
UNIT-7 REMUNERATION / SALARY SYSTEM

Structure

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7.0 LEARNING OUTCOME

On studying this Unit, you should be in a position to:

- Understand the principle of compensation administration;
- Understand the concept of minimum wage, fair wage and living wage; and
- Refer to principal recommendations of pay commissions in India.

7.1 INTRODUCTION

Compensation is a broad term referring to financial rewards received by persons through employment relationship with an organisation. Compensation has two functions: the 'equity' function and the 'motivational' function. Individuals are likely to work effectively if they visualise that the prevailing reward system provides equitable remuneration for their efforts. Compensation functions as a motivator to future initiative human behaviour being highly complex with numerous motivational determinants. (Dwivedi, 1990) Specifically compensation is financial in nature because a monetary outlay is required to administer it. The importance of pay compensation is of high order for every employee. The standard of living and the social prestige of an employee depend on the pay he draws. A man chooses his job on the basis of the pay he expects to receive by it. (Leap and Crino, 1990)

From the point of view of the organisation, cost effectiveness is imperative. "Many OECD countries are examining ways of making public sector pay systems more flexible. For example, in the United States, Canada, Japan, Australia, New Zealand, France, Norway and The Netherlands, Spain, Switzerland and the United Kingdom performance based pay regimes have been operating. The premiums involved vary from less than 1 to 50 percent of the base salary." (Yntema, 1993)

Quantification of HRM is being stressed as a desirable organizational practice. According to Yntema, the following activities help to quantify HRM; planning an annual human resources plan describing the staff not only in terms of size, ages, sexes, and races, but also in terms of levels of education, experience, performances, work preferences and potential. Such a plan can, for instance, help for effective replacement. Often the existing internal work force is not fully utilised to find replacement in case of vacancies. A similar systematic and detailed HRM databank on jobs or establishments in the organisation can also help inform which jobs are becoming obsolete, redundant or inappropriate.

Such monetary outlays may be 'immediate' (payable at specified time) or 'deferred' (in case of incentive plans). Accordingly, weekly or monthly pay is the immediate payment whereas a pension, profit sharing, or bonus plan, are examples of deferred payment.

Pay is related to motivation. Mason Haire (1969) remarks, "pay in one form or another, is certainly one of the mainsprings of motivation in our society." The health and vitality of services depend on the level of remuneration offered. Therefore, a salary system must be so designed as to attract, retain and motivate the best among staff. Undertaking challenging and arduous tasks gains momentum if the institution has the right number of employees, with the right level of talent and skills and right incentives.

Organisations establish their image as model employers through the salary contract. A model employer need not necessarily offer the highest rates of pay, but aim at creating such work environment within the enterprise which induces employees not only to have an economic stake with the unit but also abiding commitment which results from a sense of fulfillment through involvement with it. The true test of a model employer, as expressed in the Third Central Pay commission (CPC), should be, "whether the government is attracting and retaining the personnel it needs and if personnel are *reasonably satisfied* with pay and other conditions of service. The fulfillment of this test is an essential prerequisite for proper functioning of the administrative machinery."

An adequate and sound salary structure together with healthy physical and social working conditions is the '*sine qua non*' for organisational efficiency and effectiveness. Inadequate compensation has been "one of the major factors for strikes, inter-service tensions and rivalries, indifferent attitude to work, poor performance, frustration and low morale of the employees."

In other words, the aim of the organisation should be to create and maintain such condition whereby an employee feels like giving his best to the organisation, derives satisfaction out of his job and is suitably rewarded for his efforts. Under such conditions, the money spent is never 'cost'; rather, it is investment.

