

Unit – 5 Wages and Incentives

Introduction

Wages are perhaps the most vital and difficult single factor affecting the relations between the management and the workers. The importance lies in the fact that it concerns the class of society which has the greatest numerical strength and which is most dissatisfied with the present economic set-up. In fact most of the grievances are developed over the determination of wages and salaries than any other area. Therefore, in maintaining industrial peace, higher production and efficiency the wage system plays an important role.

The payment of wages in industry is as old as the industry itself. However, the factory system gave birth to the modern wage system.

Introduction cont.

Wages constitute the principal source of income of workers for their labour or service. Wages of the worker primarily determines his standard of living because it is a means of purchasing power to fulfill his basic and other needs. For employer wages form a significant part of cost of production and/or distribution.

The cost of product increases and profit decreases with higher wages. The employer is interested in controlling and reducing labour cost per unit of output. However, lower wages may cause dissatisfaction of the workers, reduction in their efficiency and quality of work.

Concept of wages

The remuneration paid to the worker is called wage. It can be defined as the remuneration paid for the services rendered by the workers. Wages can also be defined as the remuneration paid under contract by an employer to an employee for the work performed by him. Wages may be defined as the price of labour hired or employed. Wages should be sufficient to satisfy the ordinary needs and necessities of the worker provide him some comforts of life and help him in maintaining his standard of living.

Wages may be classified as:

- (i) Nominal wages and,
- (ii) Real wages.

Types of wage

- (1) Nominal Wages.** Nominal wages are earnings of the workers (employees) expressed in terms of money. These are paid in the form of a cash and do not include other benefits given to the workers. This is also called as money wage.
- (2) Real Wages.** In addition to the cash payment real wages include the amount of necessities, comforts, luxuries and other benefits which a worker gets in return of his effort and work.

The advantages and benefits offered by an occupation or profession are also included in the real wages. The benefits provided to the employees may include facilities like-Uniform, rent, free accommodation, free medical aid, arrangement for the free education of their children, free water, electric supply, conveyance etc.

Types of wage cont.

Therefore, a real wage is always higher than the nominal wage. For example, an employee is being paid Rs. 4000/- per month in addition to a free accommodation having rental value of Rs. 1000/- per month. Then his nominal wage is Rs. 4000/- whereas his real wage is Rs. 5000/- p.m.

The inflationary and deflationary forces make the relative worth of a rupee to fluctuate. Today a rupee is not having the same purchasing power as it was 10 years ago. This purchasing power of the monetary wage is called a real wage.

Desirable characteristics of good wage/incentive system

- (1) It should guarantee an adequate minimum wage. It creates a feeling of security in the workers. It protects the worker from loss in earning due to temporary drop in efficiency because of the factors beyond his control.
- (2) The wage system should be simple and easy to understand.
- (3) It should not involve excessive clerical work and thereby increase the ultimate cost.
- (4) Quality should not involve excessive clerical work and thereby increase the ultimate cost.

Desirable characteristics of good wage/incentive system cont. 2

- (5) Time and motion study should be the basis for correct work standards on which wages are based.
- (6) The wage system should be fair for both the employer and employee and should be acceptable to both
- (7) It must reward the worker according to his efficiency and merit. The reward should be generous.
- (8) Waste of materials as well as careless use of machinery, tool, and plant should not be permitted under the wage or incentive system.

Desirable characteristics of good wage/incentive system cont. 3

- (9) Incentive, bonus, etc, should be payable along with the wages and not left for future periods.
- (10) To meet changing economic conditions it should have sufficient flexibility.
- (11) The workers should not only be rewarded on the basis of higher output but the length of service regularity of attendance and quality of work should be considered.
- (12) The wage plan should be helpful in creating team spirit and aid in supervision.
- (13) Wages should be based on special training, skills, qualification, aptitudes, judgement required. responsibility involved, hazards involved and the conditions under which work is performed.

