

UNIT : I

Lesson 1

Introduction to Job Evaluation

Outline of the lesson

1. Terminologies of job evaluation
2. Concepts of job and evaluation
3. Objectives of job evaluation
4. Principles of job evaluation
5. JOB Evaluation criteria
6. Job Evaluation process
7. Computerized job evaluation

Learning Objectives

After studying this lesson, you should be able to:

1. *Understand* the various terms of job evolutions
2. *Define* the term job evolution
3. *Outline* the objectives of job evolution
4. *List* the principles of job evaluation
5. *Identify* the criteria for job evaluation
6. *Observe* the process of job evaluation
7. *Look into* the computerized job evaluation

Introduction

Once a right candidate is placed on a right job, the person needs to be duly compensated for the job he/she performs. In the pursuit of equal payment, there should be established a consistent and systematic relationship among base compensation rates for all the jobs within the organizations. The process of such establishment is termed '*job evaluation*'. Different jobs in an organization need to be valued to ascertain their relative worth so that jobs are compensated accordingly and an equitable wage and salary structure is designed in the organization. This is necessary for sustaining cordial relations within and between employees and employer. Hence, there is a need for appreciation of intricacies of the job evaluation in the modern organizations. This lesson, as a first steps, dedicated to discuss the various fundamental aspects of job evolution.

Concept and related terminologies of job evaluation

In the area of job evaluation study, a certain amount of technical terminology is used in order to facilitate communication. It is therefore desirable to list and understand allied terms in the job evaluation, as well as some terms that are related to and often confused with job evaluation (Exhibit. 1.1).

Position: A position is a *group of tasks assigned to one individual*. There are as many positions in a firm as there are personnel.

Job: Edwin B.Flippo describes job as a *group of positions that are similar as to kind and level of work*. In some instances only one position may be involved, simply because no other similar position exists. For example, in the typical firm the position of human resource manager also constitute a job since there is only one human resource manager in the organizing.

Job Analysis: It is the *process of studying and collecting information relating to the operations and responsibilities of a specific job*. The immediate products of this analysis are job descriptions and job specifications.

Motion study: This also involves study of the job. Motion study is one of the ways of studying job. It is a process of analyzing a job to find the easiest, most effective, and most economical method of doing it. As such, motion study is a part of the job design function.

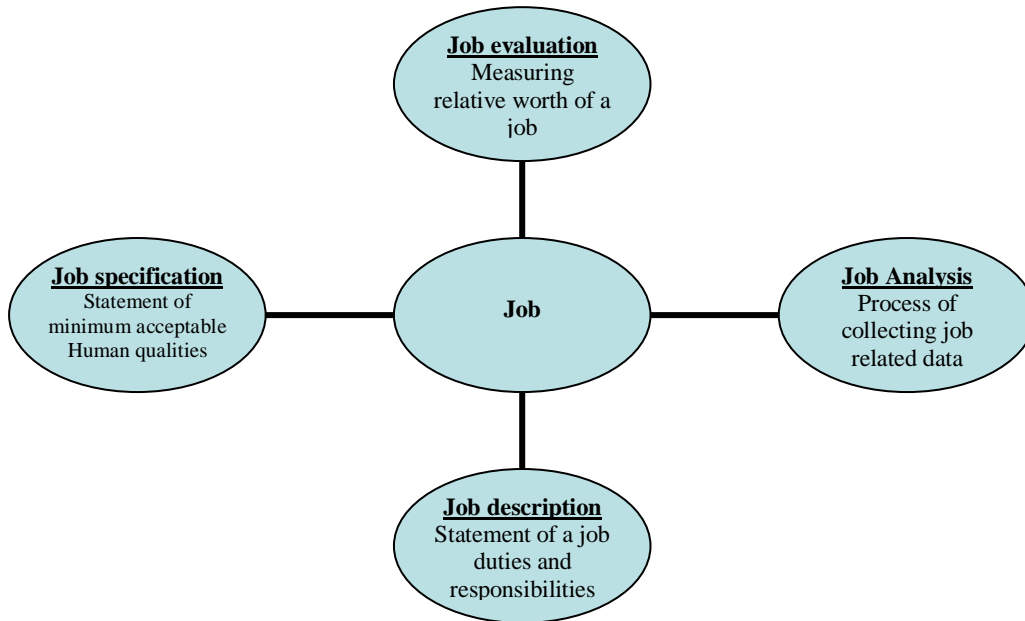
Job description: It is an *organized, factual statement of the duties and responsibilities of a specific job*. In brief, it should tell what is to be done, how it is to be done, and why. It is a standard of function, in that it defines the appropriate and authorized content of a job.

Job specification: It is a *statement of the minimum acceptable human qualities necessary to perform a job properly*. It is a standard of personnel and designates the qualities required for acceptable performance.

Evaluation: Wigley explains evaluation as a data reduction process that involves the collection of large amounts of data which are analyzed and synthesized into an overall judgment of worth or merit. The implication here is that the judgment of worth can be supported by the data. In her review, Foxon found similar definitions referring to judgments of value or worth.

Job Evaluation: It is a systematic and orderly process of determining the worth of a job in relation to other jobs. The objective of this process is to determine the correct rate of pay. It is therefore not the same as job analysis. Rather it follows the job analysis process, which provides the basic data to be evaluated.

Exhibit. 1.1



In simple worlds, job evaluation is the rating of jobs in an organization. This is the process establishing the value or worth of jobs in a job hierarchy and compares the relative intrinsic value or worth of jobs within an organization. Some renowned definitions of job evaluation are described below.

Scott, Clothier and Priegel defines job evaluation as “the operation of evaluating a particular job in relation to other jobs either within or outside the organization”.

Dale Yoder described job evaluation as “a practice which seeks to provide a degree of objectivity in measuring the comparative value of jobs within an organization and among similar organizations”.

Edwin B. Flipppo defines job evaluation as “a systematic and orderly process of determining the worth of a job in relation to other jobs”.

Arthur A. Sloane described job evaluation as “any formalized system that attempts to determine the relative worth of different jobs in the organization so that jobs of greater value can be rewarded by greater pay”.

According to the *International Labour Organization* (ILO), “job evaluation is an attempt to determine and compare the demands which the normal performance of a particular job makes on normal workers, without taking into account the individual abilities or performance of the workers concerned”.

The British Institute of Management defines “job evaluation as the process of analysis and assessment of jobs to ascertain reliably their relative worth using the assessment as the basis for a balanced wages structure”.

Wendell French defines job evaluation as “a process of determining the relative worth of the various jobs within the organization, so that differential wages may be paid to jobs of different worth. The relative worth of a job means relative value produced. The variables which are assumed to be related to value produced are such factors as responsibility, skill, effort and working conditions”.

Objectives of job evaluation

The main objective of job evaluation is to ensure equitable remuneration for relative worth of a job. As per the ILO Report, the aim of the majority of systems of job evaluation is to establish, on agreed logical basis, the relative values of different jobs in a given plant or machinery, i.e., it aims at determining the relative worth of a job. The principle upon which all job evaluation schemes are based is that of describing and assessing the value of all jobs in the firms in

terms of a number of factors, the relative importance of which varies from job to job”.

The objectives of job evaluation, to put in a more systematic manner are to:

1. Establish a standard procedure for determining the relative worth of each job in an organization;
2. Ensure equitable wage for a job and reasonable wage differentials between different jobs in a hierarchical organization;
3. Determine the rate of pay for each job which is fair and equitable with relation to other jobs in the plant, community or industry;
4. Eliminate wage inequalities;
5. Use as a basis for fixing incentives and different bonus plans;
6. Promote a fair and accurate consideration of all employees for advancement and transfer;
7. Provide information for work organization, employees’ selection, placement, training and other similar purposes;
8. Provide a benchmark for making career planning for the employees in the organization and;
9. Ensure that like wages are paid to all qualified employees for like work.

Principles of job evaluation

The job evaluation has certain principles. These principles are supposed to be kept in the mind of the job evaluators. These principles are not only directives of proper job evaluation but also provide clarity in the process of evaluation. According to Kress, these principles are:

1. Rate the job and the jobber. Each element should be rated on the basis of what the job itself requires;

2. The elements selected for rating purposes should be easily explainable in terms and a few in numbers as will cover the necessary requisites for every job without any overlapping;
3. The elements should be clearly defined and properly selected;
4. Any job rating plan must be sold to foremen and employees. The success in selling it will depend on a clear-cut explanation and illustration of the plan;
5. Foreman should participate in the rating of jobs in their own departments;
6. Maximum co-operation can be obtained from employees when they themselves have an opportunity to discuss job ratings and;
7. Too many occupational wages should not be established. It would be unwise to adopt an occupational wage for each total of point values.

Job Evaluation Criteria

The system of job evaluation utilises a total of eight measurement factors. The various factors analyse a position in relation to the skills and experience required for competent performance, the demands made on the job and the overall structure and responsibility/accountability involved. A point rating is derived for each factor and the sum of these points represents the total point's value of the job.

Basic Evaluation Rules: The basic rules for evaluating each position are:

1. The current position is evaluated without being influenced by what the job is likely to be in the future or what it may have been in the past.
2. The position is evaluated and not the job holder. The assessment of each factor is based on the job being performed competently. The assessment of the job holder's own performance against the standard

required is a quite separate exercise which is outside the scope of the job evaluation rating.

The Job Evaluation Factors: The job evaluation system comprises the following factors: In some cases minor changes to the wording are used to define factors and levels made in order to better align the methodology with the client's culture and environment. Where this is done, great care is taken to ensure inter-organisation consistency is not compromised. The primary factor in determining compensation is an evaluation of work performed. The internal worth of a job is evaluated based upon factor like - Know-How, Problem Solving, and Accountability, Education, Experience, Complexity involved in the job, Scope of job, Supervision received and, Authority Exercised.

1. Know-How – The knowledge, skill and experience required for standard acceptable performance. It considers the requirement for technical and professional skills, expertise and experience, the amount of planning and organising required and the requirement to work with and through others. The three dimensions of Know-How are listed below exhibit.1.2.

Exhibit.1.2

Technical Know-How	Measures levels ranging from learning basics work to specialized techniques and knowledge to professional mastery of scientific theory.
Managerial Know- How	Measures the job's requirements to integrate diversified types of supervisory or managerial activities.
Human relation Know-how	Measures the degree to which the job requires practical person to-person skills in persuasion, motivation, and selection of people.

2. Problem Solving – the thinking required for analysing, evaluating, creating, reasoning, arriving at and drawing conclusions; the extent to which this thinking is covered by precedents or circumscribed by standards; and the degree of creativity or original thought required. The two dimension of problem solving are presented below.

Exhibit.1.3

Thinking environment	The degree of structure provided by the job in solving problems.
Thinking Challenge	It is the complexity of the problems in the job assignment and the amount of thinking required to solve job-related problem.

3. Accountability – The degree to which the employee is held accountable for taking action and for the consequences of that action. It is the measured effect of the job on end results. The freedom to act measured through the existence or absence of constraints by managers, committees and procedures and the impact of that action on the organization. The three dimensions of accountability are depicted in below exhibit.

Exhibit.1.4

Freedom to act	Measures the relative degree to which decisions can be made, the level of authority which is needed, or the precedents, policies, and procedures which must be considered before an employee can take action.
Magnitude	It is the degree of influence a position has on the organizational operations.
Impact	It is the degree to which the job affects the organizational operations. Some jobs are directly responsible for actions while others provide counsel and advice, which is used by others to take action.

4. Education - The level of formal education required to perform the functions required of a position. There is often an overlap between education and experience, and for this reason it is often advisable to consider the education level that would be expected of a new incumbent recruited externally.
5. Experience - The length of practical experience and nature of technical/managerial familiarity required. This experience is in addition to formal education.
6. Complexity – measured in terms of: (a) the time taken to learn and adjust to specific job requirements, (b) the level to which the job functions are defined and follow established and predictable patterns and, (c) the thinking challenge required to adapt to rapidly changing circumstances and innovative or conceptual thinking needed to initiate new corporate direction.
7. Scope of Job - The complexity and scope of work factors tend to be related to the education and experience level required of a position. The calculation of points for each of these factors is based on the application of a percentage rating of the sum of the points derived in the evaluation of Education and Experience.
8. Supervision Received -The extent of supervision, direction or guidance imposed on the job holder and the freedom the executive has to take action.
9. Authority Exercised - Authority level expressed in terms of routine expenditure, capital expenditure and investments, granting of loans, hiring and firing staff, etc.

Job Evaluation Process

Job Evaluation is a technique to rank jobs in an organization on the basis of the duties and responsibilities assigned to the job. The job evaluation process results in a job being assigned to a pay grade. The pay grade is associated with a pay range that is defined by a minimum and a maximum pay rate. A model of job evaluation process with the following steps is presented bellow (Exhibit 1.5).

Step One -Job Description - The position supervisor assigns duties and *writes* the job description. If there is an incumbent employee, s/he reviews it, and they both sign it. Instructions and additional assistance are available from Human Resources, if needed. The job description is a snapshot of the job as it presently exists, reflecting the current duties and responsibilities of the job and/or the incumbent.

Step Two – Approval - The vice president reviews job descriptions and, if s/he concurs, approves the responsibilities, requirements, and departmental organization contained within a job description presented for new evaluation, and signs it. If the vice president does not concur with the contents of the description, it is returned to the supervisor for changes.

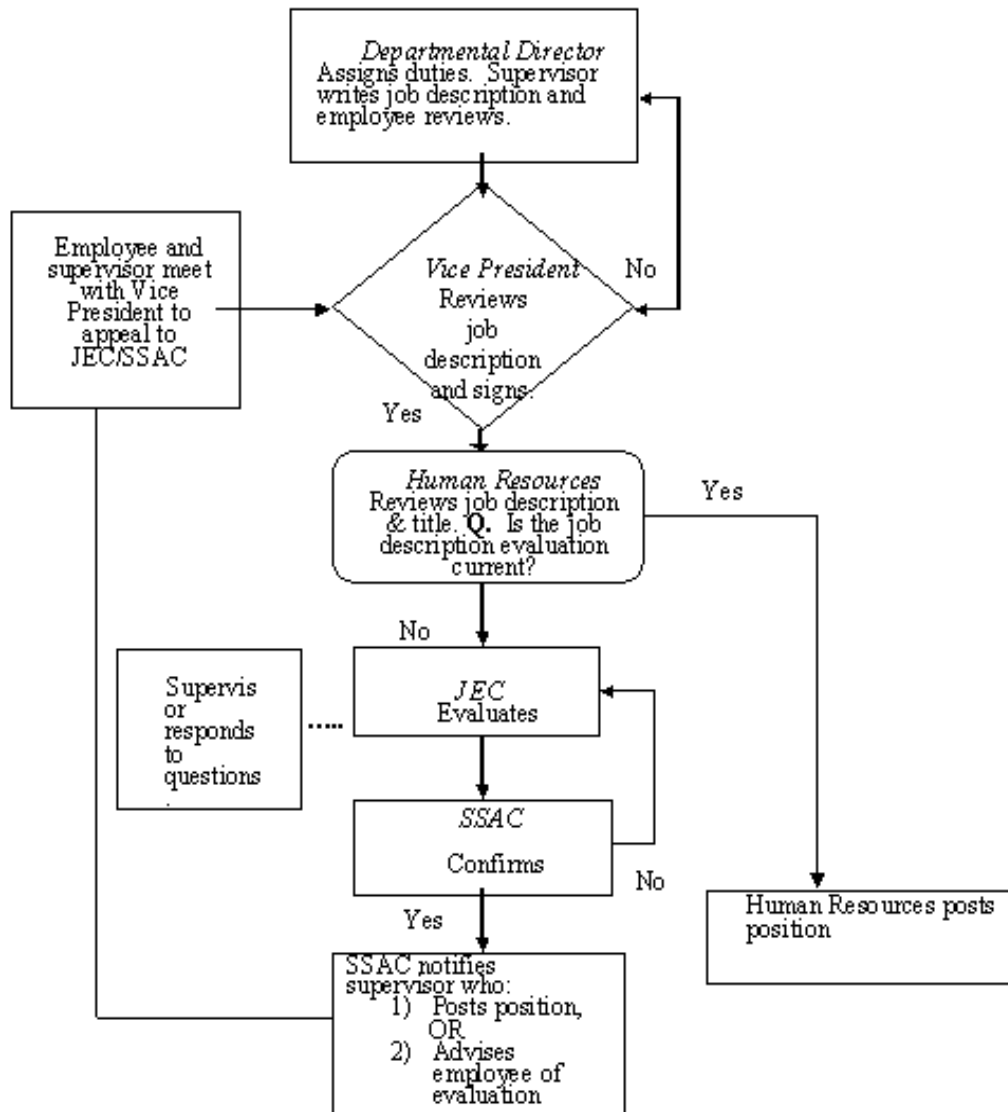
Step Three – Review- Human Resources reviews the job description as submitted with the supervisor prior to evaluation by the Job Evaluation Committee (Step 4). Human Resources help ensure that there is consistency and equity in the job descriptions and titles by editing them for clarity and format. If the Human Resources Office makes changes, the job description is returned to the supervisor and vice president for signature prior to being presented to the Job Evaluation Committee (Step 4).

Step Four – Evaluation - The Job Evaluation Committee (JEC) is a multi-member committee, the members of which are appointed by the Staff Salary Administration Committee (SSAC), representing employees throughout organization. JEC ensures equity among jobs through the use of established, consistent criteria for evaluation and prevents escalation of the job evaluation grades by validating changes in job content presented for review. Members of JEC receive in-depth training on job evaluation and utilize a consistently applied point system for the evaluations.

Step Five – Confirmation - SSAC confirms all job evaluations and titles recommended by JEC. This committee is composed of the SLCC Vice Presidents, the human resources director, and other relevant co-opted experts. After confirmation of the evaluation job description, SSAC advises the supervisor of the results of the evaluation and the title. The supervisor then advises the employee of the results of the job evaluation.

Exhibit 1.5

The Job Evaluation Process



Computerized job evaluation

Much of the time-consuming effort spent on maintaining a job evaluation programme can be reduced by combining personal computers with job evaluation software. Computer-aided system simplifies the administration of job evaluation programmes and provides a more expedient means of processing job evaluation information. Job data can be collected from supervisors by using a structured, machine-scoreable questionnaire. Computer software can be used to analyze the questionnaire responses and perform the job evaluation. With the advent of skill-based pay, which focuses on an employee's education, experience, and skills developed in programmes, a computer programme can update employee knowledge and skills as they are acquired. Pay adjustments are then made to reflect the employee's increased knowledge and skills.