There is, however, no empirical evidence of direct proportionality between compensation and quality of job performance. According to Leap and Crino (1990), high levels of job satisfaction do not necessarily guarantee high levels of productivity. Conversely, dissatisfied employees might on occasions, unexpectedly exhibit high levels of job

performance. There is no direct correlation therefore, between job satisfaction (of which pay satisfaction is a major component) and performance. It is probably safe to say that compensation specialists have tried many different combinations to compensate employees better in order to motivate them to better standards of performance. In fact, no two organisations have the same philosophy and methods of structuring compensation packages in an attempt to draw extra effort from their employees. Deductions from researches so far have shown that:

1. Pay will generally serve to motivate employees if it is believed that good performance will lead to higher pay and if employees value pay as a 'motivator';
2. Organisations must articulate performance- pay relationship in organisational strategy to optimise benefits and reduce costs; and
3. Negative consequences associated with good performance and higher pay such as adverse peer pressure, negative social capital in informal organisation must be minimised. (Leap & Crino, 1990)

7.2 WAGES AND SALARY

The wage frequently expressed as an hourly rate, forms a payment for an individual's services while the salary relates to such payment frequently expressed as monthly rate. A wage or salary level relates to the average of the rates paid for the jobs in a given population that is industry, enterprise, region nation, etc, whereas a wage structure means a hierarchy of jobs where wage rates are embodied. (Dwivedi, 1990). While the traditional approach is limited to determination of wage structures and wage levels, the modern approach stresses the total compensation systems involving intrinsic and extrinsic rewards referring to endogenous and exogenous need satisfaction. With respect to wage, 'money wage' and 'real wage' can be different. Real wage relates to an employee's standard of living. Hence if there is price rise, his purchasing power and standard of living will fall if money income stays the same. Inflation has to be accounted for in periodic wage increases.

Public Choice Implication

By *public choice theory*, free market is said to afford better rationality in *choice* to all concerned parties, viz. producers, employees as well as consumers. In controlled economies, there is simply a myth of consumer welfare, better provision of quality goods and services and employee welfare through social legislation. Workers' welfare can never be secured through welfare measures by the public choice argument, rather, by affording better choice to the workers regarding career decisions through the free market with provision of proper/adequate information. This places real effective bargaining power, through legislation, with the workers, who are then able to take their own welfare decisions. Hence public choice theorists are unflinching advocates of privatisation and the free market economy, which creates better 'choices' as per their argument, for all involved.

In free market economies, wages are determined by the free operation of demand and supply of labour. During cyclic business downturns, workers have little bargaining power; unemployment rises and wage levels reflect the iniquitous position. It is free operation of demand and supply in the market, which results in good employment options for workers, better labour policy for organisations and better quality goods and services provision for consumers. Controlled demand and supply of labour unnecessarily adds to production costs, confuses the workers regarding career choice and raises prices of goods while lowering quality. It also adversely affects competition, reducing 'choice' for consumers. New players cannot enter and exit the market freely, as per, economic expediency. It is rather policy that controls economics. In controlled economies, wage levels are fixed by legislation. The argument put forth by socialists is that because of surplus value appropriation by the employers, workers are never fairly compensated for the value addition to the organisation. They are compensated partially; *surplus value* appropriation implies exploitation of the workers by managements.

There is the other side to the picture. Since money compensation to employees forms 'cost' for the employer, collective bargaining has to be resorted to by workers to maintain wages at an equitable level. Argument of economic expediency is offered by managers in favour of low wages. It is argued that wage increase causes inflation by augmenting effective demand (purchasing power of workers) in the economy. In the long run, it leads to unemployment by, Keynesian argument (excess demand over supply makes management deliberately cut on supply which causes retrenchment of workers and hampers further business expansion). However researches have shown that such impact on unemployment is marginal or even negligible (Chapman, 2005). It is also to be noted, that differential wages as an incentive system promote productivity, though only to a limited extent (owing to criticisms of the carrot and stick approach). Besides, in developing countries like India, inflation and unemployment may not be always due to *excess demand* (purchasing power) *over supply*, but rather due to supply deficiency owing to supply bottlenecks caused by corruption, unfair price rise due to operation of cartels, infrastructure problems, etc. which lead to endemic underutilisation of capacity in organisations which create disequilibrium conditions in the economy. It is reconciliation of the two paradigms that is the challenge for developing *mixed economies* like India. Recent stress is on creating the *wage-productivity* link. Productivity rise will negate potential supply demand disequilibrium following rise in wages without consequent raise in productivity. Such link, it is hoped, would counteract price rise and prevent real wages of workers from falling. The stress on bonus and workers participation in management and other intangibles like higher order need satisfaction, employee empowerment, etc., are being considered to motivate employees to contribute enthusiastically to organisational productivity. While workers benefit from good wages, supply situation improves, unit cost decreases, prices get manageable with better productivity and utilisation of capacity of unit organisations and the whole economy is uplifted. International trade is also set to benefit. Good human resource management stemming from the initiative of the management is the imminent need. The Trade Union movement needs a new orientation in that recalcitrant tactics have to be replaced with an adaptive and accommodating attitude with respect to change policies and constructive schemes pioneered by the management.

