2. Even a worker achieving 83% target is branded as a poor performer.

**Gantt's Task Plan**
This plan guarantees minimum daily wage. Its special feature is that it combines time rate, piece rate and bonus. A worker who is unable to produce the standard output receives only the time wage. He becomes eligible for bonus only when he attains or exceeds the standard output within the standard time. The rate of bonus varies between 20% to 50% of his wages.

**Merits**
The plus points of Gantt's task plan are:

1. It has, as mentioned above, time wage, piece rate and bonus. It is, therefore, a three-in-one scheme.
2 It guarantees daily minimum wage.
3. It provides enough opportunities for efficient workers to earn more.

**Demerits**
The weaknesses of the plan are:
1. It is not easy to understand.
2. The fluctuations in the output levels, of different workers not attaining the standard, are ignored and they all receive the same daily minimum wage. In the illustration given above, if two workers produce 6 units and 8 units respectively (against standard output of 10), each is assured a daily wage of Rs.50.

## 4.2.12 GROUP INCENTIVE PLANS
**Profit sharing**
Profit sharing is the most popular method rewarding the employees. Under it, the employees are paid in addition to the regular wage, a particular share of the net profits of the business as incentive.

**Characteristics of Profit Sharing**

The key features of profit sharing may be stated as follows:

1. It is based on an agreement between the employer and the employees.
2. It is a payment made after ascertaining the net profits of the business. It is not therefore, a charge on profits.
3. The amount paid to the employees is over and above their normal pay.
4. The amount to the paid is determined based on some agreed formulas.
5. The payments based on seniority and wage level of individual workers.

**Merits of Profit Sharing**

The advantages are profit sharing are as follows:

**1. Better employer-employee relations** - This is possible, as the employer is ready to share the profits of the enterprise with his employees.

**2. Increase in productivity** -The employees make every possible effort to increase productivity because they know very well that higher profits for the enterprise would mean higher bonus for them.

**3. Better living standards** - It helps to increase the living standards of the employees as the amount received is in addition to the usual wages.

**4. Reduced costs of supervision** - The workers themselves are duty conscious and, therefore, they need no close supervision. Thus, costs of supervision are reduced.

**5. Promotion of team spirit** - The employees know the importance of Teamwork, as only such an effort would result in higher output.

**Limitations of Profit Sharing**

The limitations of profit sharing are as follows:

**1. Regular income not assured:**Payment to workers, by way of profit sharing, at a particular rate depends upon the profits of the enterprise. If the enterprise makes low profits or incurs losses, it will not be in a position to pay bonus as agreed.

**2. Suppression of profits:**Attempts may also be made to suppress true profits so that the employees need not be paid their share. This is done by manipulating accounts.

**3. No inducement:**Payment under the profit sharing scheme will be made to the employees once or twice a year when accounts are closed. Such, payments at longer intervals may not really motivate employees. Daily or weekly incentive payments are far more superior to profit sharing.

**4.All workers paid alike:**Payment to workers under profit sharing is made without considering their relative level of efficiency. This amounts to doing injustice to those who have really made target attainment possible.

## 4.3 PAY STRUCTURE: BASIC AND ALLOWANCE

### 4.3.1 BASIC WAGE

Basic Wage is fixed on the basis of weightage given to jobs in an organisational context at various levels on the basis of skills, efforts, qualificationsetc which are required to perform those jobs.

Determination of weightage given to each job is done on the basis of studies carried out by industrial engineers along with other experts. Practices prevailing in other similar organisations are also taken into consideration.

### 4.3.2 BASIC-WAGE COMPONENT OF PAY STRUCTURE

The basic wage provides and stable base to the wage structure. It is the price to be paid to get a given job done. This could be on monthly, weekly or daily basis.

Basic wages is built upon the statutory minimum wage, through the awards of the Industrial Tribunals and directives of the Pay Commission at National and State Levels and the collective bargaining. The minimum wages, according to the recommendations of the 1949 Report of the Fair Wages Committee appointed by the Government of India, should provide not merely for bare subsistence of life but for the preservation of efficiency of workers by providing some measure of education, medical requirements and amenities.

It was after the end of the second world war that the Industrial Tribunals and Courts have set the pattern of basic wages in Industries through awards. Basic wage of Industrial worker is based on a "Standard-Budget" concept or a family of four, should include food, clothing, housing and fuel.

This is also known as Need Based Minimum Wage. The underlying assumptions behind the basic wage legislation is that the industry does not have the right to exist unless the minimum needs of workers are met.

The Committee on Fair-Wages (1948) and 15th session of I.L.C. (1954) propounded certain wage concepts such as minimum wages, fair wages, living wages, and need based minimum wages.

Minimum wages - not merely for bare subsistence but also for the preservation of efficiency and providing some measure of education; medical etc.

Fair-wage - while the lower level of fair wage is the minimum wage the upper-limit is the capacity of the industry to pay. Between these two limits, the actual wage can depend on

(I) the productivity of labour
(II) the prevailing wage rate
(III) National income
(IV) the place of industry in national economy.

Living-wages - It represents and inclinds decency, protection against ill health, requirements of essential social heads and insurance against some future misfortune etc.

Living wage is a concept enshrined in our constitution and state will make all efforts to attain it. .

The concepts of Nominal/Money wage and Real Wage also require explain in brief.

- Nominal/Money wage is the earning in cash or its equivalent
- Real wage is the money wages discounted by cost of living index to denote the pruchasing power of the wages.

Differentials in basic wages are normally based on a set of criterion which the Fair Wages Committee suggested. They are as follow:

- The degree of skill
- The strain of work
- The experience involved
- The training required
- The responsibilities undertaken
- The mental and physical requirements
- The disagreeableness of the task
- The hazard on the work
- The fatigue involved

Basic wage is generally practised through scales of pay. An employee draws his basic pay in a range provided in the scales. He also gets increments on periodical basis. Basic pay generally remain static, unless an employee moves upward (gets promotion) or downward (getsdemotion).

### 4.3.3 DEARNESS ALLOWANCE

Employees are employed with a particular wage or salary rate. In due course of time due to price increase, the real income of employees goes down. It means with the same level of wages employees are unable to buy goods and services, which they were able to buy before increase in prices. Dearness Allowance is paid to employees by way of compensating them for the loss of real income caused to them by increase in the cost of living due to increase in prices.

### 4.3.4 SYSTEMS OF PAYMENTS OF DEARNESS ALLOWANCE

The system of payment of Dearness Allowance are mainly classified into two categories. They are: -

(i) Not linked to consumer price index numbers and

(ii) Linked to consumer price index numbers.

**Not linked to consumer price index numbers**

(A) Flat Rate : Flat Rate system of payment is a method under which a fixed amount is paid to all employees irrespective of their categories and wage scales. The practice of paying Dearness Allowance at a fixed rate is regardless of any change in the consumer price index.

(B) Graduated Scale: Workers belonging to higher income groups objected to the award of the same amount of Dearness Allowance to all employees irrespective of their wages or salaries. , With this background the graduated scale system came into existence.

According to this method Dearness Allowance is paid on a graduated scale according to various wage scale. On the basis of different wage scale the workers are divided into groups. Dearness allowance increases with each scale of salary increase but after a limit, their is no increase in the amount of Dearness allowance, whatever high the wage rate is.

A minimum amount of dearness allowance is also set for the workers in each scale, below which the dearness allowance is not allowed to fall.

This method is considered to be equitable and hence it is quite popular.

**Linked to consumer price index numbers**:

Under this system the dearness allowance is linked with the consumer price index number.

(A) Flat rate: In this method dearness allowance rate per point or scale is fixed and this varies only with variations in points of consumer price index numbers.

(B) As a percentage of Pay In this method the dearness allowance is fixed. It is calculated as the percentage of pay per slab of the consumer price index numbers. The dearness allowance is expressed as a fixed percentage of pay and equated to a scale of points of the consumer price index.

The system of dearness allowance being linked with consumer price index is in vogue today.

The payment of Dearness Allowance for central government employees is based on the recommendation of the Pay Commissions.

In the banking sector Dearness Allowance is paid as per the Desai Award. Under this dearness allowance is paid at a rate of 3 percent for every 4 points rise over 100 in the quarterly average of the consumer price index of the working class.

In various other industries and commercial houses, payment of dearness allowance is paid in common according to the scales.

In many companies a 100 percent neutralisation system has been introduced against the rise in prices. This implies that the employees are under complete protection against the rising prices. On the other hand some organisations have provided a ceiling on the payment of dearness allowances, in terms of maximum amount of dearness allowance payable to a person.

Apart from the basic, Dearness allowance, many other allowances are paid to employees to compensate them adequately so that the total package of remuneration provides them suitable compensation package.

The various allowances given to the employees are:-

(i) **House Rent Allowance (HRA):**Organisations are set up in various types of locations such as urban centres; industrial belt etc.where houses are not available at a reasonable rent.

If the employees are required to pay house rent as per the prevailing market rates, a substantial portion of their wages will go as house rent and the employees will not be left with sufficient money to meet their other requirements.

Hence HRA is paid to the employees enabling them to pay house rent for a suitable accommodation . It varies according to the cost of living in different cities and places.

Employees are paid HRA as per their slabs in their wages and salaries. This allowance is not considered as wages. The HRA shall also not be reckoned for any direct payment like gratuity, overtime, provident fund etc.

(ii) **Leave Travel Allowance (LTA):** Employees while working, seldom get opportunity to visit places where they can go and spend sometime along with the members of their families to get relaxed and reenergized for the work to be continued with zeal and enthusiasm. For such purpose employees are also willing to visit their native places.

Many organisations have introduced schemes commonly called Leave Travel Assistance (LTA)/Leave Travel Concession (LTC) etc. and this facility facilitates the employees to go to their home town or places for relaxation and reenergising .

Organisations have different types of practices for various categories of employees. Normally employees who have completed a few years of service satisfactorily are entitled to LTA/LTC.

**(iii) Washing Allowance:** While employees are working in various industrial processes, various kind of dirt gets accumulated on their body and uniform. If the employees do not keep themselves clean, they are likely to get different types of diseases.

A particular amount is paid as washing allowance to certain categories of employees and they are expected to keep themselves clean.

In some organisation duty uniforms are provided to front line employees who directly come in touch with customers .These employees are given washing allowance and are expected to keep their unforms clean and make better presentation before the customer.

Once washing allowance is provided, the employers are in a position to enforce a .standard of cleanliness on the workforce which will ultimately force the employees to keep themselves clean and in due course of time, the organisation will have its own standard of cleanliness.

(iv) **Conveyance Allowance:** For smooth and efficient functioning of any organisation, employees are required to come to work place in time. Employees who neither have got a residence in the housing colony nor at any nearby places, commutes everyday distance by various means while coming to -work place. While commuting employees loose hilt of time and energy and after reaching work place they find themselves exhausted.

In order to facilitate employees to come to the work place comfortably and in time , employers provide convence allowance to the employees for availing better transport service, or maintaining and using own vehicle. The conveyance allowance is paid to employees for the days in which he receives normal wages. This however is not paid for days on which he is on leave without pay.

(v) **Shift Allowance (S'A);**Someorganisations are required to work continuously under shift system because of the nature of production or service they have.

Normally there are three shifts 6 A.M. to 2 RM., 2 P.M. to 10 RM. and 10 RM. to 6 A.M. In order to establish balance among employees, so far shift duty is concerned; the employees are rotated among these three shifts. It implies that all employees will get by rotation duties at night shift equally.

However there are organisations where a few employees are required to work more in nightshifts and rotations are not possible. They are paid an additional allowance called night shift allowance because they do jobs frequently during night hours which is streneous. The rate of SA varies from organisation to organisation. 159 of the time a fixed amount is paid as SA.

**vi) Cash Handling Allowance:** There are organisations where one particular category of employees handles a lot of cash (currencies and coins) of various denominations. Their job is to receive/pay , transfer cash amount. While doing so, they are required to count cash correctly.

Sometimes by way of genuine error, they receive less money, pay more money and also receive bad currencies and coins. In such situation they are required to compensate the loss caused to the employers due to such error.. Thus an element of risk is involved. In order to cover this risk element, these employees receive this allowance on regular basis.

(**vii)Lunch Allowance and Dinner Allowence:** Those employees who are required to do the organisad-on's work away from the usual place of duty during the lunch or dinner period, are paid lunch & dinner allowance.

**(viii)Education Allowance:** The education allowance is paid to the employees to make the package more attractive and facilitate greater spirit to educate their children.

(**ix) Underground Allowance:** All employees working in underground operations are entitled to this allowance because the underground job is more strenuous and risky.

**(x) Outstation Allowance:** This allowance is paid to all employees on outstation duty.

(**xi) Servant Allowance:** In order to enable the executives to work in a relax mind and free from household duties, they are provided servants or allowance enabling them keep servants.

**(xii)Social Security Allowance:** This allowance is paid to employees to help them to protect themselves and their families in an unforeseen situations in life. 'The employers get their employees insured under various types of social security schemes. The amount for the insurance schemes is paid by the employers.

**(xiii)City Compensatory Allowance:** In cities due to high prices the cost of living remains higher. Employees posted in these cities are paid city compensatory allowance by way of compensating them against loss of real income caused to them due to higher consumer price index prevailing there. This allowance varies in rates according to consumer price index prevailing in various categories, of cities.

**(xiv)Overtime Allowance:** Daily working ,hours for workers are prescribed under various acts' Workers working for more than the prescribed hours are entitled to receive overtime payments, which is normally double the ordinary rates of wages.

## 4.4 SELF ASSESSMENT QUESTIONS

1. What are the objectives of wage and salary administration ?
2. What are the principal of wage and salary administration ?
3. Discuss the factor influencing of wage and salary.
4. What are the Components of Wage And Salary and explain ?
5. What is definition if incentives ?
6. What are the needs for incentives?
7. What are the classification of incentive and explain ?
8. What the advantages of incentives?
9. What are the categories of incentive plan and explain?
10. Discuss the various allowances, briefly.

# UNIT 5: EXECUTIVE REMUNERATION AND INDUSTRIAL SCENARIO

**"If you pick the right people and give them the opportunity to spread their wings - and put compensation and rewards as a carrier behind it - you almost don't have to manage them."**

***— Jack Welch***

**UNIT STRUCTURE**



## 5.1: OBJECTIVES OF THE CHAPTER:

After going through this chapter, students will be able to learn about

i. the concept and definition of Executive Remuneration

ii. the objectives and features of Executive Remuneration

iii. the components of Executive Remuneration

iv. how to design an executive remuneration

v. the executive remuneration in India

vi. legal framework of executive remuneration in India

## 5.2: CONCEPT AND DEFINITION

It can be said that compensation or remuneration is the "glue" that binds the employee and the employer together and in the organization, this is further codified in the form of a contract or a mutually binding legal document that spells out exactly how much should be paid to the employee and the components of the compensation package. Since, this article is intended to be an introduction to compensation management, the art and science of arriving at the right compensation makes all the difference between a satisfied employee and a disgruntled employee.

Executive compensation is the remuneration paid to the executive level officers of a company who include the Chairman, the Directors on Board, the CEO, CFO, COO and other C-level managers. The Executive compensation is negotiable between the employer and potential executive. It can defy the organizational norms on compensation to regular employees.