Summary

After reading the first lesson, some of the important points regarding job evaluation would be remembered. First, as the name implies, job evaluation is an attempt to assess and evaluate a specific job or category of jobs, not the person holding the job. The assessment of the job reflects the worth of a job in the hierarchical jobs of organization. Based on the worth of each job, compensation is decided to each and every job without any imbalance in monetary terms. The latter issue is the function of performance appraisal rather than job evaluation.

The summary is organized by the learning objectives expressed in the beginning of the lesson.

1. Job evaluation is a technique used to determine the value of each job in relation to all jobs within the organization. Its main objective is to

determine the relative worth of different jobs in an organization to serve as a basis for developing rational wages and salary structure.

2. Evaluating job not jobber is the major principle job evaluation.
3. The criteria for job evaluation is consideration of various factors, which analyse a position in relation to the skills and experience required for competent performance, the demands made on the job and the overall structure and responsibility/accountability involved.
4. Job Evaluation is a technique to rank jobs in an organization on the basis of the duties and responsibilities assigned to the job. The job evaluation process results in a job being assigned to a pay grade.

Key terms

Job	Evaluation	Job evaluation
Job analysis	Job description	Job specification
Job grading	Job classification	Benchmark Job

Discussion questions

1. What is job evaluation?
2. What are the objectives of job evaluation
3. Narrate very briefly the distinguishing features of job analysis, job description, job specification and job evaluation.
4. What are the principles of job evaluation?
5. Discussion the process of job evaluation.
6. 'Job evaluation is the ranking of job not the job holder'.
Comment.
7. Discuss the advantages of job evaluation.

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UNIT : I

Lesson 2

Job Evaluation Method

Outline of the lesson

1. Ranking Method
2. Job Classification Method
3. Point Rating Method
4. Factors Comparison Method
5. Advantages of Job Evaluation
6. Limitations of Job Evolution

Learning Objective

After studying this lesson, you should be able to:

1. *Identify* application of ranking method
2. *Understand* the process of job classification
3. *Locate* the relevance of point rating method
4. *Understand* factors comparison
5. *Know* the advantages of job evaluation
6. *Underline* the limitations of job evaluation

Introduction

As we understood in the lesson 1, the job evaluation is aimed at determining the relative worth of a job. It involves a formal and systematic comparison of jobs in order to determine the worth of one job relative to another and eventually results in a wage or salary hierarchy. The basic process also viewed as an activity of comparing the content of jobs in relation to other in terms efforts required, responsibility involved and skills needed. The entire process is planned and prepared systematically by a job evaluation committee.

A number of job evaluation methods have been developed since the 1920's, and many, if not most, of them are still used. They all have the same final objective – ranking jobs in terms of their relative worth to the organization so that an equitable rate of pay can be determined for each job. As the job evaluation is mostly a judgemental process that would probably use one of the job evaluation methods, which are commonly grouped into two major categories: quantitative and non-quantitative. The basic difference between these two methods lies in the sense that, under non-quantitative methods, a job is compared as a whole with other jobs in the organization, whereas in case of quantitative methods, the key factors of a job are selected and, then measured. The most commonly used non-quantitative methods are *ranking and job classification or grading method*, while the most common quantitative methods are *factor comparison and point rating*. The starting point for all job evaluation methods is a current job description and job specifications.

Non-quantitative methods

Non-quantitative methods call for the evaluation of a whole job relative to other jobs or to general descriptions of jobs within an organization. For instance, a job description of a customer service representative may be

compared to the job description of a word processing specialist. The main role of the evaluator is to determine which of the jobs is more important or worth more to the organization. The major types of non-quantitative job evaluation procedures are ranking and job classification.

Ranking Method of job evaluation – This is simplest form of job evaluation method. The method involves ranking each job relative to all other jobs, usually based on some overall factor like ‘job difficulty’. Each job as a whole is compared with other and this comparison of jobs goes on until all the jobs have been evaluated and ranked. All jobs are ranked in the order of their importance from the simplest to the hardest or from the highest the lowest. The importance of order of job is judged in terms of duties, responsibilities sand demands on the job holder. The following steps are involved in ranking jobs.

1. *Obtain job information* - The first step is job analysis. Job descriptions for each job are prepared and these are the basis on which the ranking s are made. The job ranking method usually ranks jobs according to ‘the whole job’ rather than a number of compensable factors.
2. *Select raters and jobs to be rated* - Ranking all the jobs, at a time, is usually not possible. The more usual procedure involves ranking jobs by department or in ‘clusters’ i.e. factory workers, clerical workers and so on. This eliminates the need for having to compare directly, say, factory jobs and clerical jobs.
3. *Select Compensable factors* – In the ranking method, it is common to use just one factor, for instance job difficulty, and to rank jobs on the basis of ‘the whole job’. Regardless of the number of factors you choose, it is advisable to carefully explain the definition of the factor(s) to the evaluators so that they evaluate the jobs consistently.

4. *Rank jobs* - Next, the jobs are ranked. The simplest way to do this involves giving each rater a set of index cards, each of which contains a brief descript of a job. These cards are then ranked from lowest to highest.
5. *Combine Rating* - It is usually to have several raters rank the jobs independently. Finally, divide all the ranked jobs into appropriate groups or classifications by considering the common features of jobs such as similar duties, skills, or knowledge required. All the jobs within a particular group or classification receive the same wage or range of raters. Then, once this is accomplished, the rating committee can simply average the ranking.

The ranking of jobs in an Academic Institution, based on Ranking Method, may be like this:

Exhibit. 2.1 Ranking of Academic Institution Jobs

<i>Ranking order</i>	<i>Pay Scale</i>
Professors / Registrar / Librarian	Rs.16400 – Rs. 22,400
Readers / Deputy Registrar / Deputy Librarian	Rs. 12000 – 420 – 18,300
Rs. Lecturer/Asst. Registrar /Asst. Librarian	Rs. 8000 – 275 – 13,500

Merits – Ranking method has the following merits in terms of its procedure, resources involvement and operatational mechanisms.

1. It is the simplest method
2. It is quite economical to put it into effect
3. It is less time consuming and involves little paper work.

Demerits – The ranking method has the following demerits in terms of validity and reliability.

1. The main demerit of the ranking method is that there are no definite standards of judgement and also there is no way of measuring the differences between jobs.
2. It suffers from its sheer unmanageability when there are a large number of jobs.

Job Classification or Grading Method – This is a simple, widely used method. This method of job evaluation was made popular by the U.S. Civil Service Commission. In the ranking system there is no re-determined yardstick of values. In the job grading approach there is one such yardstick constituting of job classes or grades. Jobs are measured as whole jobs. Under this method job grades or classes are established by an authorised body or committee appointed for this purpose. A job grade is defined as a group of different jobs of similar difficulty or requiring similar skills to perform them. Job grades are determined on the basis of information derived from job analysis. The example of job grades may include, depending on the type of jobs the organization offers, skilled, unskilled, account clerk, clerk-cum typist, steno-typist, office superintendent, laboratory assistant and so on.

There are several ways to categorize jobs. One is to draw up ‘class description’ and place jobs into classes based on their correspondence to these descriptions. Another is to draw up a set of classifying rules for each class and then categorise the jobs according to these rules. The usual procedure is to choose compensable factors and then develop class or grade descriptions that describe each class in terms of amount or level of compensable factor(s) in jobs. Such factors are:

1. Difficulty and variety of work,

2. Supervision received and exercised,
3. Judgement exercised,
4. Originality required,
5. Nature and purpose of interpersonal work relationships,
6. Responsibility,
7. Experience and,
8. Knowledge required

The following five steps are generally involved in the process of job classification.

1. Prepare job description for basic information about the job
2. Prepare job grading description for identification of different levels of jobs. Each grade level must be distinct from the grade level adjacent to it. After establishing the grade level, each job is assigned to an appropriate grade level on the basis of the complexity of duties, non-supervisory responsibilities and supervisory responsibilities
3. Select grades and key jobs about 10 to 20 jobs, which include all the major departments and functions and cover all the grades
4. Grade the key jobs. Key jobs are assigned to an appropriate grade level and their relationship to each other studied.
5. Classify all the jobs on the basis of grade definitions. All the jobs in the same grade receive the same wage or range of rate. For instance, menials may be put into one class; clerks in another; junior officers in a higher class; and the top executives in the top class.

The exhibit 2.2. gives us the gradation of five classes clerks designed by a title label and different values of each job on the basis of respective job duties and responsibilities.

Exhibit. 2.2 Description of job classification

<i>Grades</i>	<i>Job Classification</i>
Head Clerk	Those handling or capable of taking a major decision on the work they do; complicated work requiring much independent thinking; able to consider details outside the control.
Senior Clerk	Technically varied work, occasionally independent thinking and action due to difficult work which require exceptional clerical ability and extensive knowledge of principles and fundamentals of the business of is department.
Clerical Grade III	Pure routine concentration, speed and accuracy, works under supervision; may be held responsible for supervision
Clerical Grade II	No supervision by others, especially skilled for the job by having an exhaustive knowledge of the details.
Clerical Grade I	Must have the characteristic of a second class clerk and assume more responsibilities

Merits - The job classification method has several advantages. The major merits of the method are:

1. This method is easy to understand and simple to operate.
2. It is economical and , therefore, suitable for small organizations.
3. The grouping of jobs into classifications makes pay determination problems easy to administer.

4. This method is useful for Government jobs.

Demerits - The job classification method also has some disadvantages. The major demerits of the method are:

1. The method suffers from personal bias of the committee members.
2. It cannot deal with complex jobs which will not fit neatly into one grade.
3. This method is rarely used in industries.
4. It is difficult to know how much of a job's rank is influenced by the man on the job.
5. The system is rather rigid and unsuitable for a large organizations or for very varied work.

Quantitative Methods

Quantitative methods divide jobs into component parts and require absolute or relative value judgements about how much of a component part a particular job requires. The two most popular types of quantitative systems are the point rating and factor comparison methods.

Point Rating Method – This is most widely used system of job evaluation. The method evaluates the compensable factors of each job. It involves a more detailed, quantitative and analytical approach to the measurement of job work. Under this method jobs are broke down based on various identifiable factors such as skill, effort, training, knowledge, hazards, responsibilities and so on. Thereafter, points are allocated to each of these factors. Weights are given to factors depending on their importance to perform the job. Points so allocated to various factors of a job are then summed. Then, the jobs with similar total of points are placed in similar pay grades. The sum of points gives an index of the relative significance of the jobs that are rated.

This system requires six steps and is usually implemented by a job evaluation committee or by an individual analyst.

1. *Determine critical factors* – The points rating method includes the following job factors for allocation of points:
 - a) Safety of other;
 - b) Equipment of materials;
 - c) Assisting trainees;
 - d) Production or service quality
2. *Determine the levels of factors* – Since, the amount of responsibility or other factors may vary from job to job, the point rating method rates several levels associated with each factor. These levels help analysts reward different degrees of responsibility, skill, and other critical factors.
3. *Allocate points to sub-factors* - With the factors listed down one side and the levels placed across the top, the result is a point method matrix. Starting with highest level, the job evaluation committee subjectively assigns the maximum possible points to each sub-factor. The allocation allows the committee to give very precise weights to each element of the job.
4. *Allocate points to levels* – Once the total points for each job element are assigned under highest level, analysts allocate points across each row to reflect the importance of the different levels.
5. *Develop points manually* – Analysts then develop a point manual. It contains a written explanation of each job element. It also defines what is expected for the various levels of each sub-factor. This information is needed to assign jobs to their appropriate levels.
6. *Apply the point system* – When the point matrix and manual are ready, the relative value of each job can be determined. This process is

subjective. It requires specialists to compare job descriptions with the point manual for each sub-factor. The match between the job description and the point manual statement reveals the level and points for each sub-factor of every job. The points for each sub-factor are added to find the total number of points for the job. After the total points for each job are known, the jobs re ranked.

Exhibit. 2.3 Points rating method matrix

Compensible or critical factors	Levels			
	<i>Minimum I</i>	<i>Low II</i>	<i>Moderate III</i>	<i>High IV</i>
1.Responsibility				
a) Safety of others	25	50	75	100
b) Equipment and materials	20	40	60	80
c) Assisting trainees	5	20	35	50
d) Product/service quality	20	40	60	80
2.Skill				
a) Experience	45	90	135	180
b) Education/training	25	50	75	100
3.Efforts				
a) Physical	25	50	75	100
b) Mental	35	70	105	150
4.Working conditions				
a) Unpleasant	20	40	60	80
b) Hazards	20	40	60	80
Total points				1000

Merits - The points rating has several advantages. The major merits of the method are:

1. It is the most comprehensive and accurate method of job evaluation
2. Prejudice and human judgement are minimised. The method can not be manipulated.
3. Being the systematic method, workers of the organization favour this method.

4. The scales developed in this method can be used for long time.
5. Jobs can be easily placed in distinct categories

Demerits - The points rating method also has some disadvantages. The major demerits of the method are:

1. It is both time-consuming and expensive method.
2. It is difficult to understand for an average worker.
3. A lot of clerical work is involved in recording rating scales.
4. it is not suitable for managerial jobs wherein the work content is not measurable in quantitative terms.

Factors Comparison Method - This is a combination of both rating and point rating methods. It means rates jobs by comparing them and makes analysis by breaking jobs into compensable factors. This system is usually used to evaluate white collar, professional and managerial positions. The mechanism for evaluating jobs under this method involves the following steps.

1. *Determine the compensable factors* – Analysts must first decide which factors are common and important in a broad range of jobs. The critical factors like responsibility, skill, mental efforts, physical effort and working conditions are most commonly used. Some organizations use different factors for managerial, professional, sales, and other types of jobs.
2. *Determine key jobs* – Key jobs are those that are commonly found throughout the organization and are common in the employer's market. Common jobs are selected because it is easier to discover the market rate for them. Ideally, these benchmark jobs should be accepted by employee as key jobs and should encompass a wide variety of critical factors to be evaluated. Typically, 10-25 key jobs are selected by the committee.

3. *Allocation present wages for key jobs* – The job evaluation committee then allocates a part of each key job’s current wage rate to each critical factor. The proportion wage assigned to each of the different compensable factors depends on the importance of the factor. The base rate agreed upon by the company.

Exhibit. 2.4 Allotments of wages for key jobs.

Compensible or critical factors	Supervisor (Rs.)	Electrician (Rs.)	Assistant (Rs.)
1. Responsibility	3.40	1.80	1.40
2. Skill	3.00	1.80	1.30
3. Mental effort	2.80	1.50	1.40
4. Physical effort	1.70	2.70	0.90
5. Working conditions	1.60	1.90	0.80
<i>Total</i>	<i>12.50</i>	<i>9.70</i>	<i>5.80</i>
<i>Wage rate</i>	<i>12.50</i>	<i>9.70</i>	<i>5.80</i>

4. *Place key jobs on a factor comparison chart* – Once the wage rates are assigned to the compensable factors of each key job, this information is transferred to a factor comparison chart. Key job titles re placed in the factor columns according to the rate of wages assigned to the job for each critical factor.
5. *Evaluate other jobs* – The titles of key jobs in each column of the factor comparison chart serve as benchmarks; other non-key jobs are then evaluated by fitting them in the rate scale under each factor column.

Exhibit. 2.4 Allotments of wages for key jobs.

Rate	Responsibility	Skill effort	Mental effort	Physical effort	Working Conditions
4.00	Supervisor				
3.00		Supervisor	Supervisor		
2.00	Electrician	Electrician	Supervisor	Electrician	Electrician
	Assistant	Assistant	Assistant	Assistant	Supervisor
1.00				Assistant	
0.00					Assistant

Merits - The factors comparison has several advantages. The major merits are:

1. It is more objective method of job evaluation
2. The method is flexible as there is no upper limit on the rating.
3. It is fairly easy method to explain to employees.
4. The use of limited number of factors (usually five) ensures less chances of overlapping and over-weighting of factors.
5. It facilitates determining the relative worth of different jobs.

Demerits - The factors comparison method also has some disadvantages. The major demerits of the method are:

1. It is expensive and time consuming method.
2. Using the same five factors for evaluating jobs may not always be appropriate because jobs differ across and within organization.
3. It is difficult to understand and operate.

Managerial Implications of job evaluation

Job evaluation has assumed greater significance in organizations currently due to its multifaceted usefulness in human resource management. It establishes worth of a job in comparison to other jobs and indicates hierarch of jobs in organization. The job evaluation is also useful for human resource department for structuring organizational activities as well as developing relationship among all jobs. It avoids industrial relation problems between employees and employer by designing commensurate compensation without any inequality in wage and salary structure. Human Resource Mangers when launching job evaluation exercise must take note of:

1. Job that should be evaluated and not the person performing it,
2. Defining clearly purpose of evaluation,
3. Adoption of one of the four job evaluation methods based upon organization size, internal needs and organizational culture and,

4. Allocation of sufficient resources for the exercise.

Exhibit. 2.5 Comprehensive sketch of job evaluation methods

Method	Useful to	Steps involved	Advantages	Disadvantages
Job Ranking	Small firm	<ol style="list-style-type: none"> 1. Develop brief job descriptions for each job 2. Appoint a cross-functional committee to select top and bottom most job benchmarks 3. Compare jobs to these benchmarks and rank them 	<ol style="list-style-type: none"> 1. Simple 2. Inexpensive 	<ol style="list-style-type: none"> 1. Crude method 2. Subjectivity
Job Grading	Medium and large sized firm	<ol style="list-style-type: none"> 1. Develop a standard of reach job based on the job description 2. Create scale of value for the standard job 3. Compare jobs to standards and assign values 4. Based on value, draw classification of jobs 	<ol style="list-style-type: none"> 1. Simple 2. Easy to understand 3. Inexpensive 	<ol style="list-style-type: none"> 1. Difficulties in fixation of standards for different jobs 2. Subjectively
Point Rating	All types of firms	<ol style="list-style-type: none"> 1. Develop detailed job descriptions 2. Interview job occupants to understand the jobs 3. Create benchmark points for each skills in terms of quality and quantity 	<ol style="list-style-type: none"> 1. Comparatively objective 2. Easy to interpret 	<ol style="list-style-type: none"> 1. Time consuming 2. Expensive
Factor comparison	All types of firms	<ol style="list-style-type: none"> 1. Compare each job with five universal jobs factors such <ol style="list-style-type: none"> a) Responsibilities b) Skill c) Physical efforts d) Mental effort e) Working conditions 2. Assign value to 	<ol style="list-style-type: none"> 1. Step-by-step formal method 2. Easy to translate into monetary terms 	<ol style="list-style-type: none"> 1. Complexity 2. Time consuming

		determine worth of the job		
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Advantages of job evaluation

According to the International Labour Organization, job evaluation offers the following advantages:

1. Job evaluation being a logical process and objective technique helps in developing a equitable and consistent wage and salary structure based on the relative worth of jobs in an organization.
2. By eliminating wage differentials within the organization, job evaluation helps in minimizing conflict between labour unions and management and, in turn, helps in promoting harmonious relations between them.
3. Job evaluation simplifies wage administration by establishing uniformity in wage rates.
4. It provides a logical basis for wage negotiations and collective bargaining.
5. In the case new jobs, job evaluation facilitates spotting them into the existing wage and salary structure.
6. In the modern times of mechanisation, performance depends much on the machines than on the worker himself/herself. In such cases, job evaluation provides the realistic basis for determination of wages.
7. The information generated by job evaluation may also be used for improvement of selection, transfer and promotion procedures on the basis of comparative job requirements.
8. Job evaluation rates the job, not the workers. Organizations have large number of jobs with specialisations. It is job evaluation here again which helps in rating all these jobs and determining the wages and salary and also removing ambiguity in them.