Levels of Wages

The course of collective bargaining was influenced in 1948 by the recommendations of the Fair Wage Committee that reported that three levels of wages exist - *minimum, fair, and living*. Minimum wage is fixed from the standpoint of employee health and well being and the nature of his work. It 'prevents sweating' of the employee and ensures a reasonable standard of living for him (Dwivedi, 1990).

The objective of the act of 1948 is to ensure employees, not only of physical subsistence but also maintenance of health and decency as would be conducive to the general health of the public. The fifteenth Indian Labour Conference, a tripartite body, in its meeting in 1954 defined precisely what the needs-based minimum wage was and how it could be quantified using a balanced diet chart. This gave greater boost to collective bargaining; many organised sector trade unions were able to achieve reasonably satisfactory indexation and a system of paying an annual bonus. It is now the law that a thirteenth month of wage must be paid as a deferred wage to all those covered by the Payment of Bonus Act. The minimum bonus payable is 8.33 percent and the maximum is 20 percent of the annual wage. Constant Relative Real Income Criterion has been considered most apt out of the various approaches for calculation of minimum pay. As per estimations of the National Productivity Council, the real per capita income grew by about 28% during the period 1986-87 to 1995-96. The Fourth Pay commission had adopted a norm of 20%. The Fifth pay commission has adopted this approach as against other approaches discussed, and adopted a compensation factor of 30.9% as being the increase in the per capita net national product during the period 1986-1995 (works out to Rs 574.4) The salary figure works out to approximately Rs. 2440 (adding 574 to basis of 750 and dearness allowance of Rs. 1110 as on 1.1.96. Notably, the consumption unit was taken as three members as against 4 recommended by the NPC.

Living wage is defined and expressed by the formula, necessities plus (+) incentives. There is considerable debate about what constitutes a *fair wage*. Point of contention seems to be affordability on the part of management and justice for the worker which may not always be reconcilable. 'Capacity to pay' applies only to fair wage, which can be linked to productivity. (Dwivedi, 1990)

Minimum Wages Act 1948

The Minimum Wages Act, 1948 empowers the government to fix minimum wages for employees working in specified employments. It provides for review and revision of minimum wages at suitable intervals, not exceeding five years. The central government is the appropriate agency in relation to any scheduled employment carried on by or under its authority or in railway administration or in relation to mines, oilfields or major ports or any corporation established under the central act. State governments are the appropriate agencies in relation to other scheduled employment. Enforcement of minimum wages in central sphere is secured through the Central Industrial Relations Machinery (CIRM).

Wages and Productivity

The vicious circle of poverty and unemployment and low productivity can be broken only by a tremendous stress on the maximum possible contribution made by all the participants in the processes of production. For the workers no real advance in their standard of living is possible without a steady increase in productivity, because any increase in wages generally, beyond certain narrow limits, would otherwise be nullified by a rise in prices. Workers have, therefore, to insist on and not resist the progress of rationalisations in their own interest and in the larger interest of the country.

Industry is being called upon to meet, as rapidly as possible, the claims on behalf of the workers for a living wage, better living and working conditions, the needed employment opportunities and a fuller measure of social security. Productivity has many facets and it suffers because of a one-sided and rigid approach which is frequently adopted by both the employers and the workers. Rationalisation of effort in every direction is the true basis of productivity. The term has often been wrongly associated with increase in workloads and added strain on workers to swell the volume of private gains.