Executive Compensation is financial compensation received by an officer of a firm. It is typically a mixture of salary, bonuses, shares of and/or call options on the company stock, benefits, and perquisites, ideally configured to take into account government regulations, tax law, the desires of the organization and the executive, and rewards for performance. Over the past three decades, executive pay has risen dramatically relative to that of an average worker's wage in the United States, and to a lesser extent in some other countries. Observers differ as to whether this rise is a natural and beneficial result of competition for scarce business talent that can add greatly to stockholder value in large companies, or a socially harmful phenomenon brought about by social and political changes that have given executives greater control over their own pay. Executive pay is an important part of corporate governance, and is often determined by a company's board of directors.

Executive remuneration is gaining immense importance in recent years because organizations have started offering skyrocketing compensation packages to the executives in this competitive environment to retain the best talent with them. This spurt in the salary structure is a result of liberalization and globalization of the economy. But government regulated industries (banks, insurance, railways etc.) have to pay relatively less than those that are more free to carry on their business.

In spite of the above fact, the salary package of higher management is basically determined by considering the size of a company, performance of the company, the specific industry and the contribution of the executive in the process of decision making.

The executive compensation is a part of Corporate Governance and has been an issue of hot debate for quite a long time especially in Western media. The American Executives have often been criticized for the hefty packages received despite lackadaisical performance of their companies. There are no legal restrictions on the compensation paid to the executives in Western Companies. However, the issue is not that severe in India partly because of the provisions in Indian Companies Act 1956 and many executives being the promoters of their companies. As per the Indian Companies Act, a ceiling has been imposed on the executive compensation in public companies and their private subsidiaries. The compensation cannot exceed 11% of the net profits of the financial year. Also the compensation of whole time directors cannot exceed 10% of the profits. However, the executives of private companies have been excluded from these restrictions.

## 5.3: OBJECTIVES OF EXECUTIVE REMUNERATION

Executive compensation has multiple objectives, though these often remain unstated and are rarely articulated as a full set. In our experience, part of what makes executive compensation so complex and challenging is that it must meet multiple and sometimes conflicting objectives. The primary objectives that board compensation committee members should keep in mind in designing compensation policies fall into the categories below:

**Alignment**

- Aligning the interests of executives with those of shareholders and sometimes with those of other owners or providers of capital
- Aligning the interests of executives with those of other stakeholders
- Creating or reinforcing alignment of interests, objectives, and purpose throughout the company

**Reinforcement**

- Reinforcing the company's purpose, vision, and mission
- Reinforcing and reflecting the company's values
- Reinforcing the use of corporate resources to the optimal benefit of the company
- Reinforcing a sense of ownership (and actual ownership, through stock-based rewards) of the company by executives and other managers

**Motivation/Reward**

- Rewarding the achievement of the company's short- and long-term strategy—and translating the strategy into measurable goals and objectives
- Motivating and rewarding the achievement of the company's short- and long-term goals and objectives
- Motivating the rewarding the creation of long-term value
- Motivating and rewarding innovation and creativity
- Providing a fair and competitive level of compensation—fair to executives, shareholders, and the company
- Fostering a company-wide sense of urgency, intensity, and focus

**Accountability**

- Holding management accountable and creating/reinforcing a system of accountability with appropriate rewards and consequences

**Communication**

- Communicating the company's short- and long-term goals and objectives

**Talent Management**

- Attracting and retaining high-caliber executives

Finally, executive compensation objectives should be tailored to an organization to help fulfill an organization's purpose and mission.

## 5.4: SPECIAL FEATURES OF EXECUTIVE REMUNERATION

The philosophy underlying our executive compensation program is to provide an attractive, flexible and market-based total compensation program tied to performance and aligned with the interests of our shareholders. Our objective is to recruit and retain the caliber of executive officers and other key employees necessary to deliver sustained high performance to our shareholders, customers, and communities where we have a strong presence. Executive compensation program is an important component of these overall human resources policies. Equally important, organizations view compensation practices as a means for communicating their goals and standards of conduct and performance and for motivating and rewarding employees in relation to their achievements.

1. Executive remuneration is not same as the wage and salary. Numerous factors and variables are associated with the executive remuneration. So, simple comparisons and ratings are not possible to be applied for it.

2. Executives usually do not like to form unions. But they too benefit if the workers who resort to strikes, slogan, shouting etc succeed in their efforts.

3. No executives in the private sector, in the same grade, receive the same pay. So, the organizations feel it necessary to maintain secrecy in respect of executive remuneration. However executive's remuneration are based on such factors as competence, length of service and loyalty to the founders.

4. It is a fact that an executive's own performance is directly reflected via the measures of unit or corporate performance. Thereby, executives are paid the remuneration on the basis of unit or organizational performance rather than their own performance measures.

5. Executive remuneration is subject to statutory ceilings. These ceilings however, do not apply to private limited companies.

## 5.5: COMPONENTS OF EXECUTIVE REMUNERATION

Executive remuneration generally comprises four elements:

(i) Salary and allowance

(ii) Bonus

(iii) Incentives

(iv) Perquisites

(i) Salary and allowance: Salary is the first component of Executive remuneration. Salary is supposed to be determined through job evaluation and serves as the basis for other types of benefits. The amount of salary generally depends on the value of the person's work to the organization and how well the person is discharging his responsibilities. Salary as a component of total remuneration is not significant as it is subject to deduction at source and is also capped by government regulations. The basic trend today is to reduce the relative importance of base salary and to boost the importance of incentives. The main issue here is identifying the appropriate performance standards for each type of incentive and then determining how to link these to pay.

(ii) Bonus: Bonus is an extra amount of money paid to workers annually besides their salary with an aim of increasing their short term performances. These short term bonuses usually result a plus or minus adjustment in the total pay as opposed to salaries which rarely decline with reduced performance. There are three basic issues to be considered while awarding bonus:

(a) Eligibility: Usually the firms plan the bonus scheme for both the top and lower level executives by one of two ways. In one method, companies decide the eligible employees to be benefited with short term bonus on the basis of job level or job title. While in the other method, the combined factors like job level/ title, base salary level and discretionary considerations decide the eligibility criteria to avail the bonus benefits. But it is seen that, generally, the top level executives get greater amount of bonus in either case.

(b) Fund size: Though there is no hard and fast rule for calculating the bonus size, yet it depends upon the fund size available in the account of the organization to pay the bonuses to its employees.

(c) Deciding Individual Awards: Here, the preliminary bonus is computed first by setting a target bonus for each eligible position and then comparing it with the actual performance ratings of each manager for necessary adjustments. After that, the total amount of money needed to be spent on the short term incentives is compared with the fund available to pay the bonuses so that adjustments can be made in the individual's estimates, if found necessary.

(iii) Long term Incentives: Long term Incentives are paid with an aim to motivate and reward managers for achieving the firm's long term growth and prosperity. These long term incentives can also be used as a tool to lengthen the staying of executives in the same company by offering them the opportunity to accumulate capital (e.g company stock) that can be cashed in after a number of years. Usually, the general or functional area's executives are tried to be motivated with such long term incentives or capital accumulation programs. Though these types of plan are gaining popularity yet they are obviously affected by changes in the Income Tax Law, in the accounting treatment, the state of the stock market and various other factors. Such plans are as follows:-

a. Stock Options: It is considered a major motivational benefit offered to the executives that directs the manager's energies toward the long term as well as the short term performance of the company.

b. Phantom Shares: A phantom stock plan awards the managers a number of shares for the purpose of book keeping only which at the end of a specified period, entitles the executive to receive an award equal to the appreciation in the market value of the share since the date of the award. This award may be in cash or shares or stock or in both.

c. Stock Appreciation Rights: The plan awards a right to the executives to receive the cash payments on the basis of increased stock's value from the time of the award until a specified future date.

d. Performance Shares: Under this plan, a specified number of shares or stock is awarded to a manager when he is able to achieve the long term goals.

e. Performance Unit: Here, the executives are offered cash benefit when long term targets are attained.

The main motto of this long term plan is to maintain a better balanced relationship between the personal motives and financial incentives of executives and their fiduciary responsibility to shareholders.

(iv) Perquisites: Perquisites constitute a major source of income for the executives besides the normally allowed perks like provident fund, gratuity and the same to them. The perquisite benefits include the followings:

1. Medical care

2. Legal, tax and financial counseling

3. Facilities for entertaining customers and for dining out

4. Company recreational area.

5. The cost of the education and training of executives, scholarships for their children and allowances for business magazines and books.

6. Free well furnished accommodation, conveyance and servants

7. Vacation travels

8. Membership in clubs etc.

These kinds of perks take care of all the possible needs of executives by rarely giving them a chance to spend money from their pockets.

## 5.6: DESIGNING AN EFFECTIVE EXECUTIVE COMPENSATION

Designing an effective executive compensation program can generally be broken into the following six steps.

**Step-1: Analyze existing benefit plans and executive compensation arrangements.** One of the first things you will want to do is review the benefits provided under the standard package of employee benefit plans that will be offered to the key employee. Analysis of the base retirement and tax-deferred savings plans is necessary in order to identify gaps in coverage and opportunities that maximize benefits provided under the available limits. In other words, do the math. Addressing what is needed or desired can only be accomplished after determining what is already being provided.

For existing executive compensation arrangements, you will want to determine if the programs still meet their primary objectives and remain in compliance with current regulatory and legislative requirements. You will also want to analyze the administrative requirements and costs of the benefit program to ensure that it remains affordable and efficient. Finally, as with any employee benefit plan, you will want to ensure that the executive compensation package that is being offered or considered is not only adequate, but also understood and appreciated by the key employee.

**Step-2: Establish primary plan objectives for executive compensation program.** This step basically asks the question, why are we considering development of a supplemental executive compensation package?

- Is it simply to provide the key employee with additional retirement contributions above and beyond those provided by the standard employee benefit plans?

- Is it to restore benefits lost under these standard plans due to the IRS limits placed on compensation or nondiscrimination testing?

- Is it to provide the key employee with additional salary deferral opportunities?

- Is it to attract or retain the services of a key employee or to reward performance?

The answer to these questions will help identify the most appropriate executive compensation arrangement for the circumstance. "Yes" answers to the first three questions can, in many cases, be accomplished without complex plan designs and—depending on the amounts under consideration—within the established limits of eligible nonqualified deferred compensation plans. Plans with an objective of recruiting and retaining the services of key employees generally tend to be more complex in design and involve higher compensation limits.

**Step-3: Identify optimal plan design features.** Once you have determined the plan's primary objective, you will want to gauge the relative importance of certain design features from an institutional perspective. A common consideration is the issue of public disclosure and/or Form 990 reporting. In the case of a highly recruited athletic coach, these issues generally tend to get played out in the local media and are difficult to manage. However, the type of plan selected will determine when or how the compensation is disclosed. (Note: all public institution information is subject to state open records laws, and independent institutions must disclose all compensation in the Form 990.)

Other considerations include determining the importance of protecting the benefit from the institutions' creditors, whether future service requirements are required, and when benefits are to be made available. Design features such as rolling risks of forfeiture, the use of non-compete agreements, or requirements for performance of consulting services following separation from service are generally no longer available.

**Step-4: Determine tax and distribution strategy.** Of great importance to both the institution and the key employee is the tax liability and distribution strategy associated with the executive compensation plan selected. Although tax-exempt and governmental employers do not have the same tax incentives as for-profit organizations when establishing executive compensation arrangements, some plan designs have bookkeeping requirements that must be considered. The institution also must determine the importance of employer control of the assets and benefit distributions prior to and after vesting or before retirement. Of particular concern to the key employee are the individual tax consequences of the benefits during the accumulation phase, upon vesting, prior to distribution, and following separation from service. Rules vary by plan type and must be analyzed carefully.

**Step-5: Select appropriate financing methodology.** Depending on the type of executive compensation plan under consideration, an institution will need to base its financing strategy on projections of future assets, benefit liabilities, and cash flows. Simply put, how is the institution going to pay for or account for the benefits promised? Common financing arrangements include:

- Cash/lump-sum settlement (pay as you go).
- Shadow account (defined interest and earnings assumptions).
- Institutionally owned annuity/mutual fund accounts.
- Institutionally owned life insurance policy.
- Use of Rabbi Trust, Employee Trust.

From the key employee's perspective, various funding arrangements tend to involve a trade-off between the level of security provided on the underlying benefits and the amount of tax deferral that can be achieved. Certain executive compensation arrangements have maximum contribution limits placed on them with the benefit of spreading out the tax liability over time upon distribution while others provide for unlimited contribution amounts but are heavily taxed upon vesting or distribution.

**Step-6: Establish guidelines for periodic review and evaluation.** As previously mentioned, a successful executive compensation program begins and ends with good governance and compliance with all legislative and regulatory requirements. It is critical to review these arrangements on an annual basis to ensure they remain consistent with the institutions overall compensation philosophy, policies, and practices and are in compliance with applicable laws and regulations.

While the focus of this article centered on the types of executive compensation packages most commonly used in higher education, the annual review should take into consideration the total compensation package: base salary, benefits, short- and long-term incentive programs, and perquisites. It is also important to ensure that all executive compensation plans are well documented, including the decision-making process and procedures that went into their development. And finally, good governance requires involving all of the key stakeholders (human resources, finance/business office, and legal counsel) and clear communication between senior leadership and the institution's governing body.

## 5.7: EXECUTIVE REMUNERATION IN INDIAN INDUSTRIES

There is, however, one key aspect of management in Indian companies that has been ignored in this debate. In countries such as the U.S. and the U.K., CEOs and other senior managerial personnel rely on compensation received from the companies in the form of salary and other perks. Apart from stock options or some shareholding (usually as a result of exercise of options), CEOs do not hold any significant stake in their companies. Moderating executive compensation in such scenario carries some logic to it. On the other hand, CEOs in India in large measure take on a different character. They are not truly employees of the company; they also control the companies. A substantial part of corporate India, including public listed companies, consists of family-owned businesses. In those cases, the CEOs not only receive compensation from the company in the form of salary, but by virtue of shareholding and control, such CEOs may receive other economic benefits in the company, such as dividend and an appreciation in the value of shares of the company. It is trite to believe that in these circumstances, the CEO is incentivized purely by the salary obtained from the company; rather, it is the benefits of shareholding and control that operate as key incentives.

Theoretically, job descriptions, job evaluations, salary grades with ranges of pay in such grade and salary surveys are the basis to fix the executive's remuneration. But in practice, these norms are found to be thrown to the winds and the executives are getting exorbitant remuneration for their job. In India, executive remuneration can be fixed through certain broad generalizations:

1. Usually an executive is paid on the basis of the employer's ability to pay and the employee's bargaining strength to deserve their rights rather than the standard norms of wage and salary fixation.

2. Executive remuneration must be reviewed atleast once a year unlike worker's compensation which is reviewed once in three years. This is because to upgrade the executive's remuneration in comparison to that of other firms in the industry.

3. Executives are usually, offered a bundle of facilities which is known as "composite" salary instead of traditional "menu" salary i.e. package of items from which the executive is asked to choose.

4. Salaries are paid considering the performance of the executives.

5. Going abroad for holiday is gaining immense popularity in India. So, the companies are trying to motivate their executives by offering them this special facility.

6. Executives are paid relatively higher salaries when they are posted abroad to work in the foreign assignment of the company.

7. Private companies are competing among themselves in respect of salary packages offered to the executives so that they can attract the competent personnel towards their organization resulting virtual hijacking of them. Thus, the executives of public sector are placed nowhere in respect of salaries and perks that their counterparts are availing in the private sector. Therefore, the shifting of executives from government owned organization to private sector enterprises has increased tremendously in recent years.