Limitations/Drawbacks of job evaluation

In spite of many advantages, job evaluation suffers from the following drawbacks/limitations

1. Job evaluation is susceptible because of human error and subjective judgement. . While there is no standard list of factors to be considered for job evaluation, there are some factors that cannot be measured accurately.
2. There is a variation between wages fixated through job evaluation and market forces. Say Kerr and Fisher, the jobs which tend to rate high as compared with the market are those of junior, nurse and typist, while craft rates are relatively low. Weaker groups are better served by an evaluation plan than by the market, the former places the emphasis not on force but on equity.
3. When job evaluation is applied for the first time in an organization, it creates doubts in the minds of workers whose jobs are evaluated and trade unions that it may do away with collective bargaining for fixing wage rates.
4. Job evaluation methods being lacking in scientific basis are often looked upon as suspicious about the efficacy of methods of job evaluation.
5. Job evaluation is a time-consuming process requiring specialised technical personnel to undertake it and, thus, is likely to be costly also.
6. Job evaluation is not found suitable for establishing the relative worth of the managerial jobs which are skill-oriented. But, these skills cannot be measured in quantitative terms.
7. Given the changes in job contents and work conditions, frequent evaluation of jobs is essential. This is not always so easy and simple.

8. Job evaluation leads to frequent and substantial changes in wage and salary structures. This, in turn, creates financial burden on organization.

Essentials of a successful job evaluation programme

We have seen that each method of job evaluation is a mixed blessing with advantages and disadvantages. So to say, no method is completely fool proof. In such case, organization may try to adopt a job evaluation method blending all merits of different methods of job evaluation. The following few suggestions may help in conducting a successful job evaluation programme.

1. Before launching a job evaluation programme certain issues need to be decided well in advance: employees to be covered, job evaluators – internal or external, consultation of employees and existence of suitable atmosphere for launching of job evaluation programme.
2. An accurate and comprehensive job analysis, job description and job specification should be done.
3. The management's aim in relation to the job evaluation programme should be made clear to all those concerned. There should not be any hidden agenda.
4. All the relevant internal and external factors should be taken into account before arriving at the final shape of the programme.
5. The supervisors should have the complete and concrete knowledge of the programme. They should be in the position to explain the programme to their people and also how it works.
6. The details of the administration of the plan should be made simple to avoid employee's doubts, fears and apprehensions about the plan.
7. Efforts should be made to provide maximum transparency in preparation and implementation of the programme. One way to ensure it is encouraging employees' participation in the programme.

8. Every stage of programme should be given wide publicity through employee publications, notice boards, departmental meetings and even letters to employees' homes.

Summary

After reading the second lesson, some of the important points regarding job evaluation methods would be remembered. First, as the name implies, job evaluation methods can be viewed as two categories - quantitative methods and non-quantitative methods. Non-quantitative methods are job ranking and job classification/grading, whereas, quantitative methods are point rating and factor comparison. The basic difference between these two categories lies in the sense that, under non-quantitative methods, a job is compared as a whole with other jobs in the organization. In case of quantitative methods, the key factors of a job are selected and, then measured.

The summary is organized by the learning objectives expressed in the beginning of the lesson.

1. Ranking method is simplest form of job evaluation method. It involves ranking each job relative to all other jobs, usually based on some overall factor like 'job difficulty'. Evaluating job not jobber is the major principle job evaluation.
2. Job classification is simple and widely used method. In this method jobs are measured as whole jobs. Under this method job grades or classes are established by an authorised body or committee appointed for this purpose.
3. Point Rating method is most widely used system of job evaluation. The method evaluates the compensable factors of each job. It involves a more detailed, quantitative and analytical approach to the measurement of job work.

4. Factor Comparison Method is a combination of both rating and point rating methods. It means rates jobs by comparing them and makes analysis by breaking jobs into compensable factors.

Exhibit. Job evaluation form

TECHNICAL STAFF JOB EVALUATION - JOB DESCRIPTION FORM - COVER
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NOTE: This Job Description Form does not constitute a contractual document.
Duties may be changed to meet changing needs or circumstances.

School/Unit:

Job Title:

Is this a new post or an existing post? New Existing

If new post, is there an existing post holder? Yes No

Current Grade (for existing posts)	Proposed Grade
---------------------------------------	----------------

Basis of proposed grading

a) Benchmark in Blue Book Benchmark number:

b) Benchmark in Supplementary Job Descriptions Supplementary Job Description No:

c) Factor Analysis

Does the proposed grading have the support of the School/Unit? (To be completed by the person responsible within the School or Unit) Yes/No _____
(Signature)

DETAILS OF POST HOLDER: (if applicable)

Name: (Initials and surname)	Date of appointment to University
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ATTACHMENTS: (Delete if not attached)

- 1 The organisation chart (family tree) for the School or Unit.
- 2 Old job description if regrading application.

Note: All job descriptions will be seen by the Monitoring Panel

JOB DESCRIPTION FORM - PART 1	description is the same as a benchmark in the Blue Book or a Supplementary Job Description.
-------------------------------	---

A	Description of duties and responsibilities List tasks in descending order of importance.
---	---

Item No	Description of the task Identify major items of equipment (with replacement cost, special processes and techniques or unusual materials used).
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Part 1

TECHNICAL STAFF JOB EVALUATION - JOB DESCRIPTION FORM - PART 2	PLEASE COMPLETE FOR JOBS WHICH WILL NEED TO BE FACTORED
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B. If the position were vacant what would be the minimum basic educational requirement to carry out the job to an acceptable standard?

C. If the position were vacant what would be the minimum number of years of experience to carry out the job to an acceptable standard?

D ORGANISATION CHART
The organisation chart (family tree) for the School or Unit should be attached

Immediate Supervisor			
Receive work directions from			
Level of direction given	detailed	outline	minimal
Extent of discretion on work priorities			

Supervision of technical staff	Grade	T	A	B	C	D	E	F	G	H	I
	Number										

Supervision of students*	Description	Postgraduate	Undergraduate	Other
	Number Hours			

Supervision of others	Description			
	Number			

E Communication/Coordination

Within normal laboratory/workshop		Outside normal laboratory/workshop	
Contact and purpose	Approx % time	Contact and purpose	Approx % time

Part 2 * Definition of 'supervision' available from Staffing Services

TECHNICAL STAFF JOB EVALUATION -
JOB DESCRIPTION FORM - PART 2 CONTINUED

F Mental Concentration and Visual Strain
Does the job involve abnormal concentration or visual strain resulting from (a) the nature of the equipment and/or (b) the nature of the materials handled? YES/NO
If yes, please indicate the approximate proportion of time:

Not more than one-quarter of the working week		Between one-quarter and two-thirds of the working week		More than two-thirds of the working week	
---	--	--	--	--	--

G Potential Hazards
List activities where special precautions or protective equipment are required

Activity	Risk	Approx. % of time

H Job description agreed by:
Director of Laboratory/Building & Resources Manager or Head of Unit

Name	Position	Signature	Date
Job Holder (if applicable)	(To confirm that the Job Holder agrees that Sections A, D,E, F and G describe accurately the work that the job holder has been asked to do by the management.)		
Name (initials and surname)		Signature	Date

I Suggested Factor Analysis

Factor	Level	Points
1 Education		
2 Experience		
3 Supervision Received		
4 Supervision Given		
5 Relationships		
6 Work Complexity		
7 Accuracy and Dependability		
8 Mental Concentration and Visual Strain		
9 Hazards		
		TOTAL

Key terms

Quantitative	Non-quantitative	Ranking
Job Comparison	Grading	Job classification
Point Rating	Factors Comparison	Factors

Discussion questions

1. What are the elements of quantitative methods of job evaluation?
2. Discuss the differences between qualitative and quantitative methods of job evaluation.
3. Write a notes on the following
 - a) Ranking method
 - b) Job classification/grading method
 - c) Point rating method
 - d) Factors comparison method
4. In your opinion, why is the point rating method the most widely used all job evaluation methods?
5. Why has it been said that factor comparison is the most perfectionistic of the job evaluation methods, and is this description and accurate one?
6. Discuss the advantages and disadvantages of job evaluation
7. What makes a job evaluation programme successful?

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UNIT : I

Lesson 3

Concept of Performance Appraisal

Outline of the lesson

1. Introduction to performance appraisal
2. Terminological clarity
3. Concept of performance appraisal
4. Historical background of performance appraisal
5. Objectives of performance appraisal
6. Purpose of performance appraisal

Learning Objectives

After studying this lesson, you should be able to:

1. *Understand* essence of performance appraisal
2. *Make out* terminological differences
3. *Know* concept and meaning of performance appraisal
4. *Aware of* historical background of appraisal
5. *Explore* objectives of performance appraisal
6. *Realize* purpose of performance appraisal

Introduction

In almost every organization, every employee is subjected to periodic appraisal of his/her performance. This is highly important if the organization's human resource development objectives are to be realized, if the organization wants to make best use of its human resource available and if the organization wants to have a scientific and rational compensation system. An effective performance appraisal system brings rationality in management. If an organization wants to maximize its effectiveness then the organization must have tool by which it can discriminate between an effective employee and not so effective employee. Today, appraisal is not something of a choice left to the wishes of the corporate bosses, nor it is a privilege to be enjoyed by few businesses conglomerates.

Therefore, it is a must for every organization for its survival and growth. The appraisal practices are in somewhere structured and formally sanctioned and in other instances they are an informal and integral part of daily activities. Thus, across the human activities somehow or other performance appraisal is conducted in different ways and all of us, consciously or unconsciously evaluate our own actions from time to time. In social situation, performance is conducted in a systematic and planned manner to achieve various organizational goals in social system.

Background of Performance Appraisal

Performance appraisal is not something new. The appraisal system existed as early as 221 A.D., though the nature of appraisal was not so formal and the tools used were not so scientific. In fact the appraisal gained momentum in the post Second World War period with the advent of professionalization in management. At the early stages the performance appraisal was done just on the basis of the degree to which a person possessed certain traits, which were considered

essential for effective performance of a particular task. Performance Appraisal of individuals, groups and organizations is common practice of all societies.

The history of performance appraisal is quite brief. Its roots in the early 20th century can be traced to Taylor's pioneering time and motion studies. But this is not very helpful, for the same might be said about almost everything in the field of modern human resources management. As a distinct and formal management procedure of evaluation of work performance, appraisal system was used dates from the time of the Second World War. Yet in a broader sense, the practice of appraisal of employee's performance in different work places is a very ancient art. Dulewicz says that ' a basic human tendency is to make judgments about once own work, as well as about oneself.' Appraisal, it seems, is both inevitable and universal for human activities. In the absence of a carefully structured system of appraisal, people will tend to judge the work performance of others, including subordinates, naturally, informally and arbitrarily.

The human inclination to judge can create serious motivational, ethical and legal problems in the workplace. Without a structured appraisal system, there is little chance of ensuring that the judgments made will be lawful, fair, defensible and accurate. Performance appraisal systems began as simple methods of income justification. That is, appraisal was used to decide whether or not the salary or wage of an individual employee was justified. The process was firmly linked to material outcomes. If an employee's performance was found to be less than ideal, a cut in pay would follow. On the other hand, if their performance was better than the supervisor expected, a pay rise was in order. As a result, the traditional emphasis on reward outcomes was progressively rejected. In the 1950s in the United States, the potential usefulness of appraisal

as tool for motivation and development was gradually recognized. The general model of performance appraisal, as it is known today, began form that time. Although the interest in the use of performance appraisal ha increased over the last thirty years, the practice of formally evaluating employee’s ahs existed for centuries. The performance appraisal system has undergone a lot of changes over the years s shown below Exhibit.

Exhibit. 3. 1 Gradual progress of performance appraisal system .

Sl. No.	Period	Development
1	1900	Subjective appraisals
2	1940	Increased psychometric sophistication
3	1950	Management by objectives (MBO)
4	1960	BARS
5	<i>1970 – 1990</i>	<i>Hybrid system and approach</i>
6	<i>Beyond 2000</i>	<i>360 degree appraisal</i>

Terminological clarity

There are some terms in usage among the practitioners as well writers, which are used for assessment of job and jobber at workplace, such as *performance appraisal, potential appraisal, performance management and job evaluation*. For better understanding of the performance appraisal, let us have clarity and differences among these terms.

Job Evaluation – It is clear to us from the lesson one that the job evaluation is systematic and orderly determines the value/worth of a job to determine wage levels for different jobs. It rates a job keeping in view the responsibilities, qualification, experience, working conditions required to perform a job.

Potential appraisal – It is an appraisal of a person's present competencies, which are not applied on the present job. Thus, inner potentiality is identified keeping mind the future job roles of person.

Performance Management - It is consolidation of goal setting, performance appraisal, and development into a single, common system. The aim of the performance management is to insure employee's performance is supporting the organization's strategic aims.

Merit Rating – It is a systematic, periodic and, so far as humanly possible, an impartial rating of an employee's excellence in matters pertaining to his present job and to his potentialities for a job.

Performance Appraisal – It is evaluating an employee's current and/or past performance relative to his or her performance standards.

Concept of Performance Appraisal

In the context of an industrial organization, performance appraisal is a systematic evaluation of personnel by supervisors or those familiar with their performance. In other words, performance appraisal is a systematic and objective way of judging the relative worth or ability of an employee in performing his/her task.

Many authors described and some of them were tried to define the concept of performance appraisal in their own way. According to Gary Dessler, performance appraisal is an evaluation of employee's current or past performance relative to his/her performance standards. Further he mentioned that the appraisal process involves three steps;

- a) Setting work standards,
- b) Assessing the employee's actual performance relative to these standards, and

- c) Providing feedback to the employee with the aim of motivating that person to eliminate performance deficiencies or to continue to perform above par.

McGregor discusses the formal performance appraisal plans in view of meeting three needs. Out of which one is relating to organization and other two for individual. The first one, organization level, is to provide systematic judgments to back up salary increases, transfers, demotions, or terminations. The other two, individual level, are relating to certain means which are meant for subordinate to tell subordinate how boss is doing, and suggesting needed changes in behavior, attitudes, skills or job knowledge. Make subordinate to know the level of performance standards and the superior uses them as a base for coaching and counseling the individual employee.

Performance appraisal may be defined as a structured formal interaction between a subordinate and supervisor, that usually takes the form of a periodic interview (annual or semi-annual), in which the work performance of the subordinate is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and skills development.

Appraising the performance is method of evaluating the behavior of employees in the work spot, normally including both the quantitative and qualitative aspects of job performance. Performance refers to the degree of accomplishment of the tasks that make up an individual's job. It includes how well an individual is fulfilling the job demands. In order to find out whether an employee is worthy of continued employment or not, and if so, whether he should receive a bonus, a pay rise or promotion, performance needs to be evaluated from time to time. It is by and large useful for not only for the different payments purpose but also to make aware of one's strengths and

weaknesses. So that employees can be able to understand that in which area they are supposed to improve their performance. Under this exercise evaluation is not only the performance of worker on the job but also employee potential for development for future expecting job roles. Moreover performance appraisals should focus on work planning and continuous review for development. They should also focus on quality to survive in the current environment.

Every organization has to decide upon the content to be appraised before the programme is approved. Generally content to be appraised is determined on the basis of job analysis. Contents to be appraised in the form of contribution to organizational objectives like production cost saving return on capital so on. Other measures are based on; behavior which means observable physical actions and movements, objectives which measure job related results like amount of deposits mobilized, and traits which measure in terms of personal characteristics observable in employee's job activities. The contents to be appraised may vary with the purpose of appraisal and type and level of employee. There are different methods designed and experimented in this regard.

Alford and Beatty defines the performance appraisal, 'the evaluation or appraisal of the relative worth of a jobber (person) services on his/her job to the organization

According to Dale Beach, 'performance appraisal is the systematic evaluation of the individual with regard to his or her performance on the job and his potential for development'. Beach has identified changes in performance appraisal taken place since 1920. These are summarized in the following Exhibition 3.2.

Exhibit. 3.2 Trends in performance appraisal

<i>Element</i>	<i>Earlier emphasis</i>	<i>Present emphasis</i>
Terminology	Merit rating	Employee appraisal/ performance appraisal
Purpose	Determining qualifications for wage increase, transfer, promotion, lay-off	Development of personnel, improved performance on the job, and providing emotional security.
Application	Hourly-paid workers	Technical, professional and managerial personnel
Factors rated	Heavy emphasis on personal attributes	Results, accomplishments, performance
Techniques	Rating scales, statistical manipulation of data for comparison purposes.	Mutual goal setting, critical incidents, group appraisal, performance standards, less quantitative

Objectives of performance appraisal

Performance appraisals consist of a systematic, face-to-face discussion of an employee's work performance, training and development needs, future job goals and job aspirations. It looks backwards, reviewing the employee's performance during the period under review, and forwards, helping the employee prepare and set goals for the up-coming review period. To be effective, performance appraisals programmes must be linked closely to corporate goals and objectives, including departmental business plans. As Rao, discussed, primary objectives are:

- a) Performance review,
- b) Identification of training and development needs,
- c) Setting work objectives,
- d) Employee performance counseling,
- e) Employee career planning, and
- f) Employee remuneration/ recognition reviews.