Factors affecting wages

The various factors affecting wages to be paid to each individual employee are:

- 1. Demand and supply position in labour market.** Demand for and supply of specific knowledge and skills determine the wage rate. If enough labour of particular skill is available, it will offer to work at low wages. However, if it is in short supply, the workers will have to be paid more.
- 2. Legal or statutory provisions.** Since the bargaining power of labour is not enough to ensure fair wages to the working classes, certain legislative measures are also passed by the Govt. for regulating wages. Minimum Wage Act 1948 specifies the lowest limit of wages, below which no worker shall be paid. Remuneration to the directors of public limited companies has to be paid in accordance with the provisions of the Companies Act 1956. In addition to these two legislations, provisions of the following important legislation determine amount of remuneration.

Factors affecting wages 2

3. Capacity to bargain. The wages of the workers are also regulated by the mutual agreement arrived at between the management and trade union. If the labour union is strong, it may force the employer to pay high wages

4. Cost of Living Index. In many industries wages are linked to cost-of-living index which ensures a fair wages to the working classes. As the prices of commodities go up wages go up too, but when the index goes down as a result of fall in prices wages also come down.

Similarly, higher wages are paid to workers in big cities where the cost of living is higher and in rural areas the wages paid are comparatively lower due to low cost of living. Thus, wages also depends upon cost of living i.e. the purchasing power of money which varies significantly from time to time and place to place.

Factors affecting wages 3

5. The nature of employment/the nature of risk involved. Some occupations are very exhausting (e.g. black smithy), some are dangerous (coal mines, pilots), some are disagreeable and unhealthy. All these require excessive mental and/or physical strain, greater risk. The employees involved in such occupation should get higher wages.

6. Organisation's ability and willingness to pay. No employer is allowed to pay lower wages than that specified by the Minimum Wage Act. However, some organisations as a matter of policy pay more than the general prevailing rate. This is with a view to attract competent people.

Some organisations are conservative and pay minimum possible remuneration particularly to fresh or young employees.

Factors affecting wages 4

7. Regularity and irregularity of employment. In some occupations for instance, in building/ construction trade, the work is of casual and uncertain nature and therefore, the rate for nominal wages is somewhat higher than in other trades which though require similar strength, ability and skill, but gives an assured regular employment throughout the year.

8. Supplementary incomes. In some localities or industries, employees accept low nominal wages because of the opportunities of getting their earnings supplemented by some other additional source of income (such as employment of their children and wives).

Factors affecting wages 5

9. Working Hours. The number of hours worked per day and the number of holidays also affect 10. Prospects of promotion. The employees may be willing to accept low wages in the initial the real wages

10. Prospects of promotion. The employees may be willing to accept low wages in the initial stages if there is a job security. And also if the prospects of the service and promotion to higher grades In estimating the wages of the workers in different occupations, the period devoted for it are there.

11. Period and Cost of Training. In estimating the wages of the working in different occupations, allowance must be made for all the expenses incurred in the training and the period devoted for it.

Salary Administration

First step of salary administration is to determine salary levels by the process of job evaluation, which we have already discussed. After deciding salary levels, salary administration is concerned with the following:

1. Design and maintenance of salary structure
2. Operation of salary progression system i.e. relating salary increases to merit
3. Administration and control of salary reviews.
4. Design and operation of other allowances.

Objectives of Salary Administration

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

1. To establish a fair and equitable remuneration Here equity means similar pay for similar work
2. To attract competent personnel
3. To retain present employees.
4. To improve productivity.
5. To control costs
6. To establish lines of promotion wherever applicable
7. To improve image of the company

Principles of Salary Administration

1. Differences in pay should be based on differences of job requirements.
2. Wage and salary level should be in line with those prevailing in the job market
3. Follow the principles of equal pay for equal work.
4. Recognize individual differences in ability and contribution
5. The wages should be sufficient to ensure for the worker and his family reasonable standard of living.
6. There should be a system for hearing and removal of grievances related to the wages
7. Employees and trade union should be informed about the procedure used to establish wage rates.
8. Wages due to employees should be paid correctly and promptly
9. A wages committee should review and revise wages from time to time.

Techniques used of wage fixation

1. Minimum wage
2. Living wage.
3. Fair wage

During the period 1948 to 1966, the emphasis was on the concepts of minimum wage and fair wage. The fair wage committee in its report suggested three concepts (layers) of wages:

1. Minimum wage to improve the standard of living of people who live below the poverty line.
2. Fair wage assuring equal pay for equal work and
3. Living wage assuring maintenance of living standards in a locality.