Given this scenario, too much is being attributed in the Indian context of a CEO here or there agreeing to a significant drop in salary or even giving up salary altogether. Reduction in such CEO salary may, at some level, indicate a sense of austerity, but it may mean less when seen in the overall context of the various commercial incentives of a CEO in a family-owned business. In that sense, the debate of CEO-pay seems misplaced to a large extent in the Indian corporate context. It is perhaps a case of shadow-boxing. Of course, there may be a handful of companies that are truly management-driven, or in the case of Government-owned companies, where CEOs rely solely on compensation received in the form of salaries, but those appear to be more the exception than the rule.

It may augur well for the Government instead to redirect its efforts to ensure that the benefits of control are not abused in such companies so that minority investors are protected, thereby ensuring the robustness of the capital markets.

## 5.8: LEGAL FRAMEWORK OF EXECUTIVE COMPENSATION IN INDIA

Issues of Corporate Governance, having gained stronghold in the developed nations of the West, have largely invaded the Indian Corporate Sector in the past decade. In present times, it has, in fact, reached a stature when Good corporate governance practices are a *sine qua non* for sustainable business that aims at generating long term value to all its shareholders and other stakeholders.

The debate between executives and shareholders on the topic of excessive executive remuneration is not hidden. The current global financial crisis has highlighted the importance of ensuring that remuneration packages are appropriately structured and do not reward excessive risk taking or promote corporate greed.

### 5.8.1: PROVISIONS IN COMPANIES ACT, 1956

The *Indian Companies Act 1956* contains provisions for managerial and executive remuneration which embody a self contained code in themselves. *Section 198* of the Act fixes a ceiling on the overall maximum remuneration payable to the managerial personnel. It mandates that the total remuneration payable to executive personnel of a public company or subsidiary private company, in respect of a financial year, can in no condition exceed ***eleven percent (11%)*** of the net profits of the company. Further, the section prohibits payment of any remuneration to executive personnel exclusive of the fees which are payable under Section 309(2) of the Act in a year when the company has incurred severe losses or has garnered inadequate profits. Section 309 supplements the provisions contained in Section 198 to state that the remuneration of all whole time or managing directors taken together shall not exceed ten percent of the net profits of the company in respect of a financial year except with prior approval of the Central Government.

An additional check to the executive remuneration is contained in Section 200 which prohibits any company from paying remuneration free of taxes or such reference to its executives. Although a bare perusal of the above mentioned sections seem to provide elaborate safeguards for purposes of ensuring that pay scale of executives of Indian companies are subjected to a "**checks and balance system**", yet on a closer analysis certain ambiguities are revealed. While Section 198 read with schedule XIII of the Act fixes a ceiling for managerial remuneration, however the same is applicable only for public companies and private companies which are subsidiaries of a public company. This effectively excludes private companies which are then provided a free rein to remunerate their executive personnel without operation of any statutory ceiling.

Moreover, Section 198 of the Companies Act has been assailed by financial experts and market watchers not from India alone but Western Countries as well on grounds of statutory imposition of caps on compensation. It has been logically argued that administrative imposition of ceilings on managerial remuneration may not only prove to be arbitrary in various circumstances but instead of achieving the objective of curbing unregulated use of corporate power it may adversely affect incentives to effort and risk taking. While it is undeniably essential that a company's finances cannot be permitted to be directed by the executive *elite* to their personal accounts without operation of checks and balances, however the same should be left to the decision of shareholders who are always in the best position to determine the welfare and needs of the company. Such imposition of ceiling tends to undermine integral elements for deciding upon managerial remuneration which includes the size of the companies and their profits and turnover in various financial years. Pay of executives must depend upon the prevailing market standards which cannot be predetermined by the government through prescribed ceilings.

However, in spite of criticism of the statutory imposition of ceilings it is also vital to keep in mind that shareholder's powers in determining remuneration of executives can be exercised in a legitimate manner only if the Act contains adequate provisions outlining the rights and remedies of minority shareholders thereby proving that the two concerns are inextricably linked. Thus in the backdrop of the existing Companies Act 1956 which has been subjected to immense criticism over the years, for failing to provide adequate remedies to minority shareholders, the complete removal of caps on remuneration might do more harm than good since the same may be manipulated by the dominant shareholders to the detriment of the interests of the minority. This situation of deadlock however has been attempted to be eradicated by the proposed Company Law Bill 2009 which has been discussed in the following segment.

The Companies Act 1956 has been criticized many a time for failing to provide elaborate remedies to minority shareholders in instances which include the concern addressed in this paper. Excessive remuneration paid to executive personnel at the cost of the company's worth and profit, to lure them into assuming office may often have an adverse impact on the interests of minority shareholders who have their stakes in the company as well. *Sections 397 and 398* of the Act empower any member of the company to approach the tribunal for relief, if they are of the legitimate opinion that the affairs of the company are being conducted oppressively or being mismanaged so as to injure public interest or the interests of the company at large. The tribunal if satisfied with the adequacy of such complaint can then make an order to such effect. Such order of the tribunal however, is limited only to the mode prescribed under Section 402 of the Act which include termination, setting aside of agreements and regulation of company's affairs including winding up. It is thus disturbing to note that no remedy is available to shareholders to claim *damages* in case of oppression or mismanagement.

Moreover, the course of judicial interpretation of the above mentioned sections has brought to light several inadequacies which act as a deterrent in serving the interests of minority shareholders. In order to attract Section 397 and 398, there should be present and continuing mismanagement of the affairs of the company. Thus, if there has been any instance of mismanagement in the past then same shall not be envisaged within the ambit of the Section to provide relief to shareholders. Moreover, under section 397 and 398, the powers conferred upon the Tribunal are of wide and discretionary nature wherein the Tribunal shall pass an order only upon its own assessment and interpretation of "oppression" and "mismanagement" of affairs of the company. In practice, then, the rights and redressal mechanism of shareholders is devoid of objective parameters and is subjected to the Tribunal's interpretation of what must be 'just and equitable' to provide remedy.

## 5.9: SUMMING UP

Executive Compensation is financial compensation received by an officer of a firm. It is typically a mixture of salary, bonuses, shares of and/or call options on the company stock, benefits, and perquisites, ideally configured to take into account government regulations, tax law, the desires of the organization and the executive, and rewards for performance. The philosophy underlying our executive compensation program is to provide an attractive, flexible and market-based total compensation program tied to performance and aligned with the interests of our shareholders. Theoretically, job descriptions, job evaluations, salary grades with ranges of pay in such grade and salary surveys are the basis to fix the executive's remuneration. But in practice, these norms are found to be thrown to the winds and the executives are getting exorbitant remuneration for their job. Thus, the debate between executives and shareholders on the topic of excessive executive remuneration is not hidden. The current global financial crisis has highlighted the importance of ensuring that remuneration packages are appropriately structured and do not reward excessive risk taking or promote corporate greed.

## 5.10: REFERENCE BOOKS:

## 5.11: PRACTICE QUESTIONS

### 5.11.1: SHORT ANSWER TYPE QUESTIONS

**1.** What is Executive Remuneration?

**2.** What are the basic objectives of Executive Remuneration?

**3.** Discuss the special features of Executive Remuneration.

**4.** Describe the components of Executive Remuneration.

### 5.11.2: LONG ANSWER TYPE QUESTIONS

**1.** Discuss the steps in designing the Executive Remuneration.

**2.** Discuss the Executive Remuneration with respect to Indian industries.

**3.** Describe briefly the legal frame work of Executive Remuneration in Indian context.

# UNIT 6: WAGE DIFFERENTIALS

## UNIT STRUCTURE



## 6.1: OBJECTIVES

After going through this chapter, students will be able to learn about

i. the concept and definition of wage differentials

ii. Classification of Wage Differentials

iii. Shaping up the Wage Differentials

iv. Importance of Wage Differential

v. Factors determining the nature and extent of 'Wage differential'.

vi. Factors those are responsible for differences in wages between occupations.

vii. Compensating Wage Differentials

viii. Impact of Trade Unionism on Wage Differentials

## 6.2: CONCEPT AND DEFINITION:

In this era of modern industrial organizations, wage differentials that show the differences in the rate of wages among workers working in the same unit, different units, different occupations, different regions and the like have emerged as a common feature of labour markets in various countries. Wage differential can also be defined as a wage scale which reflects the average schedule of worker's pay in an area by taking into account the performance of related tasks or services. It has a direct relationship with the economic resources of a country, including manpower, growth of national income and the pace of economic development etc. Moreover, it has been observed that the economic and social welfare activities to some extent depend on wage differentials.

Wage differential refers to differences in wage rates due to the location of company, hours of work, working conditions, type of product manufactured, or other factors. It may be the difference in wages between workers with different skills working in the same industry or workers with similar skills working in different industries or regions.

The differences in physical and mental abilities of the workers, in productivity and efficiency of the management and in consumer preferences are reflected via wage differentials.

We will get different terms as occupational wage differentials, inter-industry, inter-firm, inter-area or geographical differentials and personal differentials because wages differ in different employments or occupations, different industries and localities, and even between the persons in the same employment or grade etc.

## 6.3: CLASSIFICATION OF WAGE DIFFERENTIALS

Wage differential has been classified into three categories:

First, we will get a differential in the wages of employees due to the imperfections in the employment markets, like inter-industry, inter-firm, and geographical or inter-area wage differentials. These differentials are found because of the unawareness of workers in regard to alternative job opportunities available elsewhere; inability of the workers to go for geographical, occupational or inter-firm changes; time lags in the adjustment of resource distribution and changes in the scope and structure of economic activities.

Second, the wage differentials may originate due to variation in the social values and prejudices like sex, age, status or ethnic origin etc which are deeper and more persistent than the economic factors.

Third, occupational wage differentials would exist even if employment markets were perfect and social prejudices were absent.
In other words, wage differentials may be:
(i) Occupational differentials or differentials based on skill;
(ii) Inter-firm differentials;
(iii) Inter-area or regional differentials;
(iv) Inter-industry differentials; and
(v) Differentials based on sex.

## 6.4: SHAPING UP THE WAGE DIFFERENTIALS

Under the competitive model with perfect competition, perfect knowledge and free mobility of labour and capital, it was assumed that most of these differentials would disappear except for those which were related to the differences in the basic nature of job or occupational requirements. In respect of even those differentials, i.e., differentials between occupations, it was siad that they contained an element of equalizing and compensating differential, i.e., the net advantage of different occupations tended to be the same. Therefore, invariably all discussions on wage differentials begin with statement of Adam Smith advancing five explanations of occupational wage differentials. These are :

1. Wages will vary with the ease or hardship, the cleanliness or distiness, the honourableness, or dishonorableness of the employment.

2. Wages will vary with the easiness and cheapness, or the difficulty and expense of learning a trade.

3. Wages in different occupations will vary with the regularity or irregularity of employment.

4. Wages will vary with the degree of trust reposed in an occupation.

5. Wages will vary according to the probability of success in the occupation.

In this statement Adam Smith refers to the focal differences in the nature of occupations and also to the compensating factors. That is, even when the knowledge of the market conditions is perfect and entry and exit, of labour is free, differences in wages will persist in order to invoke the supply of the relevant quality and quantity of labour required for different jobs. This means, he treated and we all treat such differentials as rational and economically necessary. From this point of view wage differentials, necessary to attract sufficient labour of requisite quality according to the needs of the occupation, industry and region, are rational and economically justified.

Looking from another angle, it can be said that the market forces are constantly evaluating and revaluating the value and worth of the different jobs and therefore, determining their compensation or reward accordingly. Hence, the holder of a job or an occupation gets rewarded according to the value of his contribution to the economic process. The money rewards together with non-monetary advantages or disadvantages are indication of the value of the services performed, that is, the market/mechanism tends to reward every one according to his worth.

## 6.5: IMPORTANCE OF WAGE DIFFERENTIAL

Labour mobility which is the main outcome of wage differentials brings a re-allocation of labour forces under changing circumstances by providing an influencing incentive for it. Both the conditions of demand (which reflect the productivity of workers) and supply (which reflect the attractiveness of jobs) are taken into consideration for determining the wages under competitive environments. The level of wages is calculated depending upon the relative scarcity of supply in relation to demand. Wage differentials are the result of scarcity differentials that are attributed to specific skills and mental abilities of employees. So, any inevitable changes in the former one pursue the same in the latter one. In other words, wage differentials reflect that the different categories cannot be reduced to the same degree of scarcity in the market. Therefore wage differentials are inevitable.

Social welfare activities which result, in a large measure, out of such wage differentials are as follows:

(a) Allocation of labour in different occupations, industries and geographical areas of the economy in such a manner that it maximizes the national product:

(b) Full employment of the resources of the economy can be attained; and

(c) Wage differential facilitates the most desirable rate of economic progress.

## 6.6: GENERAL FACTORS CAUSING THE 'WAGE DIFFERENTIAL'

Wage differential arises because of the following factors:

(a) Labours show differences in their efficiency because of inborn quality, education, and conditions under which they work.

(b) Existence of non-competing groups to minimize the difficulties that arise in the way of labour mobility from low paid to high paid employment.

(c) Presence of different views in the agreeableness or social esteem of employment.

(d) Existence of different employment and occupations.

## 6.7: FACTORS DETERMINING THE NATURE AND EXTENT OF 'WAGE DIFFERENTIAL'

The following factors usually determine the nature and extent of the wage differential.

i. The prevailing conditions in the market,
ii. the extent of unionization,
iii. the relative bargaining power of the employers and workers,
iv. the rate of growth in productivity,
v. the extent of authoritarian regulations and the centralization of decision-making,
vi. customs and traditions,
vii. the general economic condition,
viii. industrial and social conditions in a country, and
ix. a host of other subjective and objective factors operating at various levels

The wage differential is also affected directly or indirectly by the-

a. prevailing rates of wages,

b. the capacity of an Industry to pay,

c. the needs of an industry in a developing economy and

d. the requirements of social justice etc.

## 6.8: FACTORS THOSE ARE RESPONSIBLE FOR DIFFERENCES IN WAGES BETWEEN OCCUPATIONS

The following important factors are responsible for the differences in wages between occupations:

**Difference in efficiency**

All persons are not equally efficient. They differ in abilities. Some are more efficient and some are less efficient. Some others are not efficient at all. An efficient worker gives better output. Hence, he is paid higher wages than others are. Moreover, the efficiency requirement in different jobs varies. A doctor requires more skill than a nurse does. A district collector is entrusted with heavy responsibilities and the job necessitates ability and intelligence. On the contrary, the job of a sweeper does not require them. Hence, wages differ between occupations.

**Presence of noncompeting groups**

Society is divided into a number of working groups, which are noncompeting. Caste system creates such groups in India. As a result, a child born to a sweeper will most likely be a sweeper just as a black smith's son will be a black smith. Besides, the chances of receiving training for better-paid occupations depend on the resources of the family. Thus, in heritance, environment, training and sex are some factors, which create noncompeting groups in the society. Hence, workers belonging to different groups are paid at different wage rates.

**Immobility of labour**

Labour is not perfectly mobile. It is normally shy to move. It has inertia to stick to one job. Sometimes, people are not prepared to accept higher wages if it necessitates a change of place. This accounts for difference in wage in different places. The presence of noncompeting groups in society makes labour more immobile. Political barriers against the free movement of labour from one country to another result in the difference in wages in different countries.