Performance appraisal serves the following management objectives:

1. *Providing basis for promotion/transfer/termination* – identifying those subordinates who deserve promotion or require lateral shift or termination can be used for career planning.
2. *Enhancing employees' effectiveness* - Helping employee by identifying strengths and weaknesses and informing him as to what performance is expected from him, would go a long way in making him understand his role well, and he is likely to be more effective on the job.
3. *Identifying employees' training and developmental needs* – Identifying training and development needs of employees is necessary to prepare them for meeting challenges in their current and future employment roles.
4. *Removing work alienation* - Identifying and removing factors responsible for workers' discontent would motivate them for better work performance. Performance appraisal helps in creating a positive and healthy climate in the organization.
5. *Developing interpersonal relationship* – Relation between superior-subordinate can be improved through realization that each is dependent on the other for better performance and success. By facilitating employees to do introspection, self-evaluation and goal setting, their behaviour can be modified. Better interpersonal relationship leads to team-building.
6. *Removing discontent* - Identifying and removing factors responsible for workers' *discontent* would motivate them for better work performance. Performance appraisal helps in creating a positive and healthy climate in the organization.
7. *Removing worker alienation* - Counseling employees corrects misreading which might result in work alienation. Performance appraisal helps in creating a positive and healthy climate in the organization.

Wayne and Kacmar, stated that the assessment areas differ from organization to organization and from job to job, according to the requirements of the job, the department and the organization some typical assessment areas include:

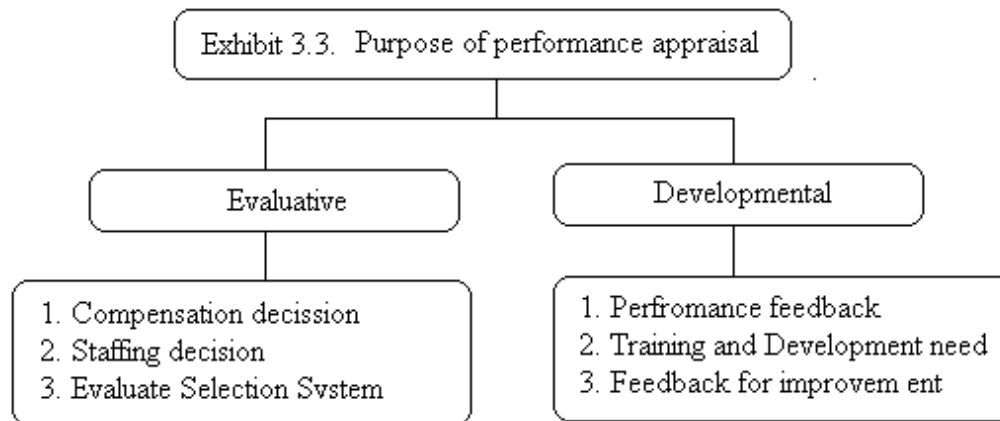
- a) Quality/accuracy of work,
- b) Quantity of output,
- c) Ability to make decisions,
- d) Job Knowledge,
- e) Technical and job related skills,
- f) Attendance and punctuality,
- g) Ability to work as a member of a team,
- h) Future potential/ability to work in other areas,
- i) Training and development needs ,
- j) Commitment to safety, and
- k) Dependability.

Purpose of Performance Appraisal

Across-examination of organizational practices reveals that performance appraisal is undertaken for variety of purposes. Performance appraisal is broadly used for meeting the following purposes:

1. To identify employees for salary increases, promotion, transfer and lay-off or termination of services.
2. To determine training and development needs of the employees.
3. To motivate employees by providing feedback on their performance
4. To establish a basis for research and reference for personnel decisions in future.

These purposes of performance appraisal can be divided into two broad categories: evaluative and developmental, an illustrated in Exhibit 3.3.



Summary

Once the employee has been selected, trained and motivated, he is then appraised for this performance on the given job. In fact, employees want feedback regarding how they are performing and appraisal provides and opportunity to give them that feedback. At the same time, employee should be given a complete idea of what is expected of him and should be told how often he will be rated, appraised. Performance appraisal is the step where the management finds out of effective it has been at hiring and placing employees. Performance appraisal, generally involves – setting standards, assessing the employee’s actual performance relative to these standards, providing feedback to the employee with the aim of motivating that person to eliminate hi deficiencies and/or continue to perform better. The mechanism and purpose of performance is different from other terminologies like potential appraisal, merit rating, performance management and, job evaluation.

The main objective of the performance appraisal is to assess the performance of the employee on the job and to find out the level of the performance as the standards of that particular job. Thus, the obtained performance would be used for sanctioning financial increments/incentives, promotions, transfers and son

on. The feedback of the performance appraisal system gives an opportunity to understand strengths and weaknesses of employees. It is not only useful for improvement of the present job performance, but also helps in planning future career development.

Key terms

Performance appraisal

Merit rating

Job evaluation

Non-quantitative

Potential appraisal

Performance management

Quantitative

Assessment

Discussion questions

1. What is Performance appraisal?
2. How performance appraisal differs from potential appraisal, performance management, job evaluation and merit rating?
3. Discuss the essence of performance appraisal for development of employees as greatest resources of an organization.
4. What are the objectives of the performance appraisal?

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UNIT : I

Lesson 4

Performance Appraisal System

Outline of the lesson

1. Basic system of performance appraisal
2. Approaches to performance appraisal
3. Who are appraisers?
4. Evaluator's skills
5. Fundamentals in conducting performance appraisal
6. Stages in conducting performance appraisal
7. Design of performance appraisal programme
8. Performance appraisal process

Learning Objectives

After studying this lesson, you should be able to:

1. *Understand* basic system of performance appraisal
2. *Explore* approaches to performance appraisal
3. *Find out* appraiser and required skills
4. *Detect* fundamentals in conducting appraisal
5. *Delineate* stages in conducting appraisal
6. *Outline* design of performance appraisal programme
7. *Trace out* performance appraisal process

Introduction

Performance appraisal has been considered as a most significant and indispensable tool for an organization, for the information it provides highly useful in making decisions regarding various personal aspects at work place. The performance appraisal activity is very much sensitive. It leads to very positive side, if the system operated in a very systematic manner. The same system also leads to destruction of the entire work lance, if proper care had not been taken in the process of performance appraisal system. The first lesson has given us basic understanding and conceptual clarity of the performance appraisal. It is further required to know that how the performance appraisal system works including who is appraiser and skilled required appraising performance and various approaches for the appraisal system. In this direction the forth lesson is designed.

Basic System of Performance Appraisal

Effective performance appraisal systems contain two basic systems: an *evaluation system* and a *feedback system*. The main aim of the evaluation system is to identify the *performance gap* (if any). This gap is the shortfall that occurs when performance does not meet the standard set by the organization as acceptable. The main aim of the feedback system is to inform the employee about the quality of his or her performance. One of the best ways to appreciate the purposes of performance appraisal is to look at it from the different viewpoints of the main stakeholders: the employee and the organization.

Employee Viewpoint - From the employee viewpoint, the performance appraisal is four-fold: Tell me what you want me to do; Tell me how well I have done it; Help me improve my performance, and Reward me for doing well.

Organizational Viewpoint - From the organization's viewpoint, one of the most important reasons for having a system of performance appraisal is to establish and uphold the *principle of accountability*. For decades it has been known to researchers that one of the chief causes of organizational failure is "non-alignment of responsibility and accountability." Non-alignment occurs where employees are given responsibilities and duties, but are not held accountable for the way in which those responsibilities and duties are performed.

Developmental Performance Appraisal Purposes

The developmental approach to performance appraisal has been related to employees as individuals. This approach has been concerned with the use of performance appraisal as a contributor to employee motivation, development, and human resources planning. The development approach contained all of the traditional overall organizational performance appraisal purposes and the following additional purposes:

1. Provided employees the opportunity to formally indicate the direction and level of the employee's ambition,
2. Show organizational interest in employee development, which was cited to help the enterprise retain ambitious, capable employees instead of losing the employees to competitors,
3. Provided a structure for communications between employees and management to help clarify expectations of the employee by management and the employee, and
4. Provide satisfaction and encouragement to the employee who has been trying to perform well.

Who are Appraisers?

The appraiser may be any person who has thorough knowledge about the job content, contents to be appraised, standards of contents and who observes the employee while performing a job. The appraiser should be capable of determining what is more important and what is relatively less important. He/She should prepare reports and make judgments without bias. The typical appraisers are: supervisors/immediate officer, peers, subordinates, employees' themselves, users of service and consultants.

The systematic appraisals are conducted on a regular basis, say for example, every six months or annually, whereas the informal appraisals are conducted whenever the supervisor or concern authorities feel necessary.

Appraiser skills

The performance appraiser supposed to possess the following skills while involving in the performance appraisal system.

1. Set specific goals for every job with due consultation of respective employee where appraisal is required.
2. Identify paths to reach goals, analyze job and related problems.
3. Continuously monitor and improve staff performance
4. Be trained in conducting effective performance appraiser in the areas of setting objectives, and giving feedback
5. Be aware of potential for bias and counteract tendencies-stereotype, halo, central tendency and so on.
6. Need to have extensive information about jobber on whom the performance appraisal is made.

What should be rated?

The seven criteria for assessing performance are:

1. *Quality* – The degree to which the process or result of carrying out an activity approaches perfection.
2. *Quantity* – The amount produced, expressed in monetary terms, number of units, or number of completed activity cycles.
3. *Timeliness* – The degree to which an activity or a result produced.
4. *Cost effectiveness* – The degree to which the use of the organization's resources – human, monetary, technological and material.
5. *Need for supervision* – The degree to which a job performer can carry out a job function without supervisory assistance.
6. *Interpersonal impact* - The degree to which a performer promotes feelings of self-esteem, goodwill and co-operation among co-worker and subordinates.
7. *Training* - Need for training for improving his skills knowledge.

The above criteria relate to past performance and behaviour of an employee. There is also a the need for assessing the potential of an employee for future performance, particularly when the employee is tipped for assuming greater responsibilities.

Basics of Conducting Performance Appraisals

Performance reviews help Officers feel more honest in their relationships with their staffs and feel better about themselves in their Official roles. Staffs are assured clear understanding of what's expected from them, their own personal strengths and areas for development and a solid sense of their relationship with their Officer.

Design a valid performance appraisal - Performance appraisals should be job-related and valid; based on a thorough analysis of the job; standardized for all employees; not biased against any race, color, sex, religion, or nationality; and performed by people who have adequate knowledge of the person or job.

Design a standard form for performance appraisals - The form includes name of the employee, date the performance form was completed, dates specifying the time interval over which the employee is being evaluated, performance dimensions (include responsibilities from the job description, any assigned goals from the strategic plan, along with needed skills, such as communications, administration, etc.), a rating system (e.g., poor, average, good, excellent), space for commentary for each dimension, a final section for overall commentary, a final section for action plans to address improvements, and lines for signatures of the Officer and Staff.

Schedule the first performance review for six months after the employee starts employment - Schedule another six months later, and then every year on the employee's anniversary date.

Record input to the appraisal - Be sure you are familiar with the job requirements and have sufficient contact with the employee to be making valid judgments. Don't comment on the employee's race, sex, religion, nationality, or a handicap or veteran status. Record major accomplishments, exhibited strengths and weaknesses according to the dimensions on the appraisal form, and suggest actions and training or development to improve performance. Use examples of behaviors wherever you can in the appraisal to help avoid counting on hearsay. Always address behaviors, not characteristics of personalities. The best way to follow this guideline is to consider what you saw with your eyes. Be

sure to address only the behaviors of that employee, rather than behaviors of other employees.

Hold the performance appraisal meeting - State the meeting's goals of exchanging feedback and coming to action plans, where necessary. In the meeting, let the employee speak first and give their input. Respond with your own input. Then discuss areas where you disagree. Attempt to avoid defensiveness; admitting how you feel at the present time, helps a great deal. Encourage participation and be supportive. Try to end the meeting on a positive note.

Update and finalize the performance appraisal form - Note that if the employee wants to add attach written input to the final form, he or she should be able to do so. The Officer signs the form and asks the employee to sign it. The form and its action plans are reviewed every few months, usually during one-on-one meetings with the employee.

Performance Appraisal Program Design

The following is typically expected from Officers when they design performance appraisals programme:

1. Provide for appraiser and appraisee participation in the design process
2. Aim for simplicity, fairness, objectivity, openness, usefulness
3. Questions to be addressed in designing a system:
 - a) What is purpose -what are Officers' attitudes toward performance appraisal?
 - b) What are appropriate job criteria?
 - c) Who should conduct the appraisals?
 - d) When should they occur and how often?

e) What format instruments are appropriate?

4. Translate organizational goals into individual job objective.
5. Communicate job expectations regarding staff performance.
6. Provide feedback to the staff about job performance in light of job objectives.
7. Coach the employee on how to achieve job objectives/requirements.
8. Diagnose the employee's strengths and weaknesses.
9. Determine what kind of development activities might help the employee better utilize his or her skills improve performance on the current job.

Stages of Performance Appraisal

One of the most important things to remember about performance appraisals is that its effectiveness will be highly influenced by its purpose. For example, a programme, which is developed, to focus on employee development and training needs may not be suitable for making major decisions about salaries. Likewise, it is possible that the organization, management and employee may all have different goals for the appraisal process. Performance appraisal involves 'identifying, evaluating and developing employees' work performance with the dual purpose of achieving the organization's goals and objectives whilst also ensuring the employee receives recognition, feedback and development'.

There are basically four distinct stages of the performance appraisal process:

1. Setting appropriate performance standards by ensure that employees are made aware of them, if not develop employee awareness and commitment and involve employees in setting the standards,

2. Observe employee's work behavior and achievement in line with agreed standards,
3. Evaluate employee's job performance and potential (using an appropriate method of appraisal), and Develop evaluate and develop assessment results for both the employee's and organization's benefit. It may help to think of performance appraisals management as a cyclical series of steps:
 - a) Setting assessment measures and standards,
 - b) Communicating expectations to employees and gaining commitment,
 - c) Planning for effective performance,
 - d) Monitoring, assisting and controlling performance through ongoing feedback,
 - e) Appraisal of performance (data collection, analysis, evaluation, diagnosis, action planning),
 - f) Decision making based on results,
 - g) Performance development methods (implementation of action plan)

Performance Appraisal Process

The performance appraisal process starts with employee planning and ends with an evaluation of employee progress. The performance appraisal process consists broadly two steps. First, complete the performance appraisal form; secondly, participate in a performance appraisal interview and discussion. These two stages comprise the following levels in the appraising performance of the staff.

1. *Establish performance standards or Goals* - The appraisal process begins with the establishment of performance standards. The Officers must determine what outputs, accomplishments and skills will be evaluated. These standards should have evolved out of job analysis and

job description. These performance standards should be clear and objectives are to be understood and measured.

2. *Communicate Performance Expectations to Employees* - Once the performance standards are established, these need to be communicated to the respective employees so that they come to know what expected of them. Past experience indicates that not communicating standards to the employees compounds the appraisal problems. Here, it must be noted that mere transference of information from the Medial Officer to the staff is not communication. It become communication only when the transference of information has taken place and has been received and understood by the staff. The feedback form the staff on the standards communicated to them must be obtained. If required, the standards may be modified or revised in the light of feedback obtained from the employees. It is important to note that communication is a two-way street.
3. *Measure Actual Performance* - This is the third step involved in the appraisal process. In this stage, the actual performance of the employees is measured on the basis of information available from various sources such as personal observation, statistical reports, oral reports, and written reports. The evaluator's feeling should not influence the performance measurements of the staff. Measurement must be objective based on facts and findings. This is because what we measure is more critical and important to the evaluation process than bow we measure.
4. *Compare Actual Performance with Standards* - In this stage, the actual performance is compared with the predetermined standards. Such a comparison may reveal the deviation between standard performance and actual performance and will enable the evaluator to proceed to the fifth

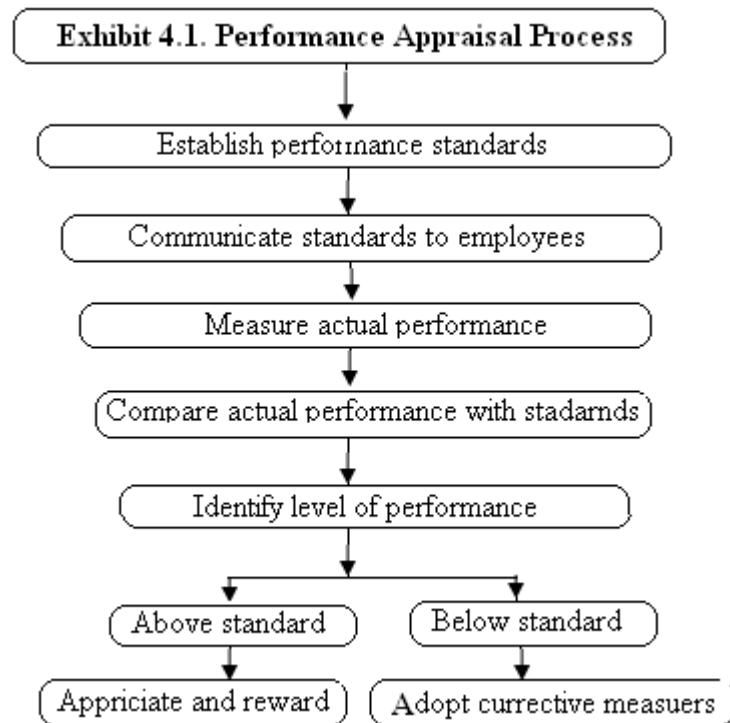
step on the process i.e. Review and discussion of the appraisal with the concerned staff.

5. *Discuss and Review the Appraisal with the Staff* - The fifth step in the appraisal process is to communicate to and discuss with the employees the results of the appraisal. This is one of the most challenging tasks the Officers face to present an accurate appraisal to the staff and then make them accept the appraisal in a constructive manner. A discussion on appraisal enables employees to know their strengths and weaknesses. This has, in turn, impact on their future performance. The impact may be positive or negative depending upon how the appraisal is presented and discussed with the employees. Steps in a Performance Review are follows:

- a) Clarify job description and responsibilities.
- b) Clarify employee development interests and needs.
- c) List specific development areas for concentration.
- d) Review performance objectives and performance standards.
- e) Review progress toward objectives through ongoing feedback and periodic discussions.
- f) Decide on Purpose(s) Typically the purposes include.
- g) Giving employees answers to: What am I expected to do? How well am I doing? What are my strengths and weaknesses? How can I do a better job how can I contribute more?

6. *Initiate Corrective Action* - The final step in the appraisal process is the initiation of corrective action when it is necessary. The areas needing improvement are identified and then, the measurers to correct or improve the performance are identified and initiated.

The above discussed performance appraisal process is presented in the exhibit 4.1.