1. Minimum Wage.

The wages that are paid to the workers so as to keep them alive are called the minimum wages. Minimum wage is the wage to cover bare necessities of life, i.e. food, shelter and clothing. It may also provide a little for worker's efficiency, e.g. for his health and education. While deciding a minimum wage it is necessary to consider the cost of living. To ensure this in most of countries, a Minimum Wage Act is in force to fix the minimum wage for each type of occupation in the various

In India Minimum Wage Act 1948, has been in force where wages have been fixed for different industries. parts of the country. Minimum wage set up by act is the lowest limit below which no worker shall be paid. If a business is unable to pay minimum wage, it has no right to exist in industry.

Objectives of the minimum wages

1. To protect weaker section of the working population, who are illiterate, ignorant isolated, un-organised and hence whose bargaining power with the fully organised employers is too
2. To prevent exploitation of workers and to secure a wage according to the values (worth) of work weak. done.
3. To promote peace in industry.
4. To improve the normal standard of living and welfare of the employees.

2. Living wage.

It is the wage which ensures maintenance of living standard of an employee. It can offer an employee, incentive to work and produce enough in quantity, without sacrificing quality. Components of living wages are:

1. Bare necessities (food, cloth and shelter).
2. Insurance cover against ill health, disability, old age and such other misfortune.
3. Reasonable expenditure on children's education.
4. Provision for self-development and recreation.
5. Saving for future needs etc.

A literate and intelligent employee will use living wage for steady rise in his standard of living. Living wage is a boon to workers in highly developed countries.

3. Fair Wage.

It is the wage which must be fair for the work of the worker. The rates for the fair wages range between the minimum wage and living wage. Fair wage is the step towards living wage. Fair wage is settled by the employer's capacity to pay. It fluctuates between two limits:

- (i) Lower limit set by minimum wage act
- (ii) Higher limit determined by firm's capacity to pay.

Fair wages depends upon :

1. the location of industry.
2. production capacity of the worker.
3. availability of workers.
4. capacity of industry to pay.
5. bargaining power of workers.

Types of wage plans (or) Methods of wage payment

1. Time rate system.
2. Piece rate system
3. Combination of time rate and piece rate systems
4. Incentive systems.
5. Profit sharing system.
6. High wage plan.

1. Time Rate System.

In this system the wages are based on the time (number of hours for which the worker works) and not on the number of units produced by the workers.

Daily wages, Weekly wages. Monthly wages, or Hourly wages are the types which show time duration for which payment is to be made.

Advantages:

- (1) This method is simple, easy to understand and easy to make wage calculations.
- (2) It assures minimum fixed income to the workers even though his efficiency is reduced

Advantages cont.

3. The certainty of income helps to maintain the interest of the workers in his work. temporarily by sickness or accident.
4. The worker is allowed to take his own time to complete the work there is no hurry and this helps to improve the quality of the work.
5. This system also ensures a careful handling of expensive machines and tools.

Disadvantages:

- (1) There is no inducement for the workers to increase their efficiency and skill. The reason is that in this system wages are fixed according to hours of work without considering the quantity and quality of the work done.
- (2) Keen management and strict supervision is essential.

2. Piece Rate System.

In this system the wages are based on the quantity of work completed satisfactorily by the worker. A fixed rate per unit produced or operation completed is paid to the worker.

Advantages:

- (1) This system provides incentive for the workers to work hard in order to increase their earnings.
- (2) It helps to increase productivity and reduces unit cost of production as the overhead charges like rent, salaries, depreciations, etc. are distributed over large number of units.
- (3) The need for strict supervision is reduced.
- (4) It leads to a greater efficiency, on the part of management because the workers insist on faultless materials and proper condition of machine, tools, etc.

This system benefits the efficient workers through higher wages and the sluggish workers are also motivated to work more to increase their earnings.

Piece Rate System - Limitation:

- (1) This system is not suitable in industries, in which it is not possible to ascertain the amount of work performed by an individual worker.
- (2) It does not guarantee a fixed minimum wage to a worker and creates a sense of anxiety and uncertainty in his mind.
- (3) A temptation to earn high wages through greater output may lead to excessive speed and strain on the workers. This may increase the number of accidents in the factory.
- (4) In order to increase the output the workers may neglect the quality of output and handle the costly tools, machines etc. carelessly.