**Nature of employment**

The nature of work also influences wage rates. Dangerous and disagreeable work brings higher money wages to attract larger supply of labour. For example, a coal miner gets higher wages than a clerk in the office. High money wages act as compensation. Contrarily, safe, pleasant, comfortable and socially prestigious jobs carry lower money wages.

**Training and Qualification**

Jobs requiring special qualification and apprenticeship generally command higher wages than jobs learnt easily and for which no special training is required.

**Productivity**

This differs in different occupations. The Cobbler's job is not as productive as that of a skilled motor mechanic or of clerk as that of a principal of a college.

**Regularity of employment**

If there is regular employment in a job, one may demand lower wages. If the job is irregular or seasonal, wage has to be higher. In case of India, young men prefer low paid jobs under government due to security and regularity of employment to irregular and insecure private jobs with more remuneration.

**Future Prospects**

There are some jobs where promotion prospects are better than other jobs. Even if initial salary is low, if promotion prospects are there people prefer these jobs to others jobs.

**Scope for extra earning**

If a job has scope for extra earnings, the regular wage may be lower. A doctor may start with a lower salary than a lecturer but the former can make up the deficiency by private practice.

## 6.9: COMPENSATING WAGE DIFFERENTIALS

Different wages paid to different workers or in different markets that adjust for differences in the jobs or in the productivity of the workers. Wage differentials occur for many reasons. Quite often they are the result of the personal preferences of workers. In some cases workers are willing to "buy" leisure-time or other types of household production by taking lower wages. Differences in job risks, education, and location are also reasons for the persistence of wage differentials.

Wage differentials observed in the labor market are often compensating wage differentials. Some employers find it necessary to pay higher wages to compensate workers for dirty, dangerous, and generally undesirable working conditions. Other employers can pay less for comparable work because conditions are more pleasant.

Three reasons for compensating wage differentials are as follows:

i. Risk and Hazardous Conditions: Jobs that are riskier, more dangerous, and have a greater likelihood of injury, typically pay higher wages. For example, coal miners, deep sea divers, and security guards are likely to be paid higher wages than similar jobs due to the hazardous nature of their duties.

ii. Education and Skill: Jobs that require more education, skill, and training also tend to pay higher wages. Higher wages compensate for greater productivity and provide returns on investment in education and training.

iii. Location: Jobs that are at undesirable, more distant, or hard to reach locations also pay higher wages. Firms in cities that have high living costs, inhospitable climates, high crime rates, or other "disamenities" find it necessary to offer higher wages to attract workers.

Compensating wage differentials have an important allocative function for the economy for two reasons:

First, they provide incentives for people to undertake less desirable work. If society decides that resources need to be allocated to production that involves undesirable work, then compensating wage differentials are necessary. Without extra wages, this work is not done.

Second, they provide incentives for employers to reduce the undesirable nature of the work. If otherwise identical firms have different working conditions, then one is forced to pay higher wages to attract workers. Higher labor cost encourages employers to improve working conditions to remain competitive.

### 6.9.1: THEORY OF COMPENSATING WAGE DIFFERENTIALS

Labor services cannot be separated from the person rendering them. Therefore, given two offers of employment that are identical in all respects except working conditions, individuals trying to maximize their **utility** (satisfaction) will choose to supply their labor under the more desirable conditions. Hence, firms wishing to attract workers are faced with a dilemma. If they wish to attract more workers, they must either incur the costs necessary to make working conditions better, or they must pay higher wages. If the firm chooses to pay higher wages, the extra wage it pays relative to the firm with the more desirable working conditions is called a **compensating wage differential**. The compensating differential can be viewed as a reward to those workers accepting undesirable conditions, or alternatively, as the amount workers must pay to receive desirable conditions.

Of course, there are many things other than working conditions that influence a worker's wage. Training, skill, experience, age, race, gender, union status, and location may all exert an influence on the wage received. It is important to realize that the theory of compensating differentials does not imply that workers experiencing bad conditions will earn more than those experiencing good. After all, the chief executive at General Motors earns more and works under better conditions than the typical worker on the assembly line. What the theory does imply is that, **holding all else constant**, comparable workers will receive higher wages when they work under unpleasant conditions. The theory is also based on the assumptions that workers seek to **maximize utility** rather than income, have **complete information** about the characteristics associated with a particular job, and that they have enough **mobility** so that they can potentially accumulate a number of different job offers.

But what is the process through which compensating differentials emerge? What roles do employers and employees play in the process? The answers to these questions can be found in a framework known as the **hedonic theory of wages**. This theory is illustrated in Figure 8-1, where the undesirable characteristic is assumed to be **risk of fatal injury**.

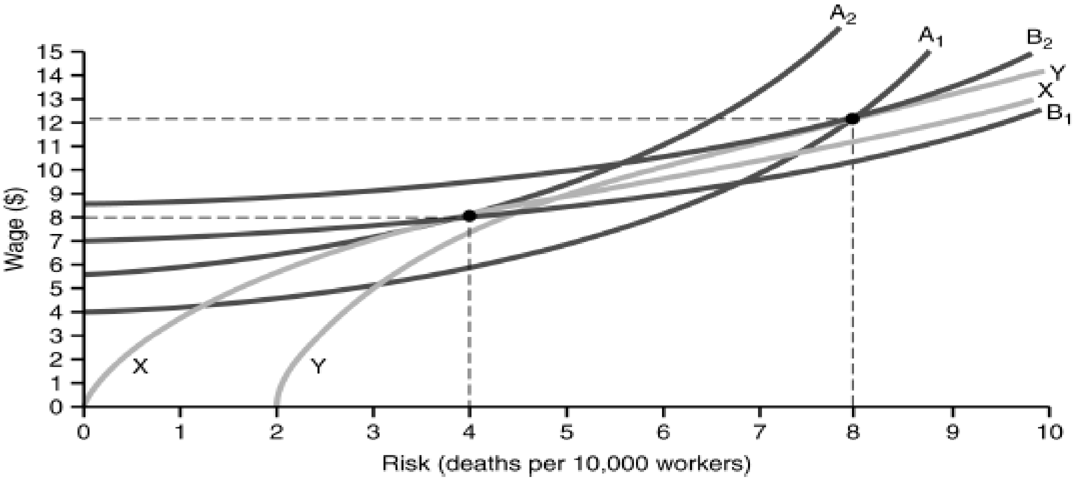


Figure-1

The preferences of two workers are summarized by the series of **indifference curves** labeled A and B. Any given curve shows all the combinations of risk and wages that will yield a certain level of utility. Higher curves (i.e., movements to the northwest) yield higher levels of utility and are denoted by higher subscript numbers. The curves are upward sloping since as the level of risk increases, the only way to keep the worker at the same level of utility would be to raise the wage. The convexity of the curves suggests that when the workplace is very risky, workers are willing to forego a large amount in wages in return for a given reduction in risk. However, as the workplace grows safer, workers are less willing to give up wages for that same reduction in risk. The steeper slope to person A's indifference curves suggests that preferences about risk and wages are not the same for all individuals. Person A is more concerned about safety (more averse to risk) and so is willing to forego more in wages than person B is for a given reduction in the level of risk.

The constraints facing two employers are summarized by the **iso-profit curves** labeled X and Y. Any given curve shows all the combinations of risk and wages that will yield a certain level of profit. Higher curves (i.e., movements to the northwest) would yield lower profits. The curves shown are assumed to be wage/risk combinations associated with zero economic profits, or just a normal rate of return. Zero economic profits are consistent with the notion that firms face perfect competition in the input and output markets. The curves are upward sloping since reducing the level of risk is costly, and so reductions in risk must be accompanied by wage reductions if the firm is to remain at a certain profit level. The convexity of the curves suggests when the level of risk is high, risk reductions are relatively easy to find and a given reduction in risk can be found at a relatively low cost. However, once the workplace has been made safer, additional risk reductions are likely to be difficult and that same reduction in risk will be more costly. The steeper slope to firm Y's iso-profit curve suggests that at any given level of risk, firm Y finds a given reduction in risk more costly than firm X.

Note that at low levels of risk, firm X will be able to offer higher wages than firm Y and still stay on the zero profit iso-profit curves. At high levels of risk the opposite will be true. This suggests that the final outcome is constrained to lie along the portions of the zero profit iso-profit curves that lie furthest to the northwest. The set of potentially acceptable offers is called the **offer curve**.

Note that if Figure-1 is an accurate depiction of the matching process through which compensating differentials are generated, mandatory safety standards may make at least some workers worse off.

Recall, however, that Figure-1 was based on the assumption that workers had complete information about the actual risk associated with different employment offers. If this is not true, a window of opportunity may be created for mandatory risk reductions to make at least some workers better off. Even in these situations, however, it is important that the standards not be set too strict. In setting standards for workplace safety, it is important that a **benefit/cost study** be done to see whether the value that workers place on risk reductions is at least as great as the costs borne by firms, which invariably will be paid by the workers in one form or another. In such a study, the benefits can often be estimated by using the compensating differentials that are generated in markets where there is complete information.

For example, some empirical studies of compensating differentials have suggested that manufacturing workers may be willing to give up as much as Rs.700 for a 1 in 10,000 reduction in the risk of a fatal injury. Using this information, it would be possible to extrapolate what a worker might be willing to give up, say, for a 4 in 10,000 reduction in risk. The regulation would thus seem to be worth up to (4)(Rs.700) or Rs.2,800 per worker. This benefit level could then be compared with the estimated cost per worker of implementing the regulation.

Benefits computed in this manner, however, are often criticized for not taking into account the benefits from increased safety that would accrue to people not directly affected by the regulation. Also, the extrapolation takes worker willingness to pay for increased safety as a given. This ignores the convexity of indifference curves as well as changes in preferences and attitudes such regulations can bring about over time.

Another recurring **job characteristic** that can be analyzed using the hedonic wage theory is the level of **employee benefits** that workers receive. Employee benefits include **payments in kind** (e.g., medical insurance or paid vacations) or **deferred compensation** (e.g., pension fund contributions). Figure-2 shows how the model is adapted when the recurring characteristic is something of benefit to the workers.

The preferences of two employees are summarized by the series of indifference curves labeled Y and Z. Any given curve shows all the combinations of employee benefits and wages that will yield a certain level of utility. Higher curves (i.e., movements to the northeast) yield higher levels of utility and are denoted by higher subscript numbers. The curves are downward sloping since as the level of benefits increases, the only way to keep the worker at the same level of utility would be to lower the wage. The convexity of the curves suggests that when the workers do not receive many benefits, they are willing to give up a significant amount in wages for a given increase in benefits. This occurs because in-kind benefits are not subject income taxes, and deferred benefits will generally be taxed at a lower rate than current income. However, as the level of benefits rises, workers are less willing to give up wages for that same increase in benefits. This occurs because receiving compensation in the form of benefits does reduce the discretion workers have in how they allocate their income. The steeper slope to person Z's indifference curves suggests that person Z finds additional benefits more valuable than person Y, and so is willing to give up more in wages than person Y for a given increase in benefits.

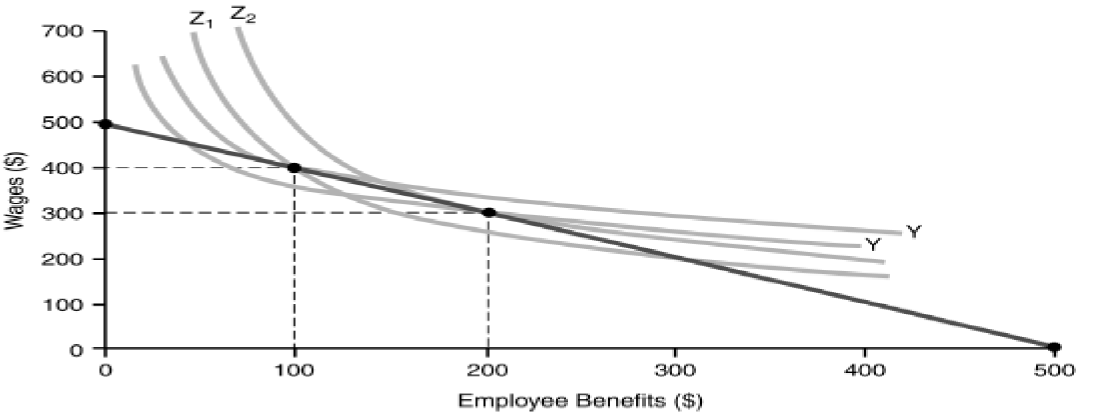


Figure-2

As income tax rates change over time, the benefits associated with taking compensation in the form of fringe benefits also changes. Holding all else constant, indifference curves between wages and benefits should become steeper as tax rates increase. Of course, preferences for wages and benefits will be heavily influenced by exactly what benefits are being modeled and the characteristics of the individual worker. For example, if the benefits on the horizontal axis consist primarily of child-care benefits, and the worker is without children, the benefits will be of little use and so we would expect the indifference curve for this individual to be much flatter than that for someone with small children.

The constraint facing employers is summarized by the **iso-profit curve** labeled X. The curve shows all the combinations of fringe benefits and wages that will yield the same total cost of compensation to the firm. With the total cost of compensation constant along the curve, it can be inferred that profits will also be constant along the curve. Higher curves (i.e., movements to the northeast) represent higher total compensation levels and so would yield lower profits. The curve shown is assumed to be that level of compensation associated with zero economic profits.

In Figure-2, the compensation level associated with zero economic profits is assumed to be Rs.500. Since the iso-profit curve is drawn with horizontal and vertical intercepts at Rs.500 (resulting in a slope of -1), it is also assumed that the firms can tradeoff between benefits and wages on a one-to-one basis and still keep total compensation costs the same. From the firm's perspective, then, paying employees a rupee of fringe benefits is the same as paying a rupee in wages.

Although a one-to-one tradeoff is a useful starting point in the analysis, it is important to realize that the tradeoff is likely to be different. Business taxes like Social Security and workers' compensation are computed as a percentage of a firm's payroll, and so compensating workers in the form of wages can lead to additional costs that would not be incurred if the compensation was made in the form of benefits. So, for example, the firm may find that it can offer only Rs.400 in wages in place of Rs.500 in benefits (or Rs.1 in benefits for every 80 cent reduction in wages).

Other reasons that benefits can be offered on more than a one-to-one basis include the reduced turnover costs that come when benefits tie people to firms, as well as possible volume discounts that firms may be able to obtain when buying things like medical insurance for their workers. There are also factors, however, that can counteract this tendency. For example, some benefits may result in more absenteeism, raising the cost of providing benefits relative to the cost of wages.

Combining the indifference curves for each individual with the employers' iso-profit curves yields the equilibrium combinations of wages and benefits shown in Figure-2. If allowed to choose the mix of wages and benefits, worker Y would choose Rs.400 in wages and Rs.100 in benefits, while worker Z would choose only Rs.300 in wages but Rs.200 in benefits. Although some firms do give employees some flexibility as to the form of their compensation, most firms will choose a particular point along the iso-profit curve to offer to prospective employees. The result, of course, is that firms will tend to attract different types of workers. A firm offering only Rs.300 in wages but Rs.200 in benefits would have no trouble attracting a worker like Z, but such a package would put Y on a lower indifference curve and create an incentive for Y to seek employment at a firm with a compensation package more suited to his or her preferences. Similarly, a firm offering more in wages but less in benefits would have trouble attracting workers like Z since such a package would put Z on a lower indifference curve.