Summary

The performance appraisal requires willingness and a commitment to focus on improving performance at the level of the individual or team every day. Like a compass, an ongoing performance appraisal system provides instantaneous, real-time information that describes the difference between one's current and desired course. To practice sound performance appraisal system, managers must do the same thing-provide timely feedback about performance, while constantly focussing everyone's attention on the ultimate objective of being the best among the competitors in the market.

At a general level, the broad process of performance appraisal requires three major activities.

1. Define performance through goals, measures, and assessments
2. Facilitate performance by identifying obstacles to good performance and providing resources to accomplish objectives and
3. Encourage performance by providing timely rewards that people care about in a sufficient amount, and fairly .

Key terms

Appraiser

Appraisee

Interpersonal impact

Performance standards

Cost effectiveness

Performance gap

Performance review

Feedback system

Discussion questions

1. Discuss basic systems of performance appraisal.
2. Narrate various approaches to performance appraisal.
3. What is the criteria for identification of appraiser and identify the required skills of an effective appraiser.
4. Describe the fundamental guiding principles involved in conducting performance appraisal.
5. What are the stages, generally, followed in designing and organizing performance appraisal functions.
6. Discuss the process of performance appraisal system.

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UNIT : I

Lesson 5

Performance Appraisal Methods

Outline of the lesson

1. Performance appraisal methods – Traditional and Modern
2. Benefits of performance appraisal
3. Guidelines for effective performance appraisal
4. Expectations of a manager from performance appraisal system
5. Some common pitfalls of performance appraisal
6. Use of software for performance appraisal

Learning Objectives

After studying this lesson, you should be able to:

1. *Understand* performance appraisal methods
2. *Explore* benefits of performance appraisal
3. *Realize* guidelines for effective appraisal
4. *Find out* managers expectations from appraisal
5. *Detect* common pitfalls
6. *Trace out* use of software in appraisal system

Introduction

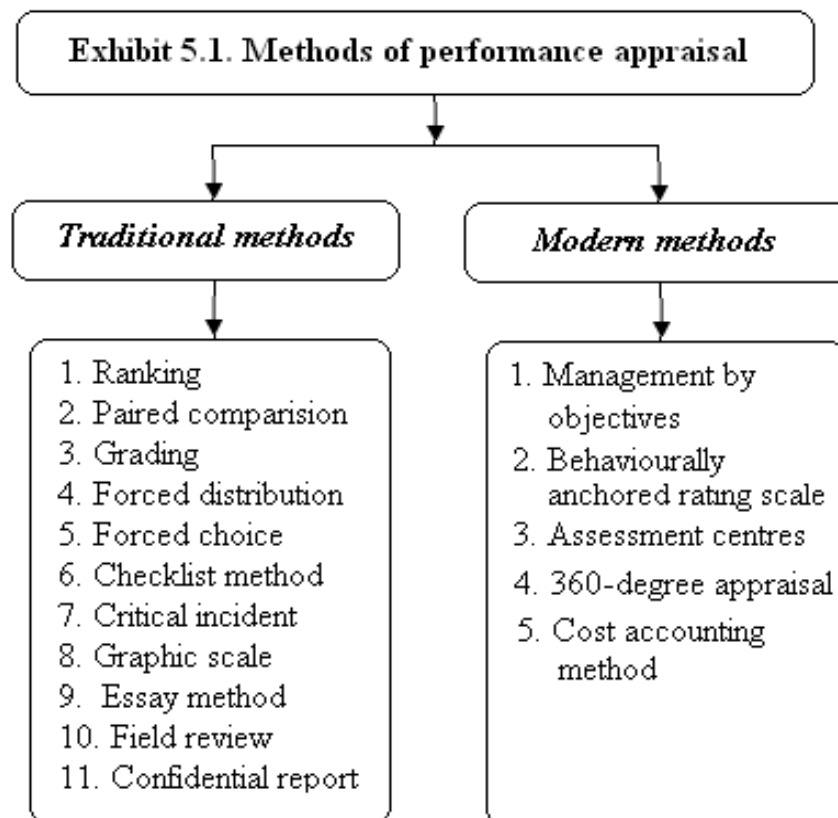
In the pervious lesson, we described performance appraisal system including basic system of performance appraisal, approaches to performance appraisal, necessary arrangements of appraisers, evaluator's skills, fundamentals in conducting performance appraisal, stages in conducting performance appraisal, design of performance appraisal programme and, appraisal process.

In this lesson, methods of performance appraisal are described that can be used to measure and appraise employees' performance. There are good number of methods is available. In fact, each organization has its own suitable method for performance appraisal. Each method with its strengths and weaknesses my be suited for one organization and non-suitable for another organization. As such, there is no single appraisal method accepted and used by all organizations to measure their employees' performance.

Categories of performance appraisal methods

All the methods of appraisal devised so far have been classified differently by different authors. DeCenzo and Robbins have classified appraisal methods into three categories - absolute methods, relevant methods and objective methods. Aswathappa has classified these into two categories – past-oriented and future-oriented. Michael R. Carrell et.al. have classified all appraisal methods into as many as six categories - rating sales, comparative methods, critical incidents, essay, MBO and combination and methods. Rock and Levis have classified the methods into two broad categories – narrow interpretation and broad interpretation. Beatty and Schneier have categorised various methods of appraisal into four groups - comparative methods, absolute methods, goal setting, and direct indices.

A more widely used classification of appraisal methods into two categories – traditional methods and modern methods, given by Strauss and Sayles. While traditional methods lay emphasis on the rating of the individual’s personality traits, such as initiative, dependability, drive, creativity, integrity, intelligence, leadership potential and so on. The modern methods place more emphasis on the evaluation of work results, i.e. job achievements than the personal traits. Modern methods tend to be more objective and worthwhile. The various methods included in each of the two categories are given in Exhibit 5.1.



Selection of performance appraisal method - The choice of method should be based largely on purpose of the appraisal. The varieties of methods are available to appraise performance in different dimensions. As we discussed above, these methods are classified into two categories, viz., traditional methods and modern methods. These methods strengths and weaknesses were analyzed on the basis of certain dimensions. Under each dimension, how each method works does also presented in a comprehensive Exhibit. These category and associated methods are briefly discussed below.

Traditional Methods

Rankings method – It is the oldest and simplest method of performance appraisal, by which the man and his performance are considered as an entity by the rater. No attempt is made to fractionalize the ratee or his performance; the ‘whole man’ is compared with the ‘whole man’. It involves ranking all employees according to job performance and commitment to the organization. It is the oldest and simplest formal systematic method of performance appraisal in which one employee is compared with all others for the purpose of placing them in a simple rank order of worth. The staff can be ranked from the highest to the lowest or from the best to the worst. The relative position of each man is tested in terms of his numerical rank. It may also be done by ranking a person on his job performance against that of another member of a competitive group by placing him as a number one or two or three in total group.

The greatest limitation of this method is that in practice it is very difficult to compare a single individual with human beings having varying behaviour traits. The method only tells us how a man stands in relation to the other s in the group but does not indicate how much better or worse he is than another.

Paired Comparison method - In this method, each employee is compared with other employees on one – on – one basis, usually based on one trait only. The rater is provided with a bunch of slips each containing a pair of names; the rater puts a tick mark against the employee whom he considers the better of the two. The number of times this employee is compared as better with others determines his or her final ranking. The model of paired comparison method is presented in Exhibit 5.2.

Exhibit 5.2. Ranking employees by paired comparison method

For the trait 'Quality Work'						For the trait 'Quality Work'					
Person rated						Person rated					
<i>As Compared to</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>As Compared to</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>
<i>A</i>		+	+	-	-	<i>A</i>	+		-	-	-
<i>B</i>	-		-	-	-	<i>B</i>	+		-	+	+
<i>C</i>		+		+	-	<i>C</i>	+	+		-	+
<i>D</i>	+	+	-		+	<i>D</i>	+	-	+		-
<i>E</i>	+	+	+		-	<i>E</i>	+	-	-	+	

The rater is provided with a bunch of slips each containing a pair of names, the rater puts a tick mark against the employee whom he considers the better of the two. The number of times this employee is compared as better with others determines his or her final ranking. The number of possible pairs for a given number of employees is ascertained by the following formula:

$$N(N - 1)/2$$

When $N =$ the total number of employees to be evaluated. Let this be exemplified with an imaginary example. If the following five teachers have to be evaluated by the Vice Chancellor of a University: Chandrashkar (C), Mohan (M), Sridhar (S), Venkat (V) and Prabhakar (P), the above formula gives $5(5 - 1) / 2$ or 10 pairs. These are presented in Exhibit 5.3.

Exhibit 5.3

C with M			
C with S	M with S		
C with V	M with V	S with V	
C with P	M with P	S with P	V with P

The result of these comparisons is tabulated and a rank is assigned to each individual. This method is not suitable when a group is larger because, in that case, the number of judgements becomes excessively large.

Grading Method - In this method, certain categories of worth are established in advance and carefully defined. There can be three categories established from employees: outstanding, satisfactory, and unsatisfactory. There can be more than three grades. Employee performance is compared with grade definitions. The employee is, then, allocated to the grade that best describes his or her performance.

Graphic Ratings – It is a common method, which uses either a numerical scale (1-5) such as 'poor', 'average', 'good', 'very good', 'superior') or rate various attributes of employee performance. This method is popular because it is easy to construct; adaptable to a wide range of jobs and tasks, and easily understood by raters and employees.

Check-List Method - The basic purpose of utilizing check-list method is to ease the evaluation burden upon the rater. In this method, a series of statements, i.e., questions with their answer in 'yes' or 'no' are prepared by the concerned officials. The check-list is, then, presented to the rater to tick appropriate answers relevant to the appraisee. Each question carries a weight age in prepare the final scores for all appraisees based on all questions. The sample Check-list for appraising University teachers is presented in Exhibit 5.4.

Exhibit 5.4 Check-list for appraising University teachers

<i>Sl. No.</i>	<i>Item</i>	<i>YES</i>	<i>No.</i>
1	Is regular on the job?	---	---
2	Does maintain discipline well?	---	---
3	Does show consistent behaviour to all students?	---	---
4	Is interested in (teaching) job?	---	---
5	Does ever make mistakes?	---	---
6	Does show favouritism to particular students?	---	---
7	Is willing to help colleagues?	---	---

Critical Incidents –This method involves recording on-the-job behavior over a period of time. The employee's Officer keeps a 'diary' of examples of effective and ineffective job performance. Thus the behaviour of the employees in terms performance in different occasions are recorded and assessed and then used as background to overall assessment.

Forced distribution method - This method was evolved by Tiffen to eliminate the central tendency of rating most of the employees at a higher end of the scale. The method assumes that employees' performance level conforms to a normal statistical distribution i.e.10, 20, 30, 20, and 10 per cent. This is useful for rating a large number of employees' job performance and promotability. It tends to eliminate or reduce bias. It is also highly simple to understand and easy to apply in appraising, performance of employees in organizations. It suffers from the drawback that if all distribution grades improve similarly, no single grade would rise in a rating.

Graphic rating scale method - The graphic rating scale is one of the most popular and simplest techniques for appraising performance. It is also known as

linear rating scale. In this method, the printed appraisal form is used to appraise each employee. The form lists traits such as quality and reliability and a range of job performance characteristics from unsatisfactory to outstanding for each trait. The rating is done on the basis of points on the continuum. The common practice is to follow five point scales. The rater rates each appraisee by checking the score that best describes his or her performance for each trait. At last, all assigned values for the traits are then totalled.

Essay method - It is the simplest one among various appraisal methods available. In this method, the rater writes a narrative description on an employee's strengths, weaknesses, past performance, potential and suggestions for improvement. Its positive points are that it is simple in use. It does not require complex formats and extensive/specific training to complete it.

Field review method - When there is a reason to suspect rater's biasedness or his or her rating appears to be quite higher than others, these are neutralised with the help of a review process. The review process is usually conducted by the personnel officer in the HR department. The review process involves the following activities: a) Identify areas of inter-rater disagreement, b) Help the group arrive at a consensus and, c) Ensure that each rater conforms to the standard similarity. However, the process is a time-consuming one. The supervisors generally resent what they considered the staff interference. Hence, the method is not widely used.

Confidential Report – It is the traditional way of appraising employees mainly in the Government Departments. Evaluation is made by the immediate boss or supervisor for giving effect to promotion and transfer. Usually a structured format is devised to collect information on employee's strengths, weakness,

intelligence, attitude, characteristics, attendance, and discipline and so on. Its drawbacks include it is a subjective evaluation based on evaluator's impression about the appraisee rather than on facts and figures. As the feedback is not given to the appraisee, the appraisal remains confined to evaluation than development. Feedback, if any, is given only in case of adverse reports.

Modern Methods

As we have understood, most traditional methods emphasize either on the task or the worker's personality, while making an appraisal. In order to bring about a balance between these two, modern methods have been developed. These methods are briefly discussed below.

BARS - (Behavioral Anchored Rating Scale) – The problem of judgemental evaluation inherent in the traditional methods of performance evaluation led to some organisations to go for objective evaluation by developing a technique know as BARS around 1960s. It is an approach that has received greater attention in recent years. It combines major elements of the 'Critical Incident' and 'Graphic Ratings Scale' approaches. The appraiser rates the employee on specific job behaviors derived from specific performance dimensions (on a given job rather than on general descriptions or traits). Developing a BARS typically involves the following five steps.

1. **Generating Critical Incidents** - Critical incidents are those which are essential for the performance of the job effectively. Persons who are knowledgeable of the job in question are asked to describe specific critical incidents of effective and ineffective performance.
2. **Developing performance dimensions** – The critical incidents are then clustered into a smaller set of performance dimensions, usually five to ten. Each cluster, or say, dimensions is then defined.

3. Reallocation incidents - Various critical incidents are reallocated dimensions by another group of people who also know the job in questions. Various critical incidents so reallocated to original dimensions are clustered into various categories, with each cluster showing similar critical incidents. Those critical incidents are retained which meet 50 to 80 per cent of agreement with the cluster as classified in step 2. .
4. Scaling incidents – The same second group as in step rates the behaviour described in each nine points scale. Then, average effectiveness ratings for each incident are determined to decide which incidents will be included in the final anchored scales.
5. Developing final BARS instrument – A subset of the incidents is used as a behavioural anchor for the final performance dimensions. Finally, a BARS instrument with vertical scales is drawn to be used for performance appraisal.

BARS method of performance appraisal is considered better than the traditional ones because it provides advantages like a more accurate gauge, clearer standards, better feedback, and consistency in evaluation. However, BARS is not free from limitations. The research on BARS indicates that it too suffers from distortions inherent in most rating scales.

Management by Objectives (MBO) – This method was more popular in the writings of Peter F. Drucker as a potentially a powerful philosophy of managing and an effective way for operational zing the evaluation process. It seeks to minimise external controls and maximize internal motivation through joint goal setting between the manager and the subordinates and increasing the subordinate’s own control of his work. It emphasizes on goals and outcomes,

rather than methods. The goals are set mutually by officer and the employee. It is used frequently due to its concentration on results. Employees and their officers have a clear understanding of job objectives, performance criteria and task priority. This method consists of five basic steps as follows

1. Set organization goals – Establish organization's wide strategy and goals. Such goals are expressed clearly and concisely and can be measured accurately.
2. Joint goal setting – Establish short-term performance targets between the management and the subordinates.
3. Performance review – Organize frequent performance review meetings between the managers and the subordinates.
4. Set checkpoints – Establish major checkpoints to measure progress and direct the human efforts towards goal.
5. Feedback – Provide frequent feedback to concern employees and motivate them to improve performance.

There are many advantages with MBO method. It helps and increases motivation of employees. It also reduces role conflict and ambiguity. The process of implementing the MBO methods identifies problems better than earlier. Besides advantages, the method suffers from some limitations. It is more time consuming and also develops lack of trust.

Assessment Centres – The introduction of the concept of assessment centres as a method of performance method is traced back in 1930s in the Germany used to appraise its army officers. The concept gradually spread to the US and the UK in 1940s. The concept of assessment centre, travelled from the army to business arena during 1960s. In India, used of the assessment centre is recently observed in Crompton Greaves, Eicher, Hindustan Lever and Modi Xerox and so on.

This method measures an employee's knowledge and skills (competency) by assessment centres. The centres headed by fulltime personnel who are regularly assessing employees' knowledge and skills continuously and sending feedback to respective performer. Another recent trend is that instead of individual appraisal, trends are towards a review of the performance of the team as a whole.

The distinct advantages of the assessment centre provide include more accurate evaluation, minimum biasedness, right selection and promotion of executives. The method is also plagued by certain limitations. It is relatively costly and time consuming, causes suffocation to the solid performers, discourages to the poor performers, breeds unhealthy competition among the assesses, and bears adverse effects on those not selected for assessment.

360 Degree Appraisal – This is a systematic collection and feedback of performance data on an individual or group, derived from a number of the stakeholders in their performance. It is done in a systematic way via questionnaires or interviews. This formalizes people's judgements coming from natural interactions they have with each other. There is both a collection and a feedback process. Data are gathered and fed back to the individual participant in a clear way designed to promote understanding, acceptance and ultimately changed behaviour. This is presented in Exhibit 5.5.

This method is generally used for ascertaining training and development requirements, rather than for pay increases. Under this method, staff skills, abilities and behaviour, is collected 'all round' a staff i.e., from his/her supervisors, staffs, peers, and even customers client and also with whom he interacts in the course of his job performance. All these appraisers provide information or

feedback on an employee by completing survey questionnaires designed for this purpose. All information so gathered is then compiled through the computerized system to prepare individualized reports.