Large gains in productivity and an appreciable reduction in unit costs can be secured in many cases without causing any ill effect on the health of the workers or incurring any large outlays. Greater responsibility in this regard rests on the management which should provide the most efficient equipment, correct conditions and methods of work, adequate training and suitable psychological and material incentives for the workers. For several purposes, it will be more helpful to take the working group as a unit of activity rather than the individual worker, and the scheme of incentives should be aimed, at the group no less than at the individual. The industry, trade unions and the government should together ensure that every worker whether employed already or freshly recruited receives adequate training to acquire the requisite skill and efficiency. By proper organisation, it should be possible to supply the essential needs of the workers at reasonable cost without unduly increasing the burden on industry. Management has to give the lead by bringing about the maximum rationalisation in its own sphere and eliminating all unjustifiable practices which at present act as disincentives in drawing the best out of the workers.

Greater attention has to be paid to the training of management at various levels in the important aspects of employer-employee relations. Systematic studies need to be conducted for determining the individual wage differentials and the manner in which wages should be linked to productivity. Techniques for improving the managerial and supervisory skills and training in the higher productivity techniques besides carrying out field investigations like job evaluation and work load studies have helped in stimulating the interest of both management and workers. Further development in this field can be of considerable assistance in evolving rational wage policies.

Objectives of a Salary System

Human resource managers are primarily interested in the impact pay has on individual performance and organisational effectiveness. Most compensation programmes are designed to attract quality job applicants to the organisation and motivate employees towards further improved performance. This succeeding part examines the issues of pay equity and job satisfaction and the effects of compensation on job performance, employee attendance and organisational effectiveness.

Determining wage and salary payments is one of the critical aspects of human resource management because: (1) the organisation's reward system affects recruitment, job satisfaction, and motivation of employees; and (2) wages and salaries constitute cost to the employer with implications for organisational efficiency. A carefully designed wage and salary programme administered as part of sound organisational policy and consistently applied rules is essential, if human capital is to be used effectively to achieve organisational objectives.

Objectives of compensation can be listed as:

- To meet the needs of employees with emphasis on security and esteem needs;
- To motivate workers to achieve desired levels of performance;
- Cost-effectiveness based on affordability;
- To be competitive with other organisations in order to attract and retain quality human resource;
- To comply with wage and salary provisions in the labour contract and with federal and state laws and regulations; and
- To be fair and consistent throughout the organisation based on scientific criteria.(Wendell French)

7.3 PRINCIPLES OF REMUNERATION

The factors which are taken into consideration for the determination of salary scales of services are as follows:

I. Structure of Emoluments

Structure of emoluments should be so designed as to ensure recruitment of persons with requisite qualifications and abilities at each level. Fairness and equity should be the two prime considerations. Job evaluation is done for the purpose of addressing the aforesaid requirements.

2. Scales of Pay

Scales of pay of the employees should be fairly comparable to the rates of remuneration prevailing outside the industry. With liberalisation and economic reforms in the public sector, the government may no longer be able to maintain tight control over compensation packages of public sector employees who have now been allowed to negotiate pay scales with their unions. Recent spurt in negotiated compensation packages for employees in the private sector is a result of *intense* competition among the large number of players that are in the picture. While the present boom in private sector salaries may be a transitory phenomenon and may be limited by its own parameters, there is need for a national wage policy to ensure uniformity and consistency in pay administration. For example, in Singapore, salaries in government have been benchmarked to salaries in the private sector. Salaries of permanent secretaries in the United Kingdom are comparable with salaries of chief executives in the private sector. In India, government employees enjoy perks which need to be quantified in rupee terms to facilitate comparison with private sector remuneration.