Knowing that different types of compensation packages will appeal to different kinds of workers, firms will structure their compensation strategically to attract the types of workers they want. For example, what kinds of workers are likely to have preferences like person Z in Figure 8-2? Since the indifference curves are relatively steep, this means that additional benefits are highly valued. If the benefits are traditional things like pensions and health insurance, this is likely to be an older worker. Alternatively, if the benefits are maternity leave and child care, the person could be a young woman. By appropriately setting the type of benefits and their levels, the firm would be sure to attract workers like Z while discouraging applicants like Y.

Regardless of the compensation mix offered by the firms, note that Figure-2 clearly shows, that workers pay for additional benefits in the form of lower wages. Holding all else constant, firms that offer comparable workers more generous benefits must pay lower wages to remain competitive. Figure-2 also provides a framework for rationalizing the growth of fringe benefits. Higher income tax rates tend to steepen the indifference curves at the same time higher payroll taxes tend to flatten the iso-profit curves. As the indifference curves steepen and the iso-profit curves flatten the optimal combination of wages and benefits moves in a southeast direction.

## 6.10: IMPACT OF TRADE UNIONISM ON WAGE DIFFERENTIALS

Trade Unions' policies in respect of wage differentials are of diverse nature. While agitating against many of the differentials trade unions patiently cling to the maintenance of many others. All workers want to secure absolute improvement in their positions and no group likes the undermining of its relative position. The craft unions, of course, seek to maintain and improve, if possible, their relative position in the wage hiereachy. Industrial Unions, on the other hand, dominated numerically as they are by workers at the bottom of the wage hierarchy; seek to improve not only the absolute but also the relative position of their membership. Thus, in industries dominated by industrial unions skill differentials particularly dwindle much faster.

Similary, when the unions develop the practice of industry wide collective bargaining or when industry wide wage boards and adjudication tribunals functions the inter-plant and regional differentials tend to disappear. This has been the common experience in India.

When the trade unions intend to take labour out of competition, i.e., prevent employers from competing at the cost of labour in the product market, it is but natural for them to organise all competitors and equalise the labour cost for them. In this process, the inter-plant differentials tend to disappear. But if on the other hand, it is customary to have the plant as the unit of collective bargaining and different plants organised by different unions inter-plant differentials in an industry tend to get entrenched and even magnified depending upon the paying capacity of the plant and bargaining power of the union. The existence of inter-firm or inter-plant differentials in an industry even in the same locality is a common experience, wage rates varying directly with the size of the firm, whether having common rates for the same industry irrespective of the size, position and profitability of the different concerns will be more gainful for the workers or whether adjusting wage rates according to the paying capacity of each firm and also being the bargaining power of the union will be more advantageous-- is a question, the answer to which differ from industry to industry. But the trade unions have found it politically expedient in most cases to go in for uniform wage rates in an industry.

The influence of trade unions on sex racial or caste prejudices has been against their continuance.

As regards industrial wage differentials, the bargaining power of the trade unions has been of crucial importance. In some sectors of the Indian economy, particularly the large organized sector, trade unions have made full use of their/bargaining power and consequently many industrial wage differentials have become wider and have also become a source of heart burning to other employees. The banking, insurance and air transport have become examples for others to emulate.

In respect of union and non-union wage differentials there are conflicting evidences in the industrially advanced countries. However, many economists support the thesis that the unionised workers receive 10 to 15 per cent higher pay than unorganized workers. In India, as has been said earlier unionization has exerted a much more pervasive influence pushing up wage rates in those sectors and industries where union power is great.

## 6.11: SUMMING UP

Wage differential refers to differences in wage rates due to the location of company, hours of work, working conditions, type of product manufactured, or other factors. It may be the difference in wages between workers with different skills working in the same industry or workers with similar skills working in different industries or regions.

Labour mobility which is the main outcome of wage differentials brings a re-allocation of labour forces under changing circumstances by providing an influencing incentive for it. Under the competitive model with perfect competition, perfect knowledge and free mobility of labour and capital, it was assumed that most of these differentials would disappear except for those which were related to the differences in the basic nature of job or occupational requirements.

Wage differentials observed in the labor market are often compensating wage differentials. Some employers find it necessary to pay higher wages to compensate workers for dirty, dangerous, and generally undesirable working conditions. Other employers can pay less for comparable work because conditions are more pleasant.

## 6.12: PRACTICE QUESTIONS

### 6.12.1: SHORT ANSWER TYPE QUESTIONS

1. What is Wage Differential?

2. Describe the general factors causing wage differential.

3. Discuss the Importance of Wage Differentials.

4. Explain different factors determining the nature and extent of 'Wage differential'.

### 6.12.2: LONG ANSWER TYPE QUESTIONS

1. Describe different factors those are responsible for differences in wages between occupations.

2. Discuss in brief the theory of compensating wage differentials.

3. Explain impact of Trade Unionism on Wage Differentials.

# UNIT 7: WAGE FIXATION

**UNIT STRUCTURE**



## 7.1 INTRODUCTION:

By now you must have develop an idea regarding the concept of wage. It is the responsibility of every employer to pay a *fair wage* so that employee can make his/her living. Wage and payment of wage is one of the central concerns of the employees as well as of the employers. Proper care is taken with respect to the matter related to wage and its fixation. Even so, many a time wage becomes the source of conflict or dispute. In order to settle the dispute related to wage and to settle the wage related dispute, different machineries are used.

In this unit we will be discussing about the various wage fixation machineries in the Indian context.

## 7.2 OBJECTIVES:

After going through this unit, you should be able to:

- Define the concept of wage fixation
- Outline the Institutional arrangement of Wage fixation
- Discuss the various Statutory wage fixation

## 7.3 WAGE FIXATION:

It is very important for an organisation to satisfy the workers by paying them a competitive wages. The procedure for determination of the rate of wage to be paid can be considered as wage fixation. The goals of wage fixation are:

- To satisfy the worker by giving them a fair amount of wages.
- To reduce the dispute arises out of wage differentials
- To ensure economic and social justice.

## 7.4 WAGE FIXATION IN INDIAN CONTEXT:

In India practically wage fixation was started in its real term after independence. The matter of wage fixation has been taken care of and it was included even in the *Constitution of India*. In its directive principle state policy in the *article 43* it is stated that the State shall endeavour to secure, by suitable legislation or economic organization or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities and, in particular, the State shall endeavour to promote cottage industries on an individual or co-operative basis in rural areas.[1]

As *National Commission on Labour* rightly pointed out "Our Constitution accepts the responsibility of the state to create an economic order in which every citizen finds employment and receives a 'fair wage'."[2]

The enactment of the *Industrial Dispute Act of 1947* can be considered as the starting point of formal wage fixation in the country. The act provides a lot of machineries to settle dispute arises out of wage payment in different industries. In the same year a Tripartite Conference was convened by the central government to achieve industrial peace and progress by handling various matters including wages. In fact the immediate *Industry Policy Resolution* which was laid down in the year 1948, items related to wages are given importance. Accordingly government of India enacted the *Minimum Wages Act* in the year 1948. This is an important landmark in the Indian history, which for the first time bring the norms and procedures for fixing up minimum wage.

## 7.5 INSTITUTIONAL ARRANGEMENT FOR WAGE FIXATION:

Today we have a handful of machineries for fixation of wages and to regulate the matters related to it. The most widely used machineries in India are:

- Collective Bargaining
- Statutory wage fixation
- Wage Boards
- Pay Commissions
- Adjudication

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[1] Report of the Planning Commission, India.( www. *planningcommission.nic.in*)
[2] Report of the National Commission on Labour

**7.5 A) COLLECTIVE BARGAINING**:

Collective Bargaining is a form of joint consultation between employer and employees. It is considered to be an aid for fostering congenial industrial relation between employer and employees. It provides opportunity to both management and union to jointly bargain over the matters related to their interest. Sydney and Beatrice Webb of Great Britain coined the term collective bargaining. A detail discussion on collective bargaining has already been carried out in your dh104 unit no 6. Here we will be discussing Collective Bargaining as a wage fixation machinery.

Probably you remember that the basic objectives of the Collective Bargaining are to arrive at an agreement between management and employees determining mutually beneficial terms and condition of employment including payment of wages. It also aims at promotion of industrial democracy at work and to protect the interest of both the employer and employees. It is seen that both employer and employees have different interest, which are often conflicting with each other. In today's organization collective bargaining is used as a technique for compromising the conflicting interest of employer and employee with respect to determination of wage rate.

International labour organization (ILO) in the convention 98, declared Collective Bargaining as a fundamental right. It is a process which covers all forms of negotiations that takes place between employers and employees. Collective Bargaining generally seeks to determine the mutually agreed terms and conditions of work. Cox defines Collective Bargaining as the resolution of industrial problems between the representatives of employers and freely designated representatives of employees acting collectively with a minimum government dictation. [3]

Collective Bargaining has some economic or market function, which includes improving better terms and condition of employment in the country. According to Professor Butler there are three special functions of collective bargaining. These are:

a) Collective Bargaining is process of social change.

b) Collective Bargaining is a peace treaty between two parties in continual conflict.

c) Collective Bargaining is a system of industrial jurisprudence.

**Stop & Read**:

For detail discussion of the various functions of Collective Bargaining, please refer to the unit 6 of the course 4.

[3] Cox, Archilliald,Labur Administration : Prospective and problems, 253.

Bargaining generally takes place at various levels. In *Plant Level Bargaining* as the name implies, only the workers and management of the organization sit for a negotiation. This type of bargaining takes place within the organization. The employers and the workers of the organization bargain over different issues related to wage, working condition etc. In case of a large scale organization, the representative from management and representative from the union side use to sit for bargaining. As for example if bargaining occurs between the employees employers of Nezone Biscuit factory, then it can be termed as *plant level bargaining.*

There is another level of bargaining, commonly known as *Industry Level Bargaining.* The bargaining between the employers association of the same industry and association the workers of the same industry is known as *industry level bargaining*. In more simple words, in this type of bargaining firms belong to one particular industry and association of employers of that industry bargain over some industry specific issues.

To address the issue of the labour of the whole country, sometimes bargaining is carried out between the employers association of different industries and the national representatives of the workers union. This type of bargaining is known as *National Level Bargaining*. The central federation of labour union and employers' associations are the party to this type of negotiation. As for example after 1970 in the government dominated industries, sectoral bargaining at national level related to various issues including wage etc was prelevant.

In today's modern societies Collective Bargaining is most widely used to fix the wage of the workers. However for quite a long time it is believed the Collective Bargaining could not play a role in fixation of wages of the workers. It is considered to be an ineffective ways of fixing up the rate of wages in the industry. This in fact is very well reflected in most of the wage theories developed during the nineteenth century. As for example in the *Wage Fund Theory* it is mentioned that *wage can't rise unless either the wage fund increases or the number of worker decreases*[4]. There is no mention about the role of collective bargaining in wage fixation.

In this regard Ahuja observed "*it is evident from the famous wage theories of the nineteenth century there was no room for trade union and collective bargaining in fixing and improving wages of the workers, though the conditions of the labour market were completely changed as a result of the emergence of the trade unions and their bargaining with the employers on behalf of the workers"*[5].

**Stop & Read:**

For detail discussion of the various theories of Wage, please refer to the unit 1 of the course 7.

It was only in the later part of the twentieth century the role of trade union and Collective Bargaining was introduced into the economic theory of wage and its role was recognized in

[4] Ahuja(2000), Advanced Economic Theory. S.Chand, Delhi.
[5] Ibid

fixing wages of the workers. Accordingly the institutional and psychological theory of wage determination was developed with an eminent role of Collective Bargaining in wage fixation.

However it is worth mentioning that the role played by Collective Bargaining in fixation of wage might be different on the basis of market condition. In a *perfectly competitive* labour market wage rate is determined by the demand and supply of labour. However there is always scope for using Collective Bargaining in fixing up the wage rate. The trade union can go for bargaining to increase their wages. But it is mentioned that *"labour union has succeeded in raising wage rate but only at the expense of employment"*[6]. Let us consider another type of market. When there is *monopsony* in the labor market trade union can succeeded in increasing both wage and employment as a result Collective Bargaining.

*Further the realization that it is not the perfect competition but the market forms of imperfect competition, oligopoly, monopoly, monopsony etc. which mostly prevails in the real world opened up new vistas for combining the marginal productivity analysis with the bargaining approach to the wage determination*. (Ahuja)

Collective Bargaining has its recent origin in India. It received increasing emphasis since the days of National Commission of labour. However prior to independence some evidences of joint negotiation are also found between the Textile labour association and Ahmedabad Mill owner association in early 1920. Moreover government enacted the *Trade Union Act, 1926* to empower the growth of trade union in the country. Trade Dispute Act was also passed to solve the dispute related to trade. The *Bombay Trade Dispute Act,* 1934 was enacted with a provision for appointment of labour officer, special conciliator and chief conciliator. The *Defense Rule of India* was also enacted along with provision for establishment of *Tripartite Indian Labour Conference* and *Standing Labour Committee*. These all paved the way of growth of Collective Bargaining during pre independence era.

After independence also government put their emphasis to increase the use of Collective Bargaining so as to minimize government intervention in the labour management dispute. In most of the *Five Year Plans*, government gives due emphasis on the issue. The *First Five Year plan* duly recognized the need for Collective Bargaining to resolve labour disputes and maintain peaceful industrial relation in the country. Increasing emphasis was given to Collective Bargaining in the subsequent *"Second Five-Year"* plan. It noted that for the development of an undertaking or an industry, industrial peace is indispensible. The best solution to the common problems, however, can be found by mutual agreement or Collective Bargaining.

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[6] Op.cit

The concern for Collective Bargaining continued in the *"Third Five-Year"* plan also. The main emphasis was given to the adoption of voluntary arbitration in the place of compulsory adjuration. Similarly, the "*Fourth Five- Year*" plan stressed the need for greater emphasis on Collective Bargaining as also a strong trade union to ensure better relation between the employer and employee.

The appointment of the *National Commission on Labour* in 1966 was a special moment in the history of Collective Bargaining in India.

However with the introduction of economic reforms in 1991 the government role in industrial management matters is showing diminishing trend. In this scenario, the role of Collective Bargaining is likely to become more important.

**7.5 B) STATUTORY WAGE FIXATION:**

During early years after independence the Government of India is playing a protective role to improve the industrial relation scenario of the country as the government role in the industrial relation is of utmost importance to the economy and to establish cordial relationship amongst employer and employees. However the role of the state in industrial relation scenario is determined by its political, ideological and socio-economic orientation.