Exhibit 5.5. 360 Degree feedback

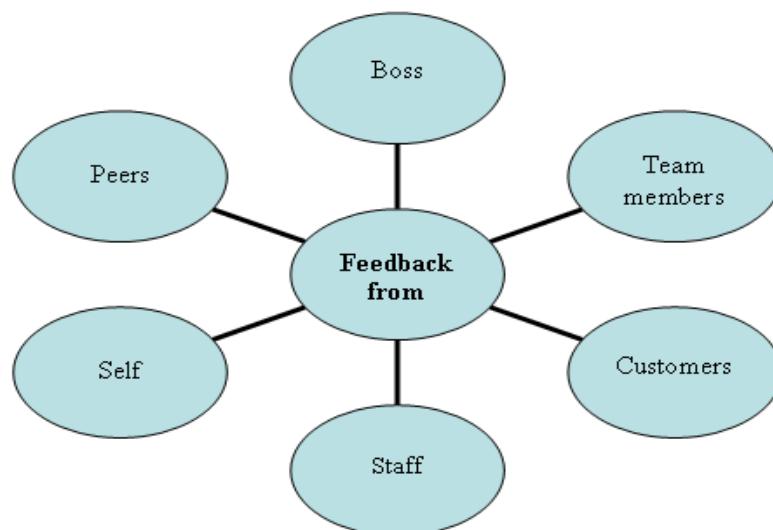


Table 5.6 Strengths and weaknesses of both traditional and modern methods

Sl No	Dimensions	Rat-ings	Rank-ing	Critical incident	BARS	MBO	AC
1	Meaningful dimensions	Some-times	Seld-om	Some-times	usually	usually	usually
2	Amount of time required	low	low	medium	high	high	high
3	Development costs	low	low	low	high	medium	high
4	Potential for rating errors	high	high	medium	low	low	low
5	Acceptability to subordinates	low	low	medium	high	high	high
6	Acceptability to superiors	low	low	medium	high	high	high
7	Usefulness for allocating rewards	poor	poor	fair	good	good	fair
8	Use for employee counseling	poor	poor	fair	good	good	good
9	Use for identifying promotion	poor	poor	fair	fair	fair	good

Benefits of Performance Appraisals

Performance appraisals offer many benefits (Ahamed,1996)., some of the benefits are:

1. An opportunity to stand back from the daily routine and look clearly and objectively at each employee's level of performance,
2. An opportunity to give credit where it is due,
3. Opening communication channels and encouraging mutual understanding of career aspirations, working relationships, areas of strength and areas needing improvement.,
4. An opportunity to discuss and agree on job goals, targets, objectives and priorities, and measures for their achievement,
5. Encouraging supervisors and managers to analyze systematically employees' performance, potential and training and development needs,
6. Providing a permanent written record of the relative strengths and weaknesses of employees which can be used for salary and wage changes, promotions, transfers, court evidence, retrenchments and trading plans,
7. In cases of disagreement over promotion, pay, dismissal and the like, you have a record of, and a sound basis for your decision,
8. Helping in preventing employees being poorly placed or misplaced,
9. Increasing the likelihood that an individual employee's talents will be recognized and used where they are most needed,
10. Most employees need and want to know how they are getting on: performance appraisals provide the opportunity for this feedback., and
11. Highlighting areas where training or coaching are needed.

Guidelines for Effective Performance Appraisal

Well-written performance appraisals are among the most effective tools for developing people. The following guidelines would be used for effective performance appraisals to significantly increase your team's effectiveness and perceived value within your organization.

1. Increase employees' comfort level with performance appraisals. At the beginning of each review period, explain the appraisal process, rating system, and appraisal form. Agree on performance objectives and measurements for the upcoming review period.
2. Start thinking about appraisals as an opportunity to increase the efficiency and effectiveness of team. Measure performance based on mutually understood, job-relevant criteria and identify and suggest actions to improve results.
3. In addition to keeping organization's records, encourage employees to keep ongoing records.
4. Use examples, facts, and accomplishments drawn from these ongoing records to present a factual, complete summary of employees' results. Specific wording keeps employees focused on objectives, proves ratings, and gives employees something concrete to improve or maintain performance.
5. Use objective (factual) wording so that concentrate on observed behaviors rather than on personality traits and use the same to write credible performance appraisals that reinforce desired behaviours.
6. Help employees achieve their full potential through recognition and encouragement. Use constructive wording to cite accomplishments and suggest improvements. But be careful to consider the effect of negatively worded comments on employees.

7. Use benefit wording to reinforce desired behavior and motivate employees. Remind employees and next level manager of the value and significance of employees' actions.
8. Use performance appraisals to summarize the year's performance and discuss up on it. Feedback to an employee has its most significant impact immediately after a specific behavior has occurred. When writing action plans for development needs, keep an immediate or short-term focus and link the plan and any training recommend to team business objectives, and
9. Avoid picayune comments that trivialize the whole appraisal. Keep the performance appraisal focused on significant accomplishments and critical improvement areas.

Some common pitfalls

Obstacles to the success of formal performance appraisal programs should be familiar to most managers, either from painful personal experience or from the growing body of critical literature. Here are the most troublesome and frequently cited drawbacks:

1. Performance appraisal programs demand too much from supervisors. Formal performance appraisals obviously require at least periodic supervisor observation of subordinates' performance. However, the typical first-line supervisor can hardly know, in a very adequate way, just what each of 20, 30, or more subordinates is doing.
2. Standards and ratings tend to vary widely and, often, unfairly. Some raters are tough, others are lenient. Some departments have highly competent people; others have less competent people. Consequently, employees subject to less competition or lenient ratings can receive higher appraisals than equally competent or superior associates.

3. Personal values and bias can replace organizational standards. An appraiser may not lack standards, but the standards he uses are sometimes the wrong ones. For example, unfairly low ratings may be given to valued subordinates so they will not be promoted out of the rater's department. More often, however, outright bias dictates favored treatment for some employees.
4. Because of lack of communication, employees may not know how they are rated. The standards by which employees think they are being judged are sometimes different from those their superiors actually use. No performance appraisal system can be very effective for management decisions, organization development, or any other purpose until the people being appraised know what is expected of them and by what criteria they are being judged.
5. Appraisal techniques tend to be used as performance panaceas. If a worker lacks the basic ability or has not been given the necessary training for his job, it is neither reasonable to try to stimulate adequate performance through performance appraisals, nor fair to base salary, dismissal, or other negative decisions on such an appraisal. No appraisal program can substitute for sound selection, placement, and training programs. Poor performance represents someone else's failure.
6. In many cases, the validity of ratings is reduced by supervisory resistance to making the ratings. Rather than confront their less effective subordinates with negative ratings, negative feedback in appraisal interviews, and below-average salary increases, supervisors often take the more comfortable way out and give average or above-average ratings to inferior performers.
7. Performance appraisal ratings can boomerang when communicated to employees. Negative feedback (i.e., criticism) not only fails to motivate

the typical employee, but also can cause him to perform worse .(3) Only those employees who have a high degree of self-esteem appear to be stimulated by criticism to improve their performance.

8. Performance appraisals interfere with the more constructive coaching relationship that should exist between a superior and his subordinates. Performance appraisal interviews tend to emphasize the superior position of the supervisor by placing him in the role of judge, thus countering his equally important role of teacher and coach. This is particularly damaging in organizations that are attempting to maintain a more participative organizational climate.

Expectations of a Manager from performance appraisal system

The following is typically expected from company managers when doing performance appraisals:

1. Translate organizational goals into individual job objective.
2. Communicate management's expectations regarding employee performance.
3. Provide feedback to the employee about job performance in light of management's objectives.
4. Coach the employee on how to achieve job objectives/requirements.
5. Diagnose the employee's strengths and weaknesses.
6. Determine what kind of development activities might help the employee better utilize his or her skills improve performance on the current job.

Manager's Guide for Effective Performance Appraisals - The first step in managing ineffective performance is to determine its source - once its source is known, a course of action can be planned. It is recommended that a diagnosis of

poor employee performance focus on three interactive elements (if any one of these is deficient or unfavourable performance will suffer):

1. *Skill* - knowledge, abilities, technical competencies
2. *Effort* - motivation to get a job done
3. *External conditions* - personal life, poor economic conditions, supply problems etc.

Don't let problems linger until the annual review. Give daily or weekly feedback. The annual review is not the place to spring surprises. Separate performance feedback appraisals from pay/remuneration reviews. In their eagerness to find out what increase they are going to receive, employees tend not to concentrate on appraisals of their performance. Allow employees to evaluate themselves. Ask them how they are doing, how you and the organisation can help them perform better, and how much cooperation they get from their peers. When you have to be critical, focus on specific behaviours rather than on the individuals personality. Treat the appraisal as only a point in an ongoing process. Use it to reach agreement about what constitutes satisfactory performance in the future.

Use of Software for Performance Appraisals

Since the advent of the use of computers, a number of educational organizations are now using Performance Appraisal software such as The Administrative Observer, one of the more configurable stand alone database packages, rather than filling out and keeping hard copy records. Another software package, with an intuitive graphic interface, geared towards the business environment is MINDSOLVE (MVP). MVP is designed as an enterprise level performance management software, incorporating appraisal, development resources, 360 degree feedback, performance logging, etc.. MVP software is available either installed/licensed or asp/web hosted, is compatible with Mac or PC, and enjoys

robust browser compatibility (IE 5.0 or more recent, Netscape 6.2 or later). While the use of configurable software based tools are certainly making life easier, the use of such tools are much more valuable, if the user has an understanding of the basis for which they were written.

Summary

Formal systems for appraising performance are neither worthless nor evil, as some critics have implied: Nor are they panaceas, as many managers might wish. A formal appraisal system is, at the very least, a commendable attempt to make visible, and hence improvable, a set of essential organization activities. Personal judgments about employee performance are inescapable, and subjective values and fallible human perception are always involved. Formal appraisal systems, to the degree that they bring these perceptions and values into the open, make it possible for at least some of the inherent bias and error to be recognized and remedied.

By improving the probability that good performance will be recognized and rewarded and poor performance corrected, a sound appraisal system can contribute both to organizational morale and organizational performance. Moreover, the alternative to a bad appraisal program need not be no appraisal program at all, as some critics have suggested. It can and ought to be a better appraisal program. And the first step in that direction is a thoughtful matching of practice to purpose.

Key terms

Ambiguity

Bias

Critical Incident

Checklist

Feedback

Grading

Graphic rating

Management by objective

Discussion questions

1. What are the bases for traditional and modern performance appraisal methods?
2. Why the modern methods of performance appraisal are more methodical than traditional methods. Give reasons?
3. Discuss 360 degree appraisal with its relative merits and demerits.
4. Develop a set of critical incidents covering your workplace performance of one of your boss you like more.
5. Write short notes on the following:
 - a) Appraisal by objectives
 - b) Forced Choice method
 - c) Critical incidents method
 - d) BARS
 - e) Assessment Centres

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UNIT II

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1.COMPENSATION MANAGEMENT

1.1 Meaning of Compensation

Compensation management, also known as wage and salary administration, 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, over the passage of time, many more forms of compensation as discussed earlier, entered the business field which necessitated 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 evaluation, 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"

1.2 Concept of Compensation

The literal meaning of compensation is to counter-balance. In the case of human resource management, compensation is referred to as money and other benefits received by an employee for providing services to his employer. Money and benefits received may be in different forms-base compensation in money form and various benefits, which may be associated with employee's service to the employer like provident fund, gratuity, insurance scheme and any other payment which the employee receives or benefits he enjoys in lieu of such payment. Cascio has defined compensation as follows:

"Compensation includes direct cash payments, indirect payments in the form of employee benefits and incentives to motivate employees to strive for higher levels of productivity"

Based on above description of compensation, we may identify its various components as follows:

1. 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.

2. Incentives: Incentives are the additional payment to employees besides the payment of wages and salaries. Often these are linked with productivity, either in terms of higher production or cost saving or both. These incentives may be given on individual basis or group basis.

3. Fringe Benefits: Fringe benefits include such benefits which are provided to the employees either having long-term impact like provident fund, gratuity, pension; or occurrence of certain events like medical benefits, accident relief, health and life insurance; or facilitation in performance of job like uniforms, Canteens, recreation, etc.

4. Perquisites: These are normally provided to managerial personnel either to facilitate their job performance or to retain them in the organisation. Such perquisites include company car, club membership, free residential accommodation, paid holiday trips, stock options, etc.

1.3 Objectives of Compensation Management

The basic objective of compensation management can be briefly termed as meeting the needs of both employees and the organisation. Since both these needs emerge from different sources, often, there is a conflict between the two. This conflict can be understood by agency theory which explains relationship between employees and employers. The theory suggests that employers and employees are two main stakeholders in a business unit, the former assuming the role of principals and the latter assuming the role of agents. The compensation paid to employees is agency consideration. Each party to agency tries to fix this consideration in its own favour. The employers want to pay as little as possible to keep their costs low. Employees want to get as high as possible. The compensation management tries to strike a balance between these two with following specific objectives:

1. Attracting and Retaining Personnel: From organisation's point of view, the compensation management aims at attracting and retaining right personnel in the organisation. In the Indian corporate scene, there is no dearth of personnel at operative levels but the problems come at the managerial and technical levels particularly for growing companies. Not only they require persons who are well

qualified but they are also retained in the organisation. In the present day context, managerial turnover is a big problem particularly in high knowledge-based organisations.

2. Motivating Personnel: Compensation management aims at motivating personnel for higher productivity. Monetary compensation has its own limitations in motivating people for superior performance. Alfie Kohn has gone to the extent of arguing that corporate incentive plans not only fail to work as intended but also undermine the objectives they intend to achieve. He argues that this is due to inadequate psychological assumptions on which reward systems are based. His conclusions are as follows:

- A. Rewards punish people-their use confirms that someone else is in control of the employee.
- B. Rewards rupture relationships-they create competition where teamwork and collaboration are desired.
- C. Rewards ignore reasons-they relieve managers from the urgent need to explore why an employee is effective or ineffective.
- D. Rewards discourage risk taking-employees tend to do exactly what is required to earn the reward, and not any more.
- E. Rewards undermine interest-they distract both manager and the employee from consideration of intrinsic motivation.

Notwithstanding these arguments, compensation management can be designed to motivate people through monetary compensation to some extent.

3. Optimising Cost of Compensation: Compensation management aims at optimising cost of compensation by establishing some kind of linkage with performance and compensation. It is not necessary that higher level of wages and salaries will bring higher performance automatically but depends on the kind of linkage that is established between performance and wages and salaries. Compensation management tries to attempt at this.

4. Consistency in Compensation: Compensation management tries to achieve consistency-both internal and external-in compensating employees. Internal consistency involves payment on the basis of criticality of jobs and employees' performance on jobs. Thus, higher compensation is attached to higher-level jobs. Similarly, higher compensation is attached to higher

performers in the same job. Level of jobs within an organisation is determined by job evaluation which will be discussed little later in this chapter. External consistency involves similar compensation for a job in all organisations. Though there are many factors involved in the determination of wage and salary structure for a job in an organisation which may result into some kind of disparity in the compensation of a particular job as compared to other organisations, compensation management tries to reduce this disparity.

1.4 Compensation Management Process

In order to achieve the objectives of compensation management, it should proceed as a process. This process has various sequential steps as shown:

Organisation's strategy

Compensation policy

Job analysis and evaluation

Analysis of contingent factors

Design and implementation of compensation plan

Evaluation and review

Organisation's Strategy: Organisation's overall strategy. though not a step of compensation management is the starting point in the total human resource management process including compensation management. Companies operating in different types of market/product having varying level of maturity, adopt different strategies and matching compensation strategy and blend of different compensation methods. Thus, it can be seen that organisations follow different strategies in different market situations and align their compensation strategy and contents with these strategies. In a growing market, an organisation can expand its business through internal expansion or takeover and merger of other organisations in the same line of business or a combination of both. In such a growing market, the inputs, particularly human resources, do not grow in the same proportion as the business expands. Therefore, in order to make the growth strategy successful, the organisation has to pay high cash to attract talents. For example, information technology is a fast growing business

presently and we find maximum merger and higher managerial compensation in this industry. In mature market, the organisation does not grow through additional investment but stabilises and the growth comes through making the present investment more effective, known as learning curve growth. In such a situation, average cash and moderate incentives may work. The benefits which have been standardised have to be maintained. In the declining market, the organisation has to harvest profit through cash generation and cost cutting and if this cannot be sustained over the long run, the possible retrenchment of business to invest somewhere else. In such a case, compensation strategy involves cost control with below average cash and incentive payments. Cascio has observed that in viewing the compensation from strategic point of view, the companies do the following:

1. They recognise remuneration as a pivotal control and incentive mechanism that can be used flexibly by the management to attain business objectives.
2. They make the pay system an integral part of strategy formulation.
3. They integrate pay considerations into strategic decision-making processes, such as those that involve planning and control.
4. They view the company's performance as the ultimate criterion of the success of the strategic pay decisions and operational remuneration programmes.

Compensation Policy: Compensation policy is derived from organisational strategy and its policy on overall human resource management. In order to make compensation management to work effectively, the organisation should clearly specify its compensation policy, which must include the basis for determining base compensation, incentives and benefits and various types of perquisites to various levels of employees. The policy should be linked with the organisational philosophy on human resources and strategy. Besides, many external factors which impinge on the policy must also be taken care of Job Analysis and Evaluation. Job analysis provides basis for defining job description and job specification with the former dealing with various characteristics and responsibilities involved in a job and the latter dealing with qualities and skills required in job performer. Job analysis also provides base for job evaluation which determines the relative worth of various jobs in the organisation. The relative worth of various jobs determines the compensation package attached with each job.

Analysis of Contingent Factors: Compensation plan is always formulated in the light of various factors, both external and internal, which affect the operation of human resource management system. Various external factors are

conditions of human resource market, cost of living, level of economic development, social factors, pressure of trade unions and various labour laws dealing with compensation management. Various internal factors are organisation's ability to pay and employees' related factors such as work performance, seniority, skills, etc. These factors may be analysed through wage/salary survey. The impact of these factors will be discussed later.

Design and Implementation of Compensation Plan: After going through the above steps, the organisation may be able to design its compensation plan incorporating base compensation with provision of wage/salary increase over the period of time, various incentive plans, benefits and perquisites. Sometimes, these are determined by external party, for example, pay commissions for Government employees as well as for public sector enterprises. After designing the compensation plan, it is implemented. Implementation of compensation plan requires its communication to employees and putting this into practice.

Evaluation and Review: A compensation plan is not a rigid and fixed one but is dynamic since it is affected by a variety of factors which are dynamic. Therefore, compensation management should have a provision for evaluating and reviewing the compensation plan. After implementation of the plan, it will generate results either in terms of intervening variables like employee satisfaction and morale or in terms of end-result variable like increase of productivity. However, this latter variable is more important. The evaluation of compensation plan must be done in this light. If it does not work as intended, there should be review of the plan necessitating a fresh look.

1.5 Types

1. Primary compensation
2. Incentive Compensation

Primary compensation

It is basic pay in the form of wages or salaries. The word wage is used to denote payment to hourly rated production workers and word salary is used to denote payments to clerical, supervisory and managerial employees.

Time as a Basis form pay

The oldest and most common system of paying employees is on the basis of time, rate per hour, per day, per week, per month or per year.

The merits of the system

1. It is simple to understand.
2. It is liked by trade unions because it assures a guaranteed income for a given period of work.
3. It helps in maintaining the quality of output.
4. It saves machine from being overworked and damaged.
5. It protects employees from overwork and fatigue
6. It is the only satisfactory system when the output is not distinguishable or measurable.