Applications:

This system is applicable where the worker is given a repetitive job, or produces same type of units for which a definite labour rate can be paid.

3. Combination of piece rate and time rate system.

Under this system minimum weekly wages are fixed for each worker, which shall be paid to him irrespective of his output during the week, provided he has worked for the full working hours required in a week. The wages for the period of his absence are deducted from the total amount of his wages.

A job card of each worker is maintained, which clearly shows each piece of job completed by the worker during a week. Piece work rate of each job is fixed in advance. If the piece rate wages earned by the worker are in excess than the time wages the balance is paid to the worker. On the other hand if they are short of time rate. the worker shall have to make good during the next week.

3. Combination of piece rate and time rate system.

Advantage

1. It provide incentive to the worker to produce more
2. The overhead costs of production are lower.

Disadvantage

1. It need check on quality
2. It need careful piece rate fixing.
3. The entire benefit of extra payment goes to the worker.

4. Incentives

Incentive is an inducement or reward given to the worker for his efficiency and hard work. In this system the worker gets a guaranteed minimum wages plus some extra payment or bonus for extra work done over and above the standard work. Incentive motivates and encourages the worker to produce more and better.

An incentive scheme may be defined as, 'a system of wage payment under which the earnings of an employee, or a group of employees, or all employees in an organization is directly related to the output of an acceptable quality and over and above a standard laid down by means of predetermined formula.

Financial Incentives.

To enhance the efficiency further, some financial incentives are given to the worker in the form of:

(i) Bonus and

(ii) Profit Sharing

It excludes wages, overtime etc. Financial incentives is one of the most powerful motivator in India because of low wages at every level of employment.

Non-Financial Incentives.

These do not provide financial gains to the workers but help in increasing the efficiency and motivation of the workers. It includes:

- (1) Due praise of workers for good work.
- (2) Service security.
- (3) Training and other employee-improvement programmes.
- (4) Better and healthy working condition.
- (5) Housing, medical, recreational and educational facilities to workers and their families.
- (6) Chances of promotion.
- (7) Helpful and co-operative management.

Semi-Financial Incentives.

Semi-financial incentives include

(1) Provision of subsidized lunch, recreational and medical facilities to the workers and subsidized educational facilities for their children

2) Pension and other benefits

The incentives may be paid at a flat rate for all levels of output or at varying rates for different levels of output. When incentives are paid at varying rates, the rate goes on increasing with increase in level of output.

The incentive schemes may be of two types

1. Individual incentive scheme

2 Group incentive scheme

Semi-Financial Incentives cont.

Individual Incentive Scheme. Under this scheme each individual is paid incentive on the basis of his individual output/performance irrespective of aggregate output of his department or organization. Employer has to pay incentive to those workers who produce more than the standard output even though actual output of the department or organization is less than the standards.

Group Incentive Scheme. In this scheme each employee is paid incentive on the basis of collective performance of his work group. This scheme is generally preferred by employer because his liability for payment of incentive, arises only when he has achieved something in return. i.e. increase in aggregate. This scheme is not liked by highly competent or productive employees whose colleagues are not highly competent.

5. Profit Sharing System

This system has been introduced by the employers in order to encourage their employees and by means of which the workers receive a share of the profit over and above their normal wages.

Advantages

- (1) Better co-operation may be easily expected.
- (ii) There is reduction of supervision, which results in reduction of supervision cost.
- (ii) Nonproductive labor cost will be reduced.
- (iv) As there is a common interest of all the workers, they all work harmoniously, honestly, resulting in better production.

Profit Sharing System Disadvantages

1. It is difficult to ascertain the share of profit to be given to each worker and unless the profits are large, the share of each worker may appear to him very insignificant.
2. Since the efficiency of individual worker is of no concern to the group, individual efficiency escapes from the notice of the management.
3. As the distribution will normally take place only once in a year, the advantage there of to the worker is so remote that he may lose interest in it.
4. If the efficient workers are not selected as group-leaders, the efficiency of the whole group suffers

6. High Wage Plan

In this system, to attract workers, wages are fixed at higher rate than those paid in the surrounding areas so as to attract more skilled workers and these higher wages are paid with the understanding that the workers shall put in their best efforts to attain the highest standard of efficiency and output.