In order to control the wage related matter a Central Advisory Council in its first session (November, 1948) appointed a Tripartite Committee on Fair Wages to enquire into and report on the subject of fair wages to labour. The committee defined three different levels of wages

viz;

(i) Living wage

(ii) Fair wage

(iii)Minimum Wage

In India matter related to wage is generally governed by the four legislations. These are:

- The Payment of Wages Act,1936
- The Minimum Wages Act,1948
- The Payment of Bonus Act, 1965
- The Equal Remuneration Act, 1976

The statutory Minimum Wage is the wage determined according to the procedure prescribed by the relevant provisions of the Minimum Wages Act, 1948. The question of establishing statutory wage fixing machinery in India was, therefore, discussed at the third and fourth meetings of the *Standing Labour Committee* held in 1943 and 1944 respectively and at successive sessions of the *Tripartite Labour Conference* in 1943, 1944 and 1945. The last of these approved the enactment of minimum wages legislation in principle. On April 11, 1946, a Minimum Wages Bill was introduced in Parliament and it was, passed into an Act in March, 1948.[7]

At the 15th Session of the Indian Labour Conference held at New Delhi in July 1957, the following norms were accepted as a guide for all wage- fixing authorities including Minimum Wage Committees, Wage Boards, Adjudicators, etc.: [8]

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

(ii) Minimum food requirements should be calculated on the basis of a net intake of 2700 calories as recommended by Dr. Akroyd for an average Indian adult of moderate activity.

(iii) Clothing requirements should be estimated on the basis of a per capita consumption of 18 yards per annum, which would give for the average worker's 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. The Resolution further laid down that wherever the minimum wage fixed was below the norms recommended above, it would be incumbent on the authorities concerned to justify the circumstances which prevented them from adherence to the aforesaid norms. The Resolution, thus, tried to give a concreteness to the whole concept of minimum wage.

**Stop & Read**:

For detail discussion of the Minimum Wages Act,1947 , please refer to the course 6.

### 7.5 C) WAGE BOARDS:

Probably you are aware of the fact that one of the very important features of the Indian economy is the growth of unorganized sector and over 92% of the workforce in India belongs to this sector (Venkata Ratnam, 2009). Due to lack of unionization in the unorganized sector workers were at the inferior position in the bargaining table. Though Collective Bargaining and

[7] **Report On The Working Of The Minimum Wages Act, 1948 For The Year 2010, Ministry of Labour and Employment**

[8] 44th Session of the Indian Labour Conference(New Delhi), **Ministry of Labour and Employment**

industrial tribunal was widely accepted as wage fixation machinery, but it was not adequate for fixing up of wage structure country wide including the unorganized sector.

To overcome these difficulties Wage Board was set up in the year 1957 with a board objective of fixing up wages in different industry or sectors. However the provision of constitution of Wage Board was dates back to 1931. The Royal Commission on Labour, 1931 recommended the setting up of tripartite boards in Indian industry to fix the wage and to regulate the matter related to wages. But it was not implemented by the imperial government during that period. After independence, with the enactment of *Industrial Dispute Act, 1947,* it was felt that the adjudication machinery can be widely used for the matters related to wage. But in due course of time it is seen that it could not satisfy the matters related to wage fixation.

In its *First Five Year* plan, Government of India again emphasized on setting up permanent tripartite Wage Board in each state and at the centre to deal with the wage related matter. But due to certain difficulties the First Five Year plan was not successful in setting up wage board. The *Second Five Year* plan again considers the matter of establishment of Wage Board even more seriously. It specifies such wage board should be instituted for individual industries in different areas[9].

The Fair Wage Committee and the 15$^{th}$ Indian Labour Conference also recommended on the setting up of the Wage Board. In fact the ILO report also emphasized on the issue of the establishment of the Wage Board. Accordingly as it is mentioned in the year 1957 the first Wage Board in the country was set up in the cotton textile industry. In the next two year another two Wage Board was set up for the cement and sugar industry respectively. With the tremendous support from the trade union movement many wage board was set up in different industries. Till now around 30 Wage Board were set up to take care of the matters related to wage fixation.

***Composition of the Wage Boards:***

The Wage Boards are tripartite in character. It consists of a Chairperson, equal number of representatives of employers and employees and two other independent persons. For appointing the Chairman, the appropriate government consults with the Chief Justice of the High Court or Supreme Court as the case may be. The Chairman should have qualifications equivalent to a judge. The appointment of independent persons is generally done by the appropriate government in consultation with the employers and employees. It is preferable that one of the

[9] Memoria,C.B. , S, Mamoria, and Gankar. Dynamics of Industrial Relations. New Delhi: Himalaya Publishing House P, 2010. Print

independent members is an economist and other should be a representative of consumer or public. The employers' representative shall only be nominated as per the recommendation of the most representative organization of the sector. The employees' representatives will be selected on the basis of the recommendation of national organization of the trade union of the particular industry concerned.

***Functions of Wage Board***:

The ultimate function of Wage Board is to determine the wage payable to the employees of the industry concerned. However as per Mamoria[10] the functions of Wage Board are:

- Determine the categories of employees are to be brought within the scope of wage fixation
- Work out a wage structure based on the principle of fair wage formulated by the committee of fair wages.
- Suggest a system of payment by results
- Work out the principle that should govern the bonus to the workers in industries.

The procedure for functioning of Wage Board is generally prescribed by the appropriate government. Basically it involves three steps. In the very first stage, to fix or to determine the wage rate, the board prepares a questionnaire to collect information related to prevailing wage structure, paying capacity, work load, consumer price index, inflation rates etc. The questionnaire then sent to different parties to interest.

After collection of the questionnaire the board should give a public hearing on the issue. The third and final step of the functioning of the board is that the board along with its members prepares proposals regarding the item to be covered in the terms of reference. Then it is submitted to the government. Government after necessary modification accepts the report.

***Criteria for award:***

In evolving a wage structure the board should take into account:

i) The needs of the industry in a developing economy;

ii) The requirements of social justice;

iii) The need for adjusting wage differentials in such a manner as to provide incentives to workers for advancing their skill;

iv) The possibility of linking productivity with wages; and

v) The desirability of extending the system of payment by results.

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[10] Op.cit

***Enforcement of award:***

After the acceptance of the award of the Wage Board, it is the responsibility of the employers to pay wages at the rates which is no way less than the rates of the award. If the wages drawn by the employee is higher than the rate as per the award, then he / she entitled to continue to draw higher wages. In India wage boards are of two types: statutory and non statutory. The wage board for the working journalist is the only statutory wage board in the country.

***Wage Board in India: an Assessment***:

Due to the tremendous support of the trade union movement there were relatively sharp growth of Wage Board in the early period. However the success of Wage Board is specifically seen only in three industries namely Cotton, Cement and Jute industry.

The Wage Boards could not able to fulfil many of expectations.

Due to the non-statutory nature of the Wage Board, it cannot enforce an award and many a time it was not successful in pushing up the wage rate. The attitude of the different boards for fixing up the wage rate can be considered as another drawback in the working of Wage Board. None of the board fixed wages at the need based minimum level nor they follow the principles forwarded by the Fair Wage Committee. Moreover the time required to take a decision by a board is quite lengthy.

On balance one could, perhaps, say that the wage board system has served the useful purpose of breaking stagnation in wages but has fallen far short of expectations in other respects[11].

## 7.5 D) PAY COMMISSIONS:

To deal with the pay structure of the government employee, Pay Commission is appointed by the government. In contrast to the Wage Board, Pay Commissions cover a wide range of government employees. The main aim of Pay Commission is to determine the salaries of the government employees. After regular interval Pay Commissions are set up by the government. It functions non-statutorily. According to its own way Pay Commissions investigate the matter related to salary and provide recommendation to the government. Government is the final authority to examine and rectify the recommendations and to implement it. Till now Indian government has set up six Pay Commissions.

The *First Pay Commission* in India was established in 1946, and it is customary that after every ten years there has been the birth of a commission that decides the wages of government employees for a particular time-frame. The *Second Pay Commission* was set up in August 1957 and submitted its report in 1959. The *Third Pay Commission* was set up in April 1970, and the

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[11] Wage Fixation by Wage Boards, B. Tulpule

*Fourth Pay Commission* was set up in the year 1986. The *Fifth Pay Commission* was appointed in the year 1996. The *Sixth Pay Commission* was appointed in the year 2006.

The *First Pay Commission* was constituted in May 1946, and had submitted its report in a year. Srinivasa Varadachariar was the chairman of the *First Pay Commission*. The commission emphasized upon the matter of "living wage" as the base for fixing the salaries of the government employees. They ignore the law of demand and supply in fixing the rate of salaries for the government employees. The living wage as discussed by the Fair Wage Committee actually is the minimum wage. The commission recommended dearness allowances for all employees drawing a salary up to Rs 1000.

The *Second Pay Commission* had been set up in August 1957 and submitted its report exactly after two years. The chairman of second pay commission is Jaganath Das. It also considers the matter of living wage and stated that on social ground the salary should not be less than living wage. However the maximum limit of the salary structure can be determined on the basis of essential requirements of recruitment and efficiency. It recommended that to keep pace with the rise of price it is necessary to consider dearness allowances as a protective devise for the real income of the employees.

The *Third Pay Commission* was set up in April 1970 gave its report in March 1973, under the chairmanship of Raghubir Dayal. It mentioned that inclusiveness, comprehensibility and adequacy are the major requirements of a good pay system[12]. They also consider the matter of dearness allowance and referred dearness allowance as compensation to the wage earners against the rise of prices. Keeping the economic situation in view the commission recommended extending the payment of dearness allowance to all employees whose pay does not exceed Rs 2250 per month.

The *Fourth Pay Commission* Constituted in June 1986, its report was given in three phases within four years. The Chairman of *Fourth Pay Commission* was P N Singhal. One very special contribution of the *Fourth Pay Commission* was that of use of the concept of *full neutralization* and recommended that compensation of the employees should be able to provide full neutralization. It stated those who are drawing Rs 3500 per month, 75% of the basic should be paid as a compensation for price fixation. Employees who draw Rs 3501-6000 per month should be paid 65% of the basic and those who draws above 6000 subject to marginal adjustment for payment compensation for price fixation.

The *Fifth Pay Commission* was appointed in 1996. The chairman of fifth pay commission was Justice S. Ratnavel Pandian. It recommended the hike of salary for employees at the centre and

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insisted the state government to revise their pay structures. It emphasized on the following ground:

- Increasing the retirement age to 60 years
- 30% increase of HRA of the maximum pay scale in A1 cities, 5-15% of the maximum in other cities.
- Other allowances introduced
- A drastic cut of holidays from seven to three days a year.

In July 2006, the Cabinet approved setting up of the *Sixth Pay Commission*. This commission has been setup under Justice B.N.Srikrishna with a timeframe of 18 months. The Commission initiated its work immediately after the date of its Notification on 5th October, 2006. The Commission adopted a totally delayered approach where no hierarchical levels were allowed to exist and all functionaries could freely discuss the concerned issues with anyone in the Commission irrespective of their hierarchy. This approach facilitated expeditious decision making and the Commission was able to finish its task well within the stipulated time-frame with a very small complement of staff.

Introduction of Performance Related Incentive Scheme (PRIS) is an important step by the commission. Many of the earlier Central Pay Commissions as well as various expert committees constituted in the past have recommended performance related incentives in one form or the other. In this Report, however, the Commission has tried to devise a workable and practical model by which the concept can be implemented in the Government.

The Sixth Pay Commission mainly focused on removing ambiguity in respect of various pay scales and mainly focused on reducing number of pay scales and brings the idea of pay bands. Total cost of implementing the revised pay bands is expected to be Rs.5468 crore p.a. This includes the annual expenditure of Rs.3828 crore on revised pay bands for civilian employees and expenditure of Rs.1640 crore p.a. for revised pay bands in the Defence Forces.[13] ). Four distinct running pay bands being recommended - one running band each for all categories of employees in groups 'B' and 'C' (posts in the scale of Rs.5000-8000 have, as a result of delayering and elongation of certain scales, been placed in Group 'B') with 2 running pay bands for Group A posts. Annual increments to be paid in form of two and half percent of the total of pay in the Pay Band and the corresponding grade pay. The date of annual increments, in all cases, will be first of July.

Another form of differential increments for Group A Pay Band PB-3, where annual increments in the band will vary depending upon the performance. Eighty percent or more employees in

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the grade to be allowed normal increment at the rate of 2.5% with the high performers (not exceeding 20 percent) during the year being allowed increment at the higher rate of 3.5%. Government advised to extend the scheme of variable increments in running pay bands PB 1 and PB 2.

**Adjudication:**

Adjudication is one of the legal remedy for settlement of Industrial Dispute related to wage. Adjudication as already discussed is referred to intervention of a legal authority appointed by the government to make a settlement which is binding on both the parties of dispute. The rationale behind adjudication is to prevent losses arises out of industrial dispute.

In the past few decades lots of dispute related to wage has been referred for adjudication. As the award of adjudication is of binding in nature, it helped on formulation of guidelines relate to wage fixation and settlement of dispute related to wages.

The Industrial Disputes Act of 1947 provides 3 machineries for the purpose of adjudication. These are:

•Labour court

•Industrial Tribunal

•National Tribunal

Labour court: The appropriate Government may, constitute one or more Labour Courts for the adjudication of industrial disputes relating to any matter specified in the Second Schedule and for performing such other functions as may be assigned to them under this Act. A Labour Court shall consist of one person only to be appointed by the appropriate Government. The labour court generally deals with the dispute related to the day to day matter as specified in the second schedule of the Industrial Dispute Act. The matters within the jurisdiction of Labour Court are:

- The propriety or legality of an order passed by an employer under the standing orders;
- The application and interpretation of standing orders;
- Discharge or dismissal of workmen including re-instatement of, or grant of relief to, workmen wrongfully dismissed;
- Withdrawal of any customary concession or privilege;
- Illegality or otherwise of a strike or lock-out; and
- All matters other than those specified in the Third Schedule.

Industrial Tribunal: The appropriate government may constitute one or more Industrial Tribunals for the adjudication of Industrial disputes relating to the matters which are in the form of new demand and which affect the working of an industry. It generally consists of one person. However appropriate government may appoint two persons as assessors to the tribunal for giving advice at the time of proceedings. The Matters within the Jurisdiction of Industrial Tribunals are:

- Wages, including the period and mode of payment;
- Compensatory and other allowances;
- Hours of work and rest intervals;
- Leave with wages and holidays;
- Bonus, profit sharing, provident fund and gratuity;
- Shift working otherwise than in accordance with standing orders;
- Classification by grades;
- Rules of discipline;
- Rationalization;
- Retrenchment of workmen and closure of establishment; and
- Any other matter that may be prescribed.

National Tribunal: The central government may constitute one or more National Tribunals for the adjudication of Industrial Disputes in

•Matters of National importance

•Matters which are of a nature such that industries in more than one state are likely to be interested in, or are affected by the outcome of the dispute.

Like Industrial Tribunal it also consists of one independent person and government may appoint two assessors to advise the national tribunal. It is the duty of the National Tribunal to hold its proceedings expeditiously and to submit its report to the central government within the stipulated time.

## 7.6 SUMMING UP:

It is the responsibility of every employer to pay a *fair wage* so that employee can make his/her living. Government of India has taken different initiative to provide the employees a fair wages. The Minimum Wages Act, 1948 was one of such piece of statutory measures, enacted to fix up the procedure for deciding the minimum rate of wage to be paid to the workers. Appointment of Wage Board and Pay Commission was also important arrangement for fixing up the wage structure of the employees. The Indian government is also encouraging collective bargaining as a means for fixing up the wages.