3. Social Criteria

Minimum salary should not be determined only on economic considerations but should also pass social tests. The subject of minimum wages has evoked much criticism. The following appear to be some of the approaches for the determination of minimum wages (fifth central pay commission):

- (i) The need-based approach;
- (ii) Capacity to pay approach;

- (iii) Relative parities approach;
- (iv) Job evaluation approach;
- (v) Productivity approach; and
- (vi) Living wage approach.

The decision of pay commission on minimum wages reveals a harmonisation attempt between the need-based and the capacity to pay approaches. This has been essential because minimum wage which was found to be 'socially desirable' was not necessarily 'economically feasible'. Job evaluation and measurement of productivity was not found to be feasible as determining factors by the pay commissions.

Comparisons with the public and private sector were also not held desirable. Regarding living wages, it has been observed by the Fifth Pay Commission that a living wage is desirable and the state must endeavor to reach it as indicated by Article 43. The concept, however, is inherently elusive for living wage is not a static concept since it rises or falls with the differing prosperity level of the state. The fourth central pay commission was content with the state being a "good" employer as against a "model" employer.

4. Equal Pay for Equal Work

'Equal pay for equal work' is an important factor in pay determination. It is an endorsement of the fact that organisations should compensate the positions and not the individual. It may be mentioned here that the Canadian Human Rights Act had further amplified the concept to include "equal wages for equal *value* of work". Theoretically, nothing can be held against it; in practice however it is extremely difficult to define what equal work means because it's the person who works that makes the difference.

5. 'Variations' in Compensation

'Variations' in compensation should take into consideration the extent of experience of an employee, his background, skills, duties, responsibilities and hazards involved in work. If the work is hazardous, pay scales would need to be higher to attract and retain good employees.

6. Level of Consumer Prices

Prevailing consumer prices should be taken into consideration for fixing pay scales and determining other conditions of service. Inflation should be counted in periodic wage revisions.

7. Social Considerations

Social considerations deem that minimal disparities between the highest and lowest salaries should be maintained to ensure an equitable and a just social order. In India, the gap is rather wide.

8. Making Salaries Commensurate with Personnel Requirement

Making salaries commensurate with the kind of personnel the organisation requires helps attract good personnel. Fair wage determination has assumed increased significance in the 'knowledge era' where there is better bargaining power with the workers.

9. Employer's Capacity to Pay

Employer's capacity to pay employees is an important factor in the determination of salaries or wages. The central pay commission observed that if the economy is in a mess, the employees alone cannot have a good time. On the other hand, if there is a generally

upbeat mood in the country, government employees should also share in the general prosperity. An examination of the salaries of central government employees over the years has shown serious erosion on account of inflation, especially at the higher levels. The extent of erosion at the secretary level is as high as 71 per cent. This is all right, largely, but it has caused resentment among the civil servants of the union, state and local governments and also among employees of different states. The central government generally has the highest level of emoluments; the public sector undertakings are somewhat ahead of them and provide even better opportunities. On the other hand, are the local government, whose financial position is generally not good and their employees have to rest content with rather low level of pay. Quite often the opinion has been expressed that the government should seek to provide comparability in pay amongst the employees of the union government, the state governments, the local governments and quasi-government organisations.

10. Legislation

Apart from the factors mentioned above, legislation plays an important role in determination of salary and wage rates e.g. minimum wage legislation. Political and economic maxims do not always coincide. Challenge of policy formulation is a reconciliation of political and economic theory. For example, state determination of wage though answers *social necessity*, militates against *economic equilibrium*. As explained earlier, a rise in minimum wage rates can potentially up prices and create inflation and unemployment in the economy.

7.4 METHODS OF DETERMINING SALARY STRUCTURE

There is need to determine salary on the basis of inputs like education, training, experience, etc., Management has to ensure a wage structure which ensures equilibrium between the inputs and outputs pertaining to the individual and the organisation. This requires 'job evaluation' which is a process of assessing the relative worth of various jobs in an organisation so that differential pay may be administered for jobs of different worth.