Following are the demerits of this system

1. This system does not distinguish between efficient and inefficient workers. All workers are paid equal remuneration irrespective of their quantity of output. Hence the more efficient among them either reduce their speed and efficiency or leave the organization.
2. In order to make the labourers work without wasting their time, supervision becomes necessary. This increases cost of production.

Nominal and Real Wages:

Wages can be expressed in two ways. When they are expressed in terms of money paid to the worker they are called nominal wages. But when they are expressed in terms of their purchasing power with reference to some base year they are called real wages. These wages are arrived at by making adjustment in the nominal wages for the rise or fall in the cost of living. Thus, if the nominal wage of a worker in 1984 was Rs.400p.m. and in 1994 it is Rs.900 p.m. but if the living in 1994 has become thrice as costly as in 1984 the real wage of the worker in 1994 is Rs.300 only.

How do we measure changes in the cost of living, or changes in the prices that consumers pay? The measuring rod is the consumer price index number. This index number is intended to show over a period of time the average percentage change in the prices paid by the consumers belonging to the population group proposed to be covered by the index for a fixed list of goods and services consumed by them. The average percentage change, measured by the index, is calculated month after month with reference to a fixed period. This fixed period is known as the 'base period' of the index; and since the object of the index is to measure the effect of price changes only, the price changes have to be determined with reference to a fixed list of goods and services of consumption which is known as a fixed basket of goods and services.

Important steps in the construction of this index number are as follows:

1. Selection of representative commodities consumed by the group.
2. Making arrangements for obtaining their price quotations regularly.
3. Selecting a base year and converting current prices into price relatives based on the prices of the base year.
4. Obtaining a weighted average of the price relative taking the quantities consumed in the base year as weights.

How are wages determined?

Economists have developed a number of theories which try to explain how wages are determined on a macro level. The Subsistence Theory of Wages, for example, states that the real wages of unskilled workers always remain at or very little above subsistence level. If real wages rise more than enough to provide a bare subsistence, the population would expand at a greater rate than the increase of food and other necessities. The growth of population would increase the number of workers seeking jobs and the pressure of the big supply of labour would force wages down again to subsistence level. Thus improvement in real wages can only be temporary. This theory has considerable validity in a heavily populated country with high birth rate like India. The wages of the great majority of workers in our country are still on the subsistence level and may continue to be so until our development programmes cause our rate of productivity growth to become considerably greater than the rate of population growth.

According to the Marginal Productivity Theory of Wages, in every enterprise there is a point beyond which it will not pay the management to engage more labourers. At this point the labourer produces just enough to cover his cost to the employer. All the labourers being assumed to be of the same quality, they will all receive the same wages, i.e., the wages representing the product of the marginal labourer. This is also not correct. In actual practice wages of labourers, even if they are of the same quality, differ.

What then determines the wages of a worker? In actual practice it seems to be determined by a number of factors such as the philosophy of management towards wages, region-cum-industry settlements, internal pricing through job evaluation, employer's capacity to pay, court judgements, local area going rates, collective bargaining and government laws.

Requisites of sound primary compensation structure

1. Internal Equity
2. External competitiveness
3. Performance based payment

1. Internal Equity

It means that there should be proper relationship between the wages and salaries of various positions within the enterprise. The problem of pay inequities is job evaluation.

Advantages of Job evaluation

1. It is an objective and logical method of ranking jobs and removing unjust differentials.
2. It helps in fitting new jobs at their appropriate plane in the existing wage structure.
3. It improves labour- management relations by reducing grievances.
4. It establishes on objective and clear basis for wage bargaining.
5. It simplifies wages administration
6. It reveals the possibilities of more efficient use of the plant labour force.

2.External Competitiveness

To achieve external alignment the management must first know what the average rates of its key job are prevailing in the community.

Average rates may be decided

1. when there is abundance of labour.
2. when the enterprise is incurring losses.
3. when the cost of living is going down.
4. when the enterprise has the reputation of being a stable employer with no layoffs.
5. when the enterprise pays sustained fringe benefits.
6. when wages are linked to productivity which is constant or falling.

3.Performance – based payment

In the final step, management has to decide whether all individuals in jobs of the same level should be paid the same pay or different pay and how this

should be determined. There are four basic approaches to the determination of individual pay: the single rate approach, the informal approach, the automatic approach, and the merit approach.

(1) *Single rates:* When employee performance does not vary significantly on the job because every one is required to work at about the same pace (e.g. in simple office jobs) single rates are frequently paid to employees on jobs. If there are any pay differences in such jobs employees may consider these as favouritism.

(2) *The informal approach:* Sometimes individual pay decisions are made on an informal basis without formal guides or controls. This is most incorrect because this creates iniquities and confusion among employees regarding what is expected of them. Lack of company-wide standards may also result in pay decisions influenced by personal favouritism.

(3) *The automatic approach:* Under this approach both the amount of the pay increase and the period of review are usually predetermined. In this approach since no consideration is shown to worker's individual performance or merit he does not have enough incentive to put in greater effort.

(4) *Merit approach:* If differences in individual performance and output are important to a company then some basis for compensating employees for these differences should be established. Merit rating is a management practice designed to gear the pay of employees to actual differences in work accomplishments. Merit rating systems assume that performance can be observed with reasonable accuracy even when it cannot be objectively measured.

Factors Affecting Wages

On the basis of above discussion, we may summarise the factors affecting wage rates as under:

1. *Demand for and supply of labour:* Demand and supply conditions of labour have considerable influence on the determination of wage rates. If there is a short supply of labour, the wages may be high whereas if there is no dearth of labour, the wages tend to be low.
2. *Labour unions:* If the labourers are well organized into strong trade unions, their bargaining power would be high and they can demand higher rates of wages. On the other hand, if the labourers are not organized, the management may fix low wages.
3. *Cost of living:* The cost of living of workers also has a strong influence on the rate of wages. If this factor is not considered, the labourers may

not be in a position to make both ends meet and this will affect their efficiency. Hence progressive employers consider this factor also.

4. *Prevailing wage rates:* Prevailing wages in a particular industry are also taken into account by the employers while deciding wage levels for their employees. By considering the prevailing wage level, employers will come reasonable close to the wage level of competitors, and this will enable them to retain and attract qualified workers to the organizations.
5. *Ability to pay:* The wage level, to a large extent, is determined by the ability of the enterprise to pay its workers. The ability to pay in turn is determined by the profit-earning capacity of the enterprise.
6. *Job requirements:* Job requirements are also an important factor affecting wages. Jobs requiring specialized knowledge or involving much mental or manual effort are priced higher than those which are light or which do not need any specialized knowledge.
7. *State regulation:* State regulation is another important factor influencing wage rates. As the State assumes responsibility for safeguarding the interest of citizens, it has to step in to regulate the wage rates of labourers through legislative measures.
8. *Increment system:* In some organizations wages automatically increase annually at a prescribed rate without any relation to workers' performance. In some other organizations annual increases based on merit. Thus, the prevailing system of granting increments also affects wages.

1.6 Job Evaluation

For fixing compensation to different jobs, it is essential that there is internal equity and consistency among different job holders. Job evaluation aims to provide this equity and consistency by defining the relative worth of different jobs in an organisation. Job evaluation is the process of determining the relative worth of different categories of jobs by analysing their responsibilities and, consequently, fixation of their remuneration. International Labour Organisation (ILO) has defined job evaluation as follows:

"Job evaluation is an attempt to determine and compare demands which the normal performance of a particular job makes on normal workers"

without taking into account the individual performance of the workers concerned"

The definition of job evaluation provided by ILO has been adopted by others. For example, French has defined job evaluation as follows:

"Job evaluation is a process of determining the relative worth of the various jobs within the organisation. so that differential wages may be paid to jobs of different worth. The relative worth of a job means relative value produced. The variables which are assumed to be related to value produced are such factors as responsibilities. skills. efforts and working conditions"

Objectives of Job Evaluation

The basic objective of job evaluation is to determine the relative contributions that the performance of different jobs makes towards the realisation of organisational objectives. This basic objective of job evaluation serves a number of purposes which may be grouped into three categories: wage and salary fixation, restructuring job hierarchy and overcoming anomalies.

Wage and Salary Fixation

The basic principle of wage and salary fixation is that it should be based on the relative contributions of different jobs and not on the basis of who the job holders are. If this principle is adopted, the first requirement is to identify the likely contributions of different jobs. This is what job evaluation precisely does. It provides the information about what is the worth of a job in terms of its contributions to the achievement of organisational effectiveness. From equity point of view, this method is more appropriate.

Restructuring Job Hierarchy: Job evaluation helps in restructuring job hierarchy. Job hierarchy refers to arranging various types of jobs in the order of their importance either on ascending basis or descending basis. Sometimes, job hierarchy becomes too lengthy creating administrative problems and creating organisational problems by increasing the number of levels in the organisation. In today's context, more emphasis is being put on flat structure instead of tall one. Job evaluation exercise can be undertaken to reduce the number of job levels by merging closely related jobs together. For example, successive Pay Commissions appointed by Government of India have recommended reduction

in number of pay scales by merging two or more scales into one in order to reduce their number in job hierarchy.

Overcoming Anamolies

Job evaluation, if carried on periodically and objectively, helps in overcoming various anamolies which may develop in an organisation over the period of time with regard to compensation management. Knowles and Thomposon have identified that there are following anomalies and evils which may develop in an organisation and may be overcome by job evaluation:

1. Payment of high wages and salaries to persons who hold jobs and positions not requiring great skill, effort and responsibility;
2. Paying beginners less than that they are entitled to receive in terms of what is required of them;
3. Giving a raise to persons whose performance does not justify the raise;
4. Deciding rates of pay on the basis of seniority rather than ability;
5. Payment of widely varied wages and salaries for the same or closely related jobs and positions; and
6. Payment of unequal wages and salaries on the basis of race, sex, religion, or political differences.

Problems in Job Evaluation

Like any other technique of human resource management, job evaluation is not free from certain shortcomings and limitations. Various problems involved in job evaluation may be grouped into two categories: technical and operational.

Technical Problems: There are some technical problems involved in effective job evaluation which are of the following nature.

1. Job evaluation establishes hierarchy of jobs based on their worth. Though there are various methods developed for this purpose. These are not completely objective.
2. Another problem in establishing job hierarchy through job evaluation comes in the form of changing profile of job factors because of changes in environmental variables such as technology, social structure and processes and international impact. Therefore, a job hierarchy which may be workable at one point of time may not work at another point of time. Thus, in order to make job evaluation effective. it should be undertaken at regular intervals.

3. Job evaluation is a costly and technical exercise. Therefore, many organisations do not prefer to take it in a formal way. Rather, they prefer to go through prevailing practices.

Operational Problems

Besides the technical problems, there are some operational problems too in job evaluation. These are of the following types:

1. Linking jobs, based on job evaluation, and wages and salaries is not completely possible because of the operation of several forces in the environment. There are substantial differences between job factors and the factors emphasised by the human resource market. Often it has been observed that these external factors change with the time.
2. Job hierarchy created through job evaluation may create human problems in an organisation particularly if it has been taken for the first time and results into fundamental differences as compared to the existing system. In such a situation, job evaluation may face resistance from the employees.
3. Job evaluation is, generally, suited to large organisations where human resource management system has been formalised. In comparatively smaller organizations, this may not result in much advantages.

The existence of various problems in job evaluation does not mean that it should not be undertaken. In fact, this should be undertaken. The problems identified above indicate that suitable safeguards should be provided while undertaking job evaluation to make it more productive.

Job Evaluation and Performance Appraisal

Sometimes, a misplaced perception arises in which job evaluation is equated with performance appraisal. This happens because of the contribution of both in wage/salary determination. However, both are quite different concepts, use different methods and have different objectives.

Comparison of job evaluation and performance appraisal

<i>Job evaluation</i>	<i>Performance appraisal</i>
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<ol style="list-style-type: none"> 1. It evaluates the job and not the job holder. 2. The job is evaluated before the job holder is appointed to perform the job. 3. Once job evaluation is done. it is applicable over a number of years. 4. Evaluation is done by a committee consisting of specialists in the relevant areas. 5. Job evaluation is not adopted by all organizations, even the large ones. They may follow the generally accepted prevailing practices. 6. The basic objective is to measure the relative worth of a job in comparison to other jobs. 	<ol style="list-style-type: none"> 1. It evaluates the job holder on the basis of his job performance. 2. Evaluation is done after the employee has performed the job. 3. Appraisal is a continuous process and is undertaken every year. 4. Appraisal is done by the concerned superiors and other persons who know about he employees concerned. 5. Appraisal is undertaken by all organisations on regular basis, either formally or informally. 6. There are many objectives of appraisal: wage/salary increase, promotion/ demotion, transfer, assessing training needs.
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PROCESS OF JOB EVALUATION

Job evaluation is a process consisting of several steps. National institute of Personnel Management has prescribed .the following steps in job evaluation process:

1. Analyse and prepare job description.
2. Select and prepare a job evaluation plan,
3. Classify jobs into different categories,
4. Install the job evaluation programme, and
5. Maintain the programme.

Job Analysis

Job evaluation process starts with the base provided by job analysis. Job analysis identifies various dimensions of a job in two forms: job description and job specification. Job description provides responsibilities involved in the performance of the job while job specification provides attributes required in the job performer. Both these taken together provide information about various factors involved in different jobs.

Appointment of Committee for Job Evaluation

As pointed out earlier, job evaluation is a specialised function and is carried on by a committee consisting of members drawn from different line

departments of the organisation, outside experts, besides HR personnel. HR person generally acts as committee convener or chairman of the committee. .

Training for Job Evaluation

Since members of the job evaluation committee are drawn from different fields. they should be provided brief training for job evaluation. Armstrong observes that the training should be, given through a series of meetings in which the following issues are generally discussed and doubts cleared.

1. What is job evaluation?
2. Why does this company need job evaluation?
3. How will it work?
4. How does it affect promotion policy?
5. How will the system be kept up-to-date?
6. Does job evaluation mean that everyone whose job is in the same grade gets the same rate of pay?
7. How does the publication of job grades and salary bands affect confidentiality?
8. How does the system cater to additions or alterations in jobs?
9. What happens if an individual disagrees with his grading?
10. How quickly will appeals on grading be dealt with?
11. How will the company go about grading new jobs created as the result of change or expansion?

Defining Criteria for Job Evaluation

Evaluation of job or any other element, within or without organisational context, is always comparative and for comparison some evaluative criteria must exist. For job evaluation, defining of criteria involves two aspects. First, there should be identification of critical factors involved in a job which must be evaluated. These factors are responsibility, skill and effort. Other factors which are relevant for consideration are working conditions, difficulty involved in job performance. time-span of discretion. number of subordinates to be supervised etc. Second, after identifying various factors, criteria in respect of these have to be fixed. For fixing criteria, some benchmark has to be established. Such a benchmark can be established either by taking various jobs within the organisation or the benchmark being used by the industry sector. As will be discussed later, various industry associations throughout the world have developed benchmarks for various jobs in their own sector.

Selecting Methods of Job Evaluation

After fixing the criteria, the next step is the determination of methods through which various criteria can be applied in job evaluation. As we shall see later in the next section, there are both qualitative and quantitative methods which can be used. Since a particular method emphasises on some specific aspects and is not complete in it, usually, a combination of different methods has to be followed.

Job Classification

Based on the results obtained by different methods used for evaluating different factors in a job or the evaluation of the whole job as such, various jobs are classified into different grades. This classification may produce a large number of jobs. e.g., class three clerk, class two clerk, class one clerk, senior clerk and so on. These numbers are merged into one to have a grade. From wage and salary administration point of view, there may be internal classification of a grade. This job classification is used to build job hierarchy which shows the relative worth of different jobs within the organisation. A job at higher level of hierarchy is more worthwhile as compared to that at the lower level. Wages and salaries are fixed according to this ordering.

1.7 METHODS OF JOB EVALUATION

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

(1) consideration of the job as a whole versus consideration of different components of a job; and

(2) judging and comparing jobs with each other versus assigning numerical scores on a rating scale.

Usually, in practice; a combination of different methods is followed. Based on this concept, some other methods have also been developed.

Ranking Method

In the ranking method, a whole job is compared with others and rank is provided on the basis of this comparison. The usual process followed in this method is as under:

1. On the basis of job analysis, each member of the job evaluation committee ranks each job independently either against the benchmark job or against all other jobs. The ranking is provided to the job on the basis of this comparison.
2. In order to increase the reliability of ranking, this exercise is undertaken twice or thrice by the members.
3. If there are significant differences of opinions among the members about the ranking of a particular job, the matter is settled by mutual consultation, or by working out the average.

Merits

Ranking method has certain facial merits. Some of these merits are as follows:

1. The method is comparatively simple, easily understandable, and mostly acceptable by labour unions. It is suitable for comparatively smaller organisations which may not like to undertake more laborious exercises.
2. The method is less costly to undertake and maintain as compared to other systems.

Demerits

Since ranking method of job evaluation is qualitative and non-analytical. it suffers from the following limitations:

1. Ranking method is judgemental and, therefore, it is affected by personal preferences of job evaluators.
2. This method ranks various jobs in order of their relative worth. It does not specify the real difference between two jobs.. For example, the exact difference between job ranked at first and the job ranked at second cannot be specified.

Grading Method

Job grading method also known as job classification method establishes various grades for different categories of jobs. For example, jobs of an operative may be classified as unskilled, semi-skilled, skilled and highly-skilled. The process followed in this method is as under:

1. At the initial stage, a number of job classes or grades is decided on the basis of job analysis. Job grades can be determined on either of two bases. First, all jobs may first be ranked and their natural classes may be determined. The description of each job class is prepared covering all jobs falling in a class. Second, the job evaluation committee may prepare a series of job class description in advance on the basis of which various jobs may be graded.

2. Different characteristics of each job are matched with description of job class and a job is placed in the class with which it matches best.

Merits

Grading system of job evaluation particularly in government jobs, is quite popular as this has certain merits over the ranking method. These are as follows:

1. It is quite simple to operate and understand as the relevant information is provided by job analysis which serves other purposes too.
2. Job evaluation done on grading method makes wage and salary determination easier as these are fixed in terms of various grades of jobs.

Demerits

This system of job evaluation suffers with the following limitations:

1. Job grade description is vague and personal biases may distort job grading as the method is not based on any scientific analysis.
2. There are chances of employees' resistance when new clusters of jobs are prepared. This is evident by the fact that government employees agitate when recommendations of a new pay commission come.