## 7.7 REFERENCE & FURTHER READING:

1. Mamoria, Mamoria, Gankar. *Dynamics of Industrial Relations*. New Delhi: Himalaya Publishing House P, 2010. Print
2. Sarma, A.M., Understanding Wage System, Himalayan Publishing House, 2009
3. Venkatratnam, C.S. Industrial Relations. New Delhi: Oxford Higher Education P, 2009. Print

## 7.8 QUESTIONS:

1. Briefly discuss the need of wage fixation in a country like India.

2. What are main recommendations of Sixth Pay Commission?

3. Critically analyse the role played by the Wage Board in wage fixation in Indian context.

## 7.9 KEY WORDS USED:

Social Justice: Removing every inequality for the common good of humanity.

Economic Justice: The difference in income should not be such as to create an unbridgeable gap between the rich and the poor.

National Commission on Labour:

Industrial policy resolution: India’s industrial policy evolved through successive industrial policy resolution. The main aim of the industrial policy resolution is to increase the pace of industrial development for higher economic growth.

ILO: International Labour Organisation

Unorganised sector: It consists of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned with little or no division between labour and capital as factors of production and on a small scale

Fair Wage Committee: A committee was set up to enquire into and report on the subject of fair wages to labour

# UNIT 8: WAGE POLICY IN INDIA

**UNIT STRUCTURE**



## 8.1 INTRODUCTION:

It is the right of the workers to receive the fair amount of wages against his services to the employers. But the fixation of the amount of fair wages is very difficult and this results in *"heterogeneous growth of wage rates in Indian industries"*.[14]

A wage policy is necessary to govern the wage related matter by ensuring economic and social justice. Moreover a good wage policy can be considered as the agents for economic development by ensuring better standard of living. Since independence lots of initiatives has been taken by the Indian government to formulate a wage policy at national level. But till now we do not have a formal national wage policy.

In this present unit we will discuss the objectives of wage policy in general and the objectives of a national wage policy in specific to India. The initiatives undertaken by the Indian government at different point of time will also be discussed here.

## 8.2 OBJECTIVES:

After going through this unit, you should be able to:

- Understand the objectives of wage Policy
- Outline the initiatives taken by the government at various point of time.
- Discuss the importance of a National Wage Policy.

## 8.3 WAGE POLICY: ITS OBJECTIVES

The primary objective of a wage policy is to achieve the social as well as economic justice. The objectives of a wage policy in a developing country are very well specified in the ILO publication[15]. They are:

[14] Report of the 1st National Commission on Labour ,1969

1. To abolish malpractices and abuses in wage payment;
2. To set minimum wages for workers whose bargaining position is weak because they are unorganized or inefficiently organized , accompanied by separate measures to promote the growth of trade unions and collective bargaining ;
3. To obtain for the workers a just share in the fruits of economic development, supplemented by appropriate measure to keep workers expenditure on consumption goods in step with available supplies so as to minimize inflationary pressure ;and
4. To bring about a more efficient allocation and utilization of manpower through wages differentiates and where appropriate, systems of payment by results.

Differences exist in the objectives of a wage policy from the point of view of individual firm and that of an economy. Let us have a look at the different objectives related nation concern and firm concern.

*The objectives related to Economy (Society):*

- Social services quality and quantity in areas like education, health and culture
- Influence of income tax policies on livelihood level
- Avoidance of population purchasing power wearing generated by prices increasing (wages and others incomes indexation)
- Priority supports of the most unprivileged categories of population like: young man, pensioners, and unemployed
- Minimum wage regulation on economy
- Unwaged sampling from employers for social insurance, pensions, family allowance, habitation price subsidy
- Legislative framework generation and the stimulation of population private insurance process, mostly of employees with a view to decrease state social expenditures.

*The objectives of a wage policy with respect to a firm:*

- Employees motivation growth
- Career evolution scheme
- Wage equity
- Assurance of labour force mobility in the firm
- Productivity improvement generally, and work efficiency improvement specially
- Avoidance of wage condensation
- Control of global wage cost
- Reinforcement of concurrencies position in rapport with other firms or with public sector in view of qualitative labour force recruitment
- Wage differentiation between workers, functionaries, professors

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[15] Op.cit

- Employee qualification, competence and performance remuneration.
- Occupational improvement
- Remuneration flexibility achievement
- High qualified labour force recruitment
- Achieving incitement of quality production through proper bonus
- Personal performance evaluation with a view to determine promotion velocity in career
- Firm wage alignment at those on labour market
- Maintenance of wage purchasing power

In the report of the 2nd National Commission on Labour, it is stated that the objectives of a wage policy should addresses the following questions[16]:

a) Do we need a national minimum wage in order to ensure that those who are employed in any region or in any sector of the economy are assured of a minimum income that can buy minimum necessities of life for them?

b) Do we need a wage policy under which we have to secure as much employment as possible? Is it necessary to have a poverty level low wage for this purpose?

c) Do we need a wage policy as part of a total anti-poverty programme in which our goal is to remove poverty of the bottom classes of our society through the use of employment at a level of wages which removes such poverty?

d) Do we want to remove the differentials of wages of workers in the organized sectors, and between the organized and the unorganized sectors? Is it possible to do so?

e) Is it possible to standardize wages in the same type of industry? Should we attempt to do so?

f) Should we give more emphasis on prescribing wages for the unorganized sector, and leave the wages in the organized sector to be decided by collective bargaining?

g) What can we do to ensure at least a minimum income to the workers in the unorganized sector?

h) Can the wage rise be linked to increase in productivity?

i) Can we have a wages, incomes and prices policy? What is the practical shape it can take, and what will be the machinery to enforce it?

However with this backdrop, the objectives of a National Wage Policy can be stated under the following heading:

(i) Minimum wage; (ii) Ceiling on wage incomes; (iii) Wage structure; (iv) Price stability; and (v) Export promotion.

Let us now explain them in details.

Minimum wage:

[16] Chapter III, ***Report of the 2nd National Commission on Labour,*** Ministry of labour, Government of India.

Probably you remember the characteristics of Indian labour which was discussed in the unit 1 of dh104. Due to the peculiar characteristics like low level of literacy of the workers, in many cases they are exploited. Therefore to prevent them from exploitation it is necessary to provide *"safety net"* wages to the workers. Hence the wage policy should aim at fixing a minimum wage. Moreover to motivate workers to join industrial employment, it is necessary to provide an entry level wage. Wage policy should aim at this entry level wage. So we can sum up that the wage policy should aim at "*a minimum wage in sweated occupation as well as a floor for entry to industrial employment*"[17].

Wage ceiling:

To give relief from the inflationary price hike it is necessary to fix the ceiling on wages. Therefore the wage policy should aim at the use of incentive payment to the labour to boost productivity and efficiency.

Wage structure:

The wage policy should aim at "*rational wage structure*". A rational wage structure refers to "*a set of relationships between rates of pay for different groups of similar occupations. It should ideally reflect such job-related factors as skill, training and experience, responsibility, mental and physical effort, and hazards*"[18].

Price stability:

The wage policy should aim at controlling inflationary pressure and stabilizing prices. Because the increasing price erode the real income of the worker.

Export promotion:

To earn foreign exchange, it is necessary for a developing country like India to increase the amount of export. This can only be done with the increased productivity of the different exportable product and services. A wage policy should aim at increasing the productivity of the worker to accelerate the development process of an economy.

## 8.4 FORMULATION OF WAGE POLICY IN INDIA: INITIATIVES

### *8.4.a) Initiatives under taken before Independence:*

The condition of labour in India was deplorable during British period. The problem of the labour was dragging less attention of the Indian government during that period. But with the growing strength of trade union, government gradually developed a positive attitude towards labour problem. Wage, many a time was a cause of bone of contention between labour and management. In the year 1928, ILO adopted a convention for paying atleast minimum wages to the workers and recommendations was taken with respect to development of machinery for fixing the wages. ILO gave full liberty to the states to develop their own machinery to fix the minimum wage. Keeping all these things in mind, in the year 1929, the Indian government

[17] Shabab Dayal. Wage Policy in India: A critical Evaluation. Indian Journal of Industrial Relation, vol 6, no-2

[18] Ibid

enacted the Trade Dispute Act which contains provision of handling disputes arises out of employment. The Whitely Commission on labour was also appointed in the year 1929 and they for the first time recommended setting up a machinery of wage fixation.

In the year 1936 the Payment of Wages Act was enacted with a view to prevent the exploitation of workers in case of payment of wages. The matter of wage fixation was also discussed in the Fifth Labour Conference (1943). The Standing Labour Committee in the year 1944 also discussed the problem of minimum wage fixation. In 1946 government devise a threefold wage policy which recommended[19]:

- Statutory prescription of minimum wages in sweated industries and occupations and in agriculture.
- Promotion of fair wages agreements
- Steps to secure a living wages for the workers in the plantation industries.

***8.4.b) Statutory Measure related to Wage Policy:***

Soon after independence, government of India realized that achievement of economic growth would be very difficult without industrial development. Along with the industrial development, per capita income of the individual should also be given importance. Therefore the government, at a tripartite conference in December 1947 adopted the *Industrial Truce Resolution* which visualises the establishment of machinery for the determination of' norms ' and standards for governing the mutual relations between the employers and employees and the settlement of industrial disputes. The most suitable machinery as recommended by the policy, for the purpose can only be a tripartite body consisting of representatives of employers, employees and Government.

Between the years 1947 and 1966, the chief emphasis was placed on concepts of *minimum wage* and *fair wage*. In the year 1947 government enacted the Industrial Dispute Act to settle the disputes. The Minimum Wages Act was enacted in the year 1948, which for the first time declares that the “appropriate government” should fix minimum wage rates payable to employees in a number of listed sectors (or “scheduled employments”). The proportion of workers covered by the minimum wage depends on the number of “scheduled employments” and is decided at the state level. The Act also empowered state governments to expand this list, and today there exist more than 300 different sectors that are covered in one or more of the Indian states. India is therefore a country with multiple minimum wage rates, which vary across states as well as across jobs within a state. According to the figures for 2009 published on the website of India’s Labour Bureau, the central Government sets 48 minimum wage rates for

[19] Op. cit

different job categories, while various state governments determine minimum wage rates for 1123 job categories among the sectors “scheduled” in the Act. [20]

***8.4. c) Initiatives under Five Years Plans:***

After independence, the goal of establishing itself as a welfare state compels the Indian government to take initiatives towards achievement of economic and social justice. It is believed that in this process of development importance of industrial labour cannot be denied. In each of her five year plan different issues related to labour welfare is taken into account. Fixation and determination of wage is one of the important items of most of the plans. Let us now look at the different plans along with their agenda to develop a national wage policy.

The ***first five year plan*** aims at growth of the economy with increase production and maintenance of industrial peace. It was specifically concerned about the wages in the public sectors enterprises. In its own word “the worker today is not satisfied with merely the wage he receives. He expects to be protected against various types of natural and other risks arising out of employment. Subject to this, wage increases should be granted under the following circumstances:—

i. To remove anomalies or where the existing rates are abnormally low ;

ii. To restore the pre-war real wage, as a first step towards the living wage, through increased productivity resulting from rationalization and the renewal or modernization of plant.”[21]

The tripartite machinery should evolve in as precise terms as practicable, the ' norms ' and standards, which should guide wage boards or tribunals in settling questions relating to wages, having regard to the claims of the various groups of workers inter se, of the other participants in industry and of the community as a whole. The courses of action in this respect are:

(a) All wage adjustments should conform to the broad principles of social policy and disparities of income have to be reduced to the utmost extent. The worker must obtain his due share in the national income.

(b) The claims of labour should be dealt with liberally in proportion to the distance which the wages of different categories of workers have to cover before attaining the living wage standard.

c) The process of standardization of wages should be accelerated and extended to as large a field as possible.

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[20] Uma Rani & Patrick Belser(2012). The effectiveness of Minimum Wages in Developing Countries: the Case of India. International Journal of Labour Research, Vol 4, Issue 1

[21] 1st Five year plan. Planning Commission.

The plan also emphasized on the matter of wage differential. It stated differentials for wages of various jobs should be maintained at the minimum levels and should be justified under the following grounds:

i. the degree of skill required ;

ii. the strain and the fatigue involved ;

iii. the training and experience required ;

iv. the responsibility to be undertaken ;

v. the mental and physical requirements for doing the work ;

vi. the disagreeableness of the task ; and

vii. the attendant hazards.

The plan also emphasized on scientific assessment of relative work load in different occupations and industries. The payment of dearness allowance to compensate for the rise in the cost of living has been an important feature of the wage structure as mentioned in its statement. On this basis, a committee was appointed during the plan period and the Committee recommends that 50 per cent of the dearness allowance admissible to the Central Government servants drawing a basic pay upto Rs. 750 per month should be amalgamated with pay.

Full and effective implementation of the minimum wage legislation was also mentioned in its statement. Permanent wage boards with a tripartite composition should be set up in each State and at the Centre to deal comprehensively with all aspects of the question of wages, to initiate necessary enquiries, collect data, review the situation from time to time and take decisions regarding wage adjustments suto motu or on reference from parties or from the Government.

The ***Second five year plan*** emphasized on development of a wage policy which aims will be of providing “a structure with rising real wages”. It also recognized that in practice the measures of fair wage is very difficult and “in spite of their best efforts, industrial tribunals have been unable to evolve a consistent formula”.

As far as the means for improvements in wages are concerned, the plan said that answer is higher productivity. To increase higher productivity, “steps like better lay-out of plants, improvement in working conditions and training of workers” could be taken. Another step in this direction would be the introduction of payment by results in areas where at present this principle does not apply.

The two special provisions under the plan with respect to deal with the matter of wage fixation are the appointment of wage commission and appointment of wage board. It stated “that a wage commission should be appointed in order to examine the relevant material and to lay down principles for defining the respective roles of wages, profits and prices, taking into account the declared social objective of the community. The existing wage structure in the country comprises, in general, a basic wage and a dearness allowance, the latter component in a majority of cases has relation to cost of living indices at different industrial centers. These indices have not been built up on a uniforms basis, and therefore not a true reflection of the present spending habits of workers. Steps will therefore, have to be taken simultaneously with the undertaking of a wage census, to institute enquiries for the revision of the present series of cost of living indices at different centres."

With respect to appointment of wage board the plan mentioned that "the existing machinery for the settlement of disputes, namely the Industrial Tribunals, has not given full satisfaction to the parties concerned. More acceptable machinery for the settling wage disputes will be one which gives the parties themselves a more responsible role in reaching decisions. An authority like a tripartite wage board, consisting of equal representatives of employers and workers and an independent chairman will probably ensure more acceptable decisions. Such wage boards should be instituted for individual industries in different areas".

***Third five year plan*** recognized that measures taken by the government for securing a *minimum wage* was not effective in many cases. For better implementation of the law, the machinery for inspection has to be strengthened. Wage determination in major industries is left to the process of collective bargaining, conciliation, arbitration and adjudication. It also emphasized on the recommendations of the Second Plan for setting up of Wage Boards as the most suitable method of settling wage disputes where large areas of industry are concerned. This has so far been applied to the cotton and jute textiles, cement, sugar and plantation industries; and decided to extend to other industries according to circumstances. It had decided to appoint a Board for the iron and steel industry. It has been agreed that the nutritional requirements of a working class family may be re-examined in the light of the most authoritative scientific data on the subject. Apart from the *minimum wage*, care should be taken in fixing *fair wages* for different classes of workers that adequate incentives are provided for the acquisition and development of skills and for improvements in output and quality.

***The Fourth five year plan emphasized*** on development of a wage system based on results. It stated that total wage should have three components viz basic wage or minimum wage, an element related to cost of living and an element related to increase in productivity. It also emphasized upon the development of an integrated income policy for guiding public and private sectors.