In most new organisations salary structures are adopted from other organisations as job evaluation is always a costly exercise and difficult to keep up to date. Many top executives feel that job evaluation should be avoided as long as problems are not too pressing. However, job evaluation is an accepted methodology for determining pay structure. The focus of discussion in the subsequent text is on job evaluation for determining salary or wages. The focus of discussion in the subsequent text is on job evaluation for determining salary or wages.

Job Evaluation

“The purpose of job evaluation is the establishment of rates of pay for various jobs on an equitable basis. It is intended to eliminate chance, favouritism and individual bargaining in determining wage rates and for establishment of fair and equitable wages. The basis of job evaluation programme is an *occupational description*, which indicates precisely the duties or tasks of the person holding the job. It gives facts related to work content as the hours of work, age, sex and educational requirements of the worker, value of material handled and danger of spoilage, value of tools and equipment used and danger of breakage, accident hazard to self and fellow workers possible damage to clothing, working conditions as dirt heat moisture, lifting, standing, walking, judgment attention adaptability, mental alertness, initiative and planning, required experience, necessary

quickness of expertness in coordination of sight and hearing with muscles of arms or feet...”(Miller, 1987)

Methods of Job Evaluation

There are two methods for job evaluation:

I. Non-Analytical Methods:

Non-analytical methods establish grade hierarchy but are non-quantitative while analytical methods are quantitative and can be expressed in some numerical form. Small organisations prefer non-analytical methods as compared to analytical which is used by large organisations. Non-analytical methods, that is, job ranking methods and job classification methods are discussed as follows:

(a) Job Ranking Methods

Ranking is a direct method of comparing jobs together so that they are ranked in the order of importance. Job ranking is one of the simplest methods to administer. Jobs are compared to each other based on the worth of the job to the organisation. The 'worth' of a job is usually based on judgments of skill, effort (physical and mental), responsibility (supervisory and fiscal), and working conditions of the job. Jobs are then ordered *as per* their relative importance. This technique simply lists the relative worth of the various jobs under consideration. Jobs are not divided up factor-wise but are considered as a whole. Such exercise may not be practicable in large organisations with multifarious nature of jobs and diverse processes. The other drawback is that the appraiser may not practice propriety in ordering jobs as he is not likely to be familiar with all the jobs in sufficient measure. In such case, ordering is likely largely to be a matter of opinion.

Job ranking also may not indicate the degree of difference between jobs. In some cases it might be too pronounced; in others, negligible, bringing the very rationality of the exercise in question. For example 1 and 2 may be relatively closer than 2 and 3. Rank does not bring out the measure of difference.

(b) Job Classification Method

Selection is made of one of two jobs from each level of the grading structure and standard descriptions of duties, responsibilities and requirements of these jobs are prepared. These jobs are known as *benchmark* or *key jobs*. Job descriptions are then examined for jobs which are classified into appropriate grades or levels. Since classification depends on the existing jobs for classification, it might become unrealistic since it cannot gauge into changes in job contents. Job grading is done by establishing labour grades. Jobs are matched against requirements of each grade. It is widely used in USA to grade various clerical administrative and professional jobs.

II. Analytical Methods

Analytical methods comprise Factor Comparison and the Point Method.

(a) Factor Comparison

The process entails identifying key jobs which are *assumed* to be paid properly. Total pay per hour is assigned and attributed to some key factors in these jobs. Some commonly used factors are mental requirements, responsibility, working conditions, physical requirements and skill requirements. Next step is to compare other jobs with key jobs. Pay is fixed according to attributes required in the assessed job in relation to the key job; for example, how much should be paid for physical requirements for job B if Rs.100 is paid for it in key job A. Accuracy of the method depends upon correctness of pay determination in key jobs and criteria adopted for judgment with regard to comparisons of other jobs with key jobs.

(b) Point Method

It is an extension of factor comparison method. A set of *compensable* factors are identified as determining the worth of jobs. Typically the compensable factors include the major categories of:

1. Skill
2. Responsibilities
3. Effort
4. Working Conditions

These factors are further broken down into:

1. Skill
 1. Experience
 2. Education
 3. Ability
2. Responsibilities
 1. Fiscal
 2. Supervisory
3. Effort
 1. Mental
 2. Physical
4. Working Conditions
 1. Location
 2. Hazards
 3. Extremes in environment

Each factor is then divided into levels or degrees, which are then assigned points. Each job is rated using the job evaluation technique. The points for each factor are summed up to form a total point score for the job. Jobs are then grouped by total point scores and assigned to wage or salary grades so that similarly rated jobs are placed in the same wage or salary grade. Factors are agreed upon by industries in formal meetings and point values assigned for each factor. For example, experience may be a factor. Development of a factor, in this case, experience is traced as employee grows in experience and

compensation rises accordingly. For example, experience of three months or less, is experience of first degree, three months to one year, second degree and so on. The important condition is that there has to be an agreed definition of each factor to ensure parity/similarity as between industries. Though uniformity is difficult to achieve, some similarity has been possible through negotiations.

Point values justify a wage rate and helps attract employees. Employees are able to assess themselves and also compare available jobs according to personal need. Provision of choice in employment is welcomed by them. Job surveys can also be undertaken for wage determination.

Civil services and posts under the Central Government are at present classified as per 'rank classification' in India under groups as follows (fifth pay commission report). Classification is not based on job evaluation or position description. The words gazetted and non- gazetted have been criticized as reflecting a feudal bias. Position description has been called for, for at least group c and d positions. (Jain, 1976)

S. No.	Description	Group
1.	A central civil post carrying a pay or a scale of pay with a maximum of not less than Rs. 4000	A
2.	A central civil post carrying a pay or a scale of pay with a maximum of not less than Rs. 2900 but less than Rs. 4000	B
3.	A central civil post carrying a pay or a scale of pay with a maximum over Rs. 1150 but less than Rs. 2900	C
4.	A central civil post carrying a pay or a scale of pay the maximum of which is Rs. 1150 or less	D

7.5 ROLE OF CENTRAL PAY COMMISSIONS

So far, there have been five central pay commissions constituted by the government of India. The third central pay commission emphasised three characteristics of a sound pay structure--*inclusiveness, comprehensibility and adequacy*. '*Inclusiveness*' implies that the broad patterns of pay scales that have been adopted for the civil services will be uniformly applied everywhere, especially in areas where some autonomy has been provided. A pay scale should be '*comprehensive*' to give a total picture of the emoluments of a post, rather than fragmented into a number of allowances. The third requirement is *adequacy*. Most government employees have a feeling that their emoluments are inadequate with respect to their skills, educational qualifications, experience, duties and responsibilities, and also compare unfavourably with peers outside the government sector. Thus there is need for a scientific basis for fixing 'adequate' compensation to the employees. The commission was not in favour of literal comparison between government salaries and private sector salaries without examining the totality of prevailing circumstances. The commission wanted co- ordination among all sectors of public employment. The commission fixed the salaries on the basis of duties and responsibilities, difficulty and complexity of the task, qualifications, etc. The main contribution of the commission has been to rationalise the pay scales and to reduce the prevalent 500 scales to a mere 80. The disparity between the lowest and highest scales was reduced from 15.4 as on 1 January 1970 to 11.8.

The fourth pay commission recommended the following principles:

(a) The rates of pay and other conditions of service in private sector need to be considered, though disproportionate importance may not be attached to it;

(b) The principle of supply and demand is relevant but for unskilled labour, wages may be linked with essential physiological need;

(c) The government should not only be a 'model employer' but also a 'good' employer;

The main criterion stressed by the commission was, 'attracting' and 'retaining' the required and, that, they were reasonably satisfied with the pay and other conditions of service, taken as a whole. The fourth pay commission recommended thirty six scales of pay.

The minimum-maximum ratio of 1:10.7 which had been fixed by the fourth central pay commission has been retained. In its opinion, if this ratio cannot be increased, nor should it be allowed to get reduced. That is the reason why 100% neutralisation of cost of living at the higher levels has been recommended.