***The Fifth five year plan*** stated that in case of fixing wages, attempts should be made to narrow non-functional wage disparities. It emphasized upon linking of wage and non wage benefits to the performance records in industrial enterprise.

***The Sixth Five Year Plan*** stated the problems of evolving and sustaining a wage structure for payment of *fair wages* to the labour. It emphasized the development of a wage policy with the following purpose:

- To narrow down the existing inequalities and to eliminate malpractices in regard to wage rate and wage payment.
- To ensuring that the weaker sections of labour are not exploited.
- To lay down criteria for fixation and revision of minimum wages and to evolve wage structure without impinging on the freedom of the parties to negotiate wage agreements.
- To be made to bring about a greater degree of *inter se* equalities in the incomes of non-wage earners, the self-employed, the professionals and the like.
- To be towards providing employment and also minimum levels of wages so that bulk of the population comes above the poverty line.

The sixth plan also identified the challenges to wage policy in India. They are:

*Need based minimum wage, protection of the real wages through compensation for rise in the cost of living, incentives for increases in productivity, allowances for hazards of occupation, wage differentials for skills, responsibilities and other justifiable reasons, essential fringe benefits, bonus and such other ex-gratia payments, social security arrangements like medical care, provident fund, gratuity, family pension etc.*

With respect to the measurement of minimum wages it mentioned the following points:

- The level of the minimum wages should be raised in such a manner that soon the concept of a need-based minimum wage becomes a reality.
- Construction of a proper cost of living index and the linkage of the wages to the index by appropriate formulae in all areas of wage employment are necessary for protection of the real wages.
- Criteria would have to be evolved by means of tripartite consultations for allowing increases in wages on the basis of productivity.
- The techniques of job grading and evaluation should be developed for determining the differentials to be allowed for difference in the nature of the duties and responsibilities.

However there are various factors to be taken into consideration at the time of wage fixation such as the capacity to pay, productivity and profitability, consumption pattern and cost of living, system of wage fixation.

The sixth plan also stated that the national wage policy should be based on a rational system of wages which *inter alia* provides for wage differentials justifiable mostly on economic criteria.

***The Seventh plan*** with respect to a wage policy stated that *"The basic objectives of wage policy are a rise in the levels of real incomes in consonance with increases in productivity, promotion of productive employment, improvements in skills, sectoral shifts in desired directions and reduction in disparities. Wage employment and the scope for its further increase may be relatively limited; but in the organized sector, the wage factor, including within its scope related elements like allowances, bonus, social security and fringe benefits, assumes enormous importance for many economic and practical reasons".*

***The Eight Five year plan*** observed that the coverage the Minimum Wages Act, 1948 and its implementation has been inadequate and the actual wages on the ground are often much lower than those fixed by the appropriate Governments under the Act. Accordingly "*the tendency to fix minimum wages at unrealistically high levels should be checked, implementation of wages once fixed should be ensured. While machinery for enforcement of the Act has been strengthened over the years and is also envisaged in the programmes included in the Plan, it is desirable that a greater role is played by the workers' organizations, non-governmental voluntary organizations and organized trade unions in ensuring implementation of minimum wages, instead of solely relying on the official enforcement machinery*".

***The Ninth Five Year Plan*** also stressed upon the proper enforcement of the Minimum Wages Act. It stated "*if properly enforced, minimum wages can offer greater potential for income transfers then special employment generation schemes. There may be opposition to this from rural oligarchy resulting in labour substitution through mechanization, but Government must stress on enforcing minimum wages at least in short term periods like sowing/harvesting season. If minimum wages are properly enforced, it will reduce migration of population from rural areas to urban areas".*

***The Tenth five year plan*** stated that the Minimum Wages Act, 1948 may be amended enhancing the penalty for violations. A national policy on minimum wages may be evolved to help deal with the problem of inter-state variations in minimum wages. Presently, there are significant variations even in wages for the same occupations. The enforcement machinery for minimum wages in the Central and the State Governments may be strengthened with involvement of NGOs, and PRIs.

***The Eleventh five year plan*** emphasized upon development of a national policy for fixing minimum wages. It stated discrimination in wages based on gender and age would be abolished.

### *8.4. d) Recommendations of various committees on wage policy:*

To formulate a wage policy for the country and to decide the content of a wage policy, various committees are set up at different point of time. In the year 1948, government of India appointed a committee on fair wages to deal with the matter related to wage. The appointment of the National Commission on Labour in the year 1966 and in the year 1999 is an epoch making event in this respect. The reports envisage the evolution of a wage policy and the condition of labour.

In the year 1973 a committee under Prof. S Chakravarty was appointed by the planning commission. Again another committee under the chairmanship of Mr. S. Bhoothalingam was appointed by Janata Government and the report of the committee was submitted in the year 1978.

**Fair Wage Committee:**

To enquire into the matter of fair wages to the labour, a Central Advisory Council appointed a Committee called ***Fair Wages Committee*** in the year 1948. This is in fact one of the formal attempt of the government towards the fixation of fair wages. The Committee consisted of representatives of employers, employees and Government.

After its investigation, the committee identified three different levels of wages as:

(i) Living wage

(ii) Fair wage

(iii)Minimum Wage

The ***living wage*** according to the Committee, is "the highest level of the wage which should enable the worker to provide for himself and his family not merely the basic essentials of food, clothing and shelter but a measure of frugal comfort including education for children, protection against ill health, requirements of essential social needs and a measure of insurance against more important misfortunes including old age".

***Fair wage*** is the levels of the wages which should enable the industry to maintain production with efficiency.

***Minimum Wage*** is less than the living wage. "*Minimum wage must provide not merely for the bare sustenance of life, but for the preservation of the efficiency of the worker*"[22].

[22] Chapter III, ***Report of the 2nd National Commission on Labour,*** Ministry of labour, Government of India.

In case of the Determination of various wage levels mentioned in the report the committee suggested the following:

- The ***living wage*** as per the recommendation of the committee *"is to be determined, by considering national income and the capacity to pay of the industry concerned and the Committee was of the opinion that living wage had to be the ultimate goal or the target"*.
- In case of determination of ***fair wage,*** the capacity of industry to pay should be assessed by the Wage Boards. The Fair Wages Committee also recommended that the fair wage should be related with the productivity of labour. The Committee further recommended that the fair wage should be related with the prevailing rates of the wages, though in view of unduly low wages prevailing even in organized industries in the country, it laid that the wage fixing machinery should make due allowance for any depression of wages caused by unequal bargaining. With regard to the machinery to be adopted for the fixation of fair wages, the Committee favoured the setting up of Wage Boards
- The Minimum Wage can be determined according to the procedure prescribed by the relevant provisions of the Minimum Wages Act, 1948. On April 11, 1946, a Minimum Wages Bill was introduced in Parliament and it was passed into an Act in March, 1948.The Act applies to the employments that are included in Parts I and II of the Schedule appended to the Act. The authority to include an employment in the schedule and to take steps for getting the minimum rates of wages fixed or revised vests with the sphere of the Government ( Central or State), according to the nature of employment. Once the minimum rates of wages are fixed according to the procedure prescribed by law, it is the obligation of the employer to pay the said wages irrespective of the capacity to pay.

**National Commission on Labour:**

In the year 1966, the **first National Commission on Labour** was appointed by the government of India *"to study and report in particular on the levels of workers' earnings, the provisions relating to wages, the need for fixation of minimum wages including a national minimum wage, the means of increasing productivity including the provision of incentives to workers"*.[23]

The commission submitted its report in the year 1969 and special recommendations was provided with respect to wage policy. Few of them are:

- Arrangements for standardization of occupational nomenclature and a periodic wage census should be made.

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[23] ***Report of the 1st National Commission on Labour,*** Ministry of labour, Government of India.

- The main aim of wage policy as envisaged is to bring wages in conformity with the expectations of the working class and in the process seek to maximize wage employment.
- Different institutional arrangements for wage fixation may be needed for different groups. In one case, it could consist of Commissions/ Boards for framing wage awards; in others, bipartite arrangements between workers and employers may work. In still other cases, a tripartite machinery may be appropriate. All these can co-exist, depending upon the tradition and experience which are built up for utilizing them.
- Once the minimum rates of wages are fixed according to the procedure prescribed under the Minimum Wages Act, 1948, it is the obligation of employers to pay the said wages irrespective of the capacity to pay.
- In fixing the need-based minimum which is in the range of the lower level of fair wage, the capacity to pay will have to be taken into account. Every worker in organised industry has a claim to this minimum and the onus of proving that the industry does not have the capacity to pay it should lie on the employer.
- There should be periodic adjustment of wages taking into account changes in cost of living. It would be best to leave it to the wage fixing authorities to choose the index (local or all-India) they consider suitable for the purpose of linking dearness allowance.
- Wage Boards have done some useful work and they should continue.

In order to suggest rationalization of existing labour laws in the organized sector and to ensure a minimum level of protection to the workers in the unorganized sector, the government of India appointed the **second National Commission on Labour** in the year 1999. The commission submitted its report in the year 2002. The important recommendations regarding wage and its payment are:

- Government should appoint a high level committee, to go into all aspects of the inter-related questions and to formulate a national wage policy. The wage policy should aim at a progressive rise in real wages.
- A national wage policy must bring within its purview problems of workers in the unorganized sectors who are not unionized and, therefore, who have no bargaining strength. The entire emphasis of Government wage policy should be on fixing minimum wages and implementing them for the workers in the unorganized sector.
- Various Committees and Commissions have discussed the necessity of introducing the concept of a national minimum wage below which no employer should be allowed to engage any worker in the country.

- Till such time as a National Minimum Wage Policy is evolved; the floor level wage may be treated as the current national minimum wage.
- The Minimum Wage Committee may fix minimum wage for a region and the minimum wage for a region can be made applicable to all employments in that region. If a productivity linked wage system is to succeed, it would need the involvement and commitment of all the parties, particularly the employers and the union in coming up with productivity linked wage system acceptable to all.

**Chakravarty Committee:**

According to the Chakravarty committee *minimum wage* should not fall below the poverty line. It also suggested that minimum wages should be adjusted taking into account variations between different centre and region. For your information the poverty level correspond to Rs 40 at October 1972 prices. It recommended a phase wise enforcement of minimum wages at different units but in no case it should be extended to 1978-79. They also stated that minimum wage should be linked with the growth of the economy. Emphasis was also laid down to develop an appropriate wage structure. The committee for classification of various occupation, recommended the use of National Classification of Occupation prepared by Directorate General Employment and Training. Every grade should be assigned premium points reflecting the skills differentials. The salary structure will include the basis wage which is a combination of minimum wage and money value of the premium points assigned to the job. Moreover it also mentioned about the payment of special compensation for the workers related to the hazardous occupation. It also emphasised on adoption of a resolution on wage policy and setting up of wage board for implementation of policy at national level.

**Bhoothalingam Committee:**

In its own statement the committee mentioned that “the real minimum wage can only be the absolute national minimum, irrespective of sectors, regions or states, below which no employment would be permitted.” By considering economic growth, social and distributive justice, the committee fixed the target of minimum wage was Rs 150 per month at 1978 prices. They suggested that within seven years the target should be achieved and the present rate of the minimum wage should be revised every two years until it becomes Rs 150 per month. After that the minimum wage should be revised with the increase of per capita income.

Regarding the payment of dearness allowance, the committee said that it should be linked to the cost of living on a uniform basis on all India average consumer price index for industrial workers. As regards the currently prevalent bonus in India, the group felt that such a bonus was related to profit and suited only to industry producing for the market in reasonably competitive conditions.

**Arjun Sengupta Committee:**

In the year 1984 the Arjun Sengupta Committee submitted its report specifically on wage policy in the public sector. The committee suggested that basic wage structure in public enterprise should be determined on the industry basis. The appointment of wage board or wage commission is also emphasised in the report. It also mentioned about the productivity linked wages in addition to the basic wages.

## 8.5 NATIONAL WAGE POLICY: AN ASSESSMENT:

By now probably you have realized the importance of a wage policy at national level. It is matter of great disappointment that till now, we don't have a national wage policy in spite of the initiatives like enactment of the Minimum Wages Act, appointment of Wage Board, Pay Commissions, various committees, etc.

Already in the section 8.3 of this unit we have mentioned about the objectives of a wage policy in Indian context.

The key issue which actually lead to feel the need of a wage policy formulation at macroeconomic level are:

- In its directive principle, the constitution of India stated that there should be equal pay for equal work ( article 39) and to minimise the inequalities in income (article 38)
- In the Article 43 of the Indian constitution, directions to the state is given *to secure, by suitable legislation or economic organisation or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities.*
- Fair wage ( as per the Fair Wage committee) should be determined over and above minimum wage with due regard to
    - The productivity of labour
    - The prevailing level of wages
    - The level of national income and distribution
    - The place of industry in the economy of the country
- The Supreme Court ruled that an employer who cannot pay minimum wages has no right to exist. The capacity to pay becomes a subject of consideration to determine fair wages over and above minimum wages.
- Wage should be determined on the basis of the basic need of the labour. (15th session of Indian labour conference)

However in the context of fixing the minimum rate of wages the guidelines that to be inserted in the national wage policy, are very well stated in the ILO conventions. In Convention 131 the ILO (1970) writes: “The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.” A M Sarma has provided few guidelines with respect to formulation of a national wage policy. They are:

a) It should lay down the criteria for fixation and revision of minimum wages and evolving a wage structure without interrupting the freedom of negotiations.

b) A set of norms has to be evolved for a general minimum wage, below which nobody should be paid.

c) The minimum need of the worker may be determined on the basis of the criteria fixed by the Planning Commission for defining the poverty line.

d) A floor level minimum wages may be fixed for all employment not included in the schedule to the Minimum Wages Act

e) Minimum Wage should comprise of basic wage, fixed dearness allowance related and a component related to productivity.

## 8.6 SUMMING UP:

Wage policy can be considered as the necessary agent for achieving economic and social justice. However till now in India we do not have a formal wage policy. The initiative to develop a wage policy was taken up by the ILO in the year 1928 itself. After independence the Indian government also introduced lots of measures to develop a wage policy. But no concrete results were seen. In many cases it is seen that due to lack of a proper wage policy there exist different rates of minimum wages in India.

## 8.7 REFERENCE & FURTHER READING:


1. Sarma, A.M., Understanding Wage System, Himalayan Publishing House, 2009
2. N D Kapoor: Industrial Law, Sultan Chand & Sons, New Delhi, 2004
3. Venkatratnam , C.S. *Industrial Relations*. New Delhi: Oxford Higher Education P, 2009. Print


## 8.8 QUESTIONS

1. Briefly discuss the role of National Commission on labour on formulation of a wage policy at national level

2. Critically analyze the Minimum Wages Act, 1948

3. Write short notes on the government initiatives in the $2^{nd}$ five year plan towards development of a wage policy.

## 8.9 KEY WORDS USED:

Wage: All remuneration, capable of being expressed in terms of money, which would, if the terms of the contract of employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment.( as per the Minimum Wages Act,1948)

Unorganised sector: The informal or unorganized sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned (15 ICLS, ILO, 1993).

Social security: Preamble of the Constitution of ILO referred social security as o the need and protection of workers against sickness, disease and injury arising out of their employment, pension for old age, and protection of the interests of the workers who were employed in countries other than their own.