A number of scales have been merged because the existing scales were too close to each other. Some scales have been altogether done away with;

The increment in the proposed revised scale ranges between 1.64% to 3.44% with reference to the minimum of the scales and from 1.42% to 3.32% with reference to the mean of the scales. The increment of Rs. 40 at the lowest point of Rs. 2440- 40-3200 works out to 1.64% of the minimum of the scale at Rs. 2440 and 1.42 of the mean of the same scale at Rs. 2820. The increment of Rs. 275 in the scale of Rs. 8000-275-13500 works out to 3.44% of the minimum of the scale at Rs. 8000.

This can be done through performance related increment (PRI) scheme by the grant of an extra increment in addition to the normal increment in recognition of exceptionally meritorious performance.

Since it is proposed to introduce the performance related increment (PRI) scheme, it may not be necessary to continue with the system of efficiency bar. Thus, CFPC had recommended for its abolition.

If the economy is in a mess, the employees alone cannot have a good time. On the other hand, if there is generally upbeat mood in the country government employees should also share the general prosperity.

The examination of the salaries of central government employees over the years has shown serious erosion on account of inflation, especially at the higher levels.

The extent of erosion at the secretary level is as high as 71 %. In case, the numbers can be brought down, government can very well afford to pay its employees a decent salary.

Central fifth pay commission has done a good job by awarding good scales to employees but still expectations remain unanswered. Therefore, it would be wrong to say that money alone can bring the desired results. It is a combination of various factors such as work-culture, working conditions, work-ethics, leadership and commitment, etc. which determine collectively performance level of an organisation. Although individually speaking, salary or compensation forms a very critical factor in determining the commitment of an employee to his or her job.

The resources of the country being scarce and the development responsibilities huge, the government's personnel policy has to effectively balance the two. Scales have to be rationalised so that those who are retained are adequately compensated in lieu of high productivity at the job. The security of job and prestige attached to government service are some of the fringe benefits which are difficult to quantify and equate with the private sector. Similarly, the performance linked and competitive pay structure in a liberalised economy is bound to have its impact on public sector employment. Thus, a research and analysis wing needs to update itself with changes in the external environment and concurrently influence the pay policy and principles of remuneration, periodically.

A truly dynamic compensation system, which is flexible both laterally and vertically, could alone bring in the desired changes in organisational efficiency and effectiveness. It is also clear that no compensation plan can satisfy all the constituents. The true efficiency of the administrative system can be promoted only through the dedication and loyalty of the civil service to the national goals. Nehru rightly said, "The new India must be served by earnest, efficient workers who have an ardent faith in the cause they serve and are bent on achievement, and who work for the joy and glory of it, and not for the attraction of high salaries. The money motives should be reduced to the minimum."

7.6 CONCLUSION

The analysis in the Unit has enabled us to mention that:

1. Terms of employment are important to attract talented persons to jobs.
2. Terms of employment should be reviewed after every five years.
3. Attractive terms of employment would promote efficiency.
4. Central payment commissions have done good job to rationalise terms of employment.

7.7 KEY CONCEPTS

Pay Commission: Difference between a board and a commission is that in a board, responsibility is diffused while in a commission, each individual member has a separate charge with respect to a subject. Pay Commissions are appointed in India to study the structure of emoluments in government and make suitable recommendations. Pay Commissions have been criticised for a generalist approach to a technical issue and for lacking expertise in concerned areas like ergonomics, method study, work study and job analysis on which pay should be determined.

Salary: Salary is standard payment made to an employee on a monthly basis. Wages are usually used for remuneration at the shop

floor, while the term salary is used for employment at senior levels.

Wage: Wages is that which is received by a worker or paid by an employer for time on the job; money received or paid usually for work by the hour, day, or week, or month; a calculation or statement of money earned for a period of time from one hour (hourly wage) up to one year (annual wages).

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7.9 ACTIVITIES

1. Is the free market better for wage fixation? Discuss the public choice implication in the wage level determination.
2. Should wages be based on standard criteria on differential basis? Give reasons in support of your contention.
3. Discuss job evaluation. Explain its objectives and the methods employed in job evaluation.