Point Method

Point method of job evaluation is widely used in business organisations. It is an analytical and quantitative method which determines the relative worth of a job on the basis of points allotted to each specific factor of a job. The sum total to these points allotted to various job factors is the worth of the job. This total is compared with that of other jobs and relative worth of various jobs is determined.

Factor Comparison Method

This method, also known as key job method, was originally developed at the Philadelphia Rapid Transit Company, USA by Eugene J. Benge in 1926 to overcome two major problems faced in point method of job evaluation. viz. determining the relative importance of factors and describing their degrees. In this method, each factor of a job is compared with the same factor of the other jobs or the key job either defined or existing one. When all factors are compared, the final rating is arrived at by adding the value received at each comparison. For this purpose, Benge identified five factors-mental effort, skill, physical effort, responsibility and working conditions. The procedure for factor comparison method of job evaluation is as follows:

1. At the initial stage, some key jobs which are well recognised are selected. These jobs, numbering about 15-20, should be from a cross-section of departments. These should represent all levels of wages and salaries which are considered fair, both internally as well as externally.
2. Various factors of the jobs which are to be considered for comparison, should be identified. These factors may be mental requirement. Skills, physical requirement, responsibility and working conditions.
3. Each factor of a job is compared with the same factor of the key job and rank is awarded. This exercise is repeated for all other factors.
4. The relative worth of a job is determined by adding the ranks obtained by different factors of a job. Sometimes, the rank is expressed in terms of monetary values and these values are added together to get the correct wage rate for the job.

Merits

The factor comparison method is more systematic and analytical as compared to any other method and offers following merits:

1. It provides more accurate information about the relative worth of a job as different comparable factors are compared with key jobs.
2. Since only limited number of factors relevant for the effective job performance are compared, there are reduced chances of overlapping.
3. Since the evaluation is more systematic and analytical, its logic can be accepted by trade unions and workers.

Demerits

However, factor rating method has its own operational problems which restrict its adaptability. The major problems are as follows:

1. This method is quite costly and time consuming to install and difficult to understand by those not fully conversant with job evaluation process.
2. If wage rates are adopted for making comparison, the system may become obsolete very soon as there may not be proportionate increase in wages for all jobs.
3. This system considers only limited factors of job for comparison. This may be a positive point so far as avoidance of duplication and simplicity of procedure are concerned, but may ignore other factors which may be important for the performance of the job.

Comparison of Job-based pay and skill-based pay

<i>Factors</i>	<i>Job-based pay</i>	<i>Skill-based pay</i>
Paystructure	Based on job performance	Based on ability to perform
Employer's focus	Job carries wage and employee linked to job	Employee carries wage and linked to skills
Employee's focus	Job promotion to earn greater pay	Skill acquisition to earn greater pay
Procedures required	Assess job content; value jobs	Assess skills, value skills
Advantages	Pay based on value of work performed	Flexibility, reduced workforce
Disadvantages	Potential personnel bureaucracy, inflexibility	Potential personnel bureaucracy, cost control

The basic objective of skill-based pay is to attract and retain talents particularly at managerial level. While attracting and retaining talents is a critical issue for every organisation to carry on its business effectively in the age of mergers and acquisitions, organisations are facing problem of a different type. In the case of mergers and acquisitions, many key employees tend to leave the organisation to join its rivals. In such a case, skill-based pay becomes handy to retain those personnel. For example, when Madura Garments, a division of Madura Coats was taken over by Kumarmangalam Birla Group, many key managerial personnel left the division which created managerial vacuum. In order to retain similar other managers and to attract managers with similar competency, there was a salary increase of such personnel by 50-60 percent. However, managing skill based pay is not similar to managing job-based pay: the former is quite flexible.

1.8 WAGE/SALARY DIFFERENTIALS

If we take various contingent factors into account, we find that there may be differences in wage and salary structures. These differentials may be industrial and occupational, regional, organisational and personal.

Industrial and Occupational Differentials

Industrial and occupational differentials exist because of requirement of different skill set and imbalance in demand and supply of personnel having such skills. Wages and salaries are usually fixed on the basis of skills required to perform a job. Thus, highly specialised jobs requiring higher level of skills are linked with higher pay too. Coupled with this, shortage of supply of such personnel also induces the payment of higher pay. Presently, in India, various occupations based on the salary structure in descending order may be arranged as follows:

1. Consultancy
2. Financial services
3. Investment banking
4. Information technology
5. Fast-moving consumer goods
6. Advertising
7. Pharmaceuticals

8. Chemicals
9. Consumer durables
10. Electronics
11. Electricals
12. Automobiles
13. Other engineering

Similarly, differences occur in terms of various specialities-management, information technology, Accounting, engineering and others in that order. Regional Differentials. Apart from industrial and occupational differentials, there may be differences in wages and salaries region-wise also within the same industry and occupation group. Such differences are visible in different countries of the world as well as different regions within a country. Such differences exist because of the differences in cost of living pace of industrial development and lack of adequate mobility of personnel from one region to another. For example, wages and salaries are higher in metropolitan cities as compared to other cities; higher in cities as compared to rural areas.

Organisational Differentials

Different organisations falling in the same industry group and at the same location offer different wages and salaries to individuals having similar background. The main reasons for organisational differentials are organisations policy to recruit specific types of personnel and their capacity to pay. For example, most of the multinational organisations operating in India offer much higher salaries to their employees as compared to their counterparts of Indian origin. Similarly, larger organisations offer much higher salaries as compared to smaller organisations.

Personal Differentials

Wage and salary differentials exist at personal level too. Different persons having similar qualifications are offered different salaries in the same organisations. This happens because they have acquired different skills in spite of the fact that they may have similar educational background. This happens more so when skill-based pay system is adopted as against job based pay.

Implications of Wage/Salary Differentials

Wage/salary differentials have a number of implications both at macro and micro levels. At the macro level, these differentials determine the allocation

of human resources and non-human resources. This allocation determines the growth pattern in the economic system. When a particular industry or occupation offers higher wages and salaries, the economic resources are geared to develop such personnel. For example, in India, educational activities have increased in the areas of management and information technology because these areas offer higher salaries and better job opportunities.

At the micro level, wage/salary differentials show that some organisations use proactive strategy to attract better talents as compared to others. They become trend-setters rather than play the role of followers. These trend-setters set pattern not only in relation to recruitment of better personnel but in terms of other human resource management practices too.

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 Francis Walker, marginal productivity theory by Philip Wickstted and John Clark, bargaining theory by John Davidson. and behavioural 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: minimum wage, living wage, and 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 wages 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 of 2700 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 subsidised housing 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.

METHODS OF WAGE PAYMENT

In devising system of wage determination, the critical question that emerges is whether the wage will be linked to time spent on the workplace or output achieved during a specified period. This results into two types of wages-time wage and piece wage. These two basic systems have their own relative merits and demerits. Sometimes, in order to avoid hardship to employees, a combination of these two methods is followed to ensure the payment of minimum wages. This method is known as balance method. Let us see how these methods work.

Time Wage Method

In time wage method, the wage is determined on the basis of time worked which may be hourly, daily, weekly, monthly or any other time base. A worker is paid wage for the time worked irrespective of his output during that time. Perhaps, this is the oldest and most prevalent system of wage payment.

Merits of Time Wage:

This method is applied more commonly because it has certain inherent merits which are as under:

1. There are certain jobs in which output within a specified period is not easily measurable. For example, the job of a peon. In such a case wage payment is linked to time.
2. It is quite easy to understand and calculate the amount of wages to be paid. Thus, even an illiterate worker can understand it.
3. Both employers and workers know well in advance the amount of wages payable and they can adjust their budgets accordingly.
4. It ensures the payment of regular and specific wages which is beneficial from social point of view.
5. Product/service quality tends to be high as workers are not in hurry to produce more without regard to quality.

Demerits of Time Wage:

Though adopted more commonly, time wage system suffers from a number of drawbacks and if the workers are not adequately motivated for higher performance, this system can generate inefficiency in the following ways:

1. Since there is no direct linkage between performance and wages, employees tend to take easy approach.
2. This system does not differentiate between efficient and inefficient workers: gradually, inefficiency percolates to efficient workers too.
3. It demotivates efficient workers for more output as they are put at par with inefficient ones.
4. Labour cost of production becomes difficult to determine in advance because wages are not linked to output.
5. Since productivity is not a criterion for fixing wages, there is a possibility that wrong employees are placed on the job.

Various merits and demerits of time wage system suggest that this system can be followed in some jobs but not in all. This system is more suitable in the following situations:

1. Where units of output are not measurable precisely like office work.
2. Where individual employees do not have direct control on their outputs like assembly work.
3. Where quality of work is more pronounced and requires creative imagination like artistic work.
4. Where machinery and raw materials are quite sophisticated which require handling with utmost care like processing of precious metals.
5. Where work is of highly varied nature and standards of outputs cannot be ascertained like research work.
6. Where workers' unions oppose the introduction of piece rate system.
7. Where supervision is good and the supervisors can estimate a fair day's work.

Piece Wage Method

In piece wage method workers are paid wages according to the quantity of output during a specified period. This may be calculated on the basis of number of units produced or the completion of a job where output is not measurable in terms of individual units. Piece wage method too has its own merits and demerits.

Merits of Piece Wage:

Piece wage method has the following merits:

1. There is a direct relationship between output and wages which works as a motivating factor to workers to produce more.
2. It differentiates efficient and inefficient workers and provides incentives to inefficient workers to become efficient.
3. This is fair and equitable so far as utilisation of human resources is concerned.
4. It requires less supervision if there is in-built system for product quality control.
5. The organisation can estimate its cost of production well in advance because wage cost is directly proportional to output.

Demerits of Piece Wage:

Piece wage system has the following demerits:

1. There is a problem in fixing piece rate in the absence of any standardised procedure.
2. There is a tendency on the part of the employers to cut piece rate if workers' earnings are quite high.
3. The method does not ensure minimum wages as output may be adversely affected by factors beyond control.
4. The product quality and machinery conditions are likely to suffer because workers concentrate more on quantity rather than quality.
5. There may be jealousy and interpersonal conflict among workers because of their uneven earnings at the same workplace.
6. Trade unions generally oppose this system because of the fear of discrimination among workers based on their working.

Various merits and demerits of piece wage system indicate that this system is not suitable for all conditions but only to specific conditions which are as follows:

1. Where the output of each individual worker can be measured precisely.
2. Where the quantity of output is a direct result of skills and efforts of individual workers.
3. When the flow of work is regular and work interruptions do not occur.
4. Where production methods are standardised and job is of repetitive nature.
5. Where workmanship is not required.

Balance Method

Balance method also known as debt method, is essentially a combination of time wage and piece wage methods. Under this method, a worker is guaranteed a fixed wage based on time rate with a provision of piece wage method. Thus, if a worker produces more quantity in a period, usually on weekly or monthly basis, and earns more than his time wage, he is given credit for additional output which is compensated in another period in which production quantity falls below the time wage.

This method provides a sense of security to a worker so far as his wage earning is concerned. At the same time, he is also motivated to produce more because of inclusion of piece wage system. This method has its relevance in a workplace where the work flow is irregular like docks.

EXECUTIVE COMPENSATION

For the purpose of executive compensation, an executive is a person who is a member of the highest decision-making group in an organization. Chief executive officer (CEO), full-time directors and other senior managers fall in this category. Executive compensation includes base salary, bonus long-term incentives, and perquisites (perks) payable to executive. Executive compensation has become a hot topic in compensation management, both at global level as well as in India. It has become a hot topic globally because it differs from compensation plan of other employees. The difference is in the following ways:

1. Executives are in a position to fix their own compensation package within the guidelines framed by an organisation or guidelines framed by the government (in India, these guidelines exist).

2. Executive frequently operates under bonus and stock option plans that can dramatically increase their total compensation. Because of this phenomenon, the gap between executive and non-executive remuneration is widening at an alarming rate, from 80 per cent in 1980s to 400 per cent in 1990s. According to a report from Time Magazine, top five executives account for about 75 per cent of stock options while 15 per cent options are accounted by another top five per cent. These figures compel people wonder whether the CEOs are busy managing the company or the share prices.

3. Executives are offered perquisites that are not available to other category of managerial personnel. Such perquisites may include free housing, company's vehicles for personal use, free insurance, liberal expense accounts, post-retirement consulting contracts, and so on.

4. In many cases, executives have the benefit of golden parachute. It is designed by the executives as a means of protecting themselves if a merger or hostile takeover occurs. Such a parachute typically provides either a severance compensation to the departing executive or a guaranteed position in the newly created entity.

Because of economic liberalisation and consequent entry of multinationals in India, many companies are designing their executive compensation plans on the pattern of global plans. With the result, the number

of companies whose CEOs draw more than one crore rupees a year is increasing at a fast pace.

Factors Affecting Executive Compensation

For making an executive compensation plan rational, those factors should be taken into account which affect executive compensation. Such factors are as follows:

1. Complexity of the Job: The degree of complexity in an executive's job is much higher as compared to other organisational jobs. Such complexity is directly dependent on size of organisation lines of products/services, and geographical area coverage. Thus, in an organisation of large size with multilines of products/services and multi-locations, the degree of complexity in the executive's job is much higher. Naturally executives in such organisations need to be paid more. Executives of Fortune 500 companies draw much higher compensation than their counterparts in other companies.

2. Competency Required: Different jobs require different types of competencies. Organisations that operate in a comparatively stable environment (like traditional manufacturing sector) adopt mechanistic-oriented systems which require comparatively lesser flexibility and variety in executives' competencies. As against this, organisations that operate in a highly dynamic environment (like consultancy, information technology, etc.) adopt organic-oriented systems which require high flexibility and variety in executives' competencies. In the latter category organisations, the level of executive compensation tends to be higher than the former. For example, Charles Wang, CEO of Computer Associates International (USA) collected around \$650 million as salary, bonus, and stock-based incentives in 1999.

3. Capacity to Pay: Executive compensation depends on the paying 'capacity' of an organisation. Paying capacity is directly dependent on the earning capacity of the organisation. Thus, growing organisations are in a better position to pay more for its executives than stable or declining organisations; high-profit-margin organisations can pay more than low-profit-margin organisations.

4. Organisational Philosophy: Organisational philosophy regarding attracting and retaining human talents, particularly key executives, affects the level of executive compensation. An organisation which believes in getting "the best-in-class executives" pays much higher than those organisations who do not have such a belief. In fact, for many organisations, executive compensation is not a constraint because of their philosophy of hiring the best.

5. International Impact: International human resource management practices, including executive compensation practices, have their impact on the executive compensation practices of many countries. India is no exception to this. With economic liberalisation, many multinationals have entered India which pays quite high compensation to their executives. Further, Indian executives are placed by these organisations on global assignments with an opportunity for substantial saving. This practice has compelled Indian organisations to make their executive compensation level near par with that of multinationals.

6. Legal Provisions: Legal provisions also affect the level of executive compensation. In India, legal provisions exist under the Companies Act that restrict the managerial compensation. These provisions are as follows:

<i>Category of managerial personnel</i>	<i>Maximum % of profit payable</i>
A. Total remuneration payable to managerial personnel	11%
B. In case of one managing/ whole-time director	5%
C. In case of more than one managing/ whole-time director	10%

These restrictions are applicable to public limited companies and their subsidiaries. These are not applied to private limited companies. A perusal of these restrictions shows that for high profit-earning company, these restrictions hardly put any constraint in making hefty payment to their executives.

An analysis of executive compensation shows that executives get much more than what other category of employees in the same organisation get. Whether ideologically, this is justified or not but in the present era of talent war, it is justified. An old proverb "if you pay peanut, you can get only monkey" holds true in this case. Paying higher to an executive is justified provided he deserves it competence-wise.

Questions:

1. What is meaning of Compensation management?
2. What the concept of Compensation management?
3. What are objective of Compensation management?

4. What are the types of compensation management and explain?
5. What is Job evaluation and process of Job evaluation?
6. What are the method of Job evaluation?
7. Explain about executive compensation?

2.INCENTIVES

2.1 Meaning

‘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.

Definitions

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.

2.2 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.

Incentives for work

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

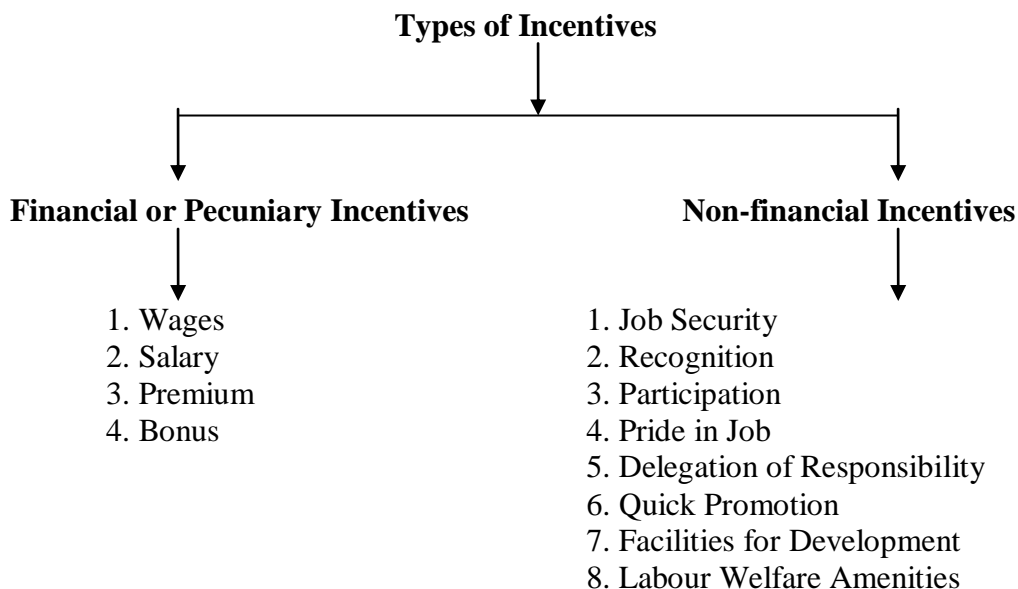
1. Desire for livelihood and fear of want.
2. Desire for approval of master and fear of punishment.
3. Desire for praise and fear of being dismissed.
4. Impulse to activity or joy in work and dislike of inactivity.
5. The moral command and fear of conscience.

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)

2.3 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:



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 every thing 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. Good 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. Good 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.

2.4 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.

2.5 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.

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 wage 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.

Categories of Incentive Plans

Incentive plans fall under two categories:

- (i) Individual incentive plans and
- (ii) Group incentive plans

In the case of individual incentive plans, an individual worker is rewarded for achieving a certain level of performance. Such plans may be further divided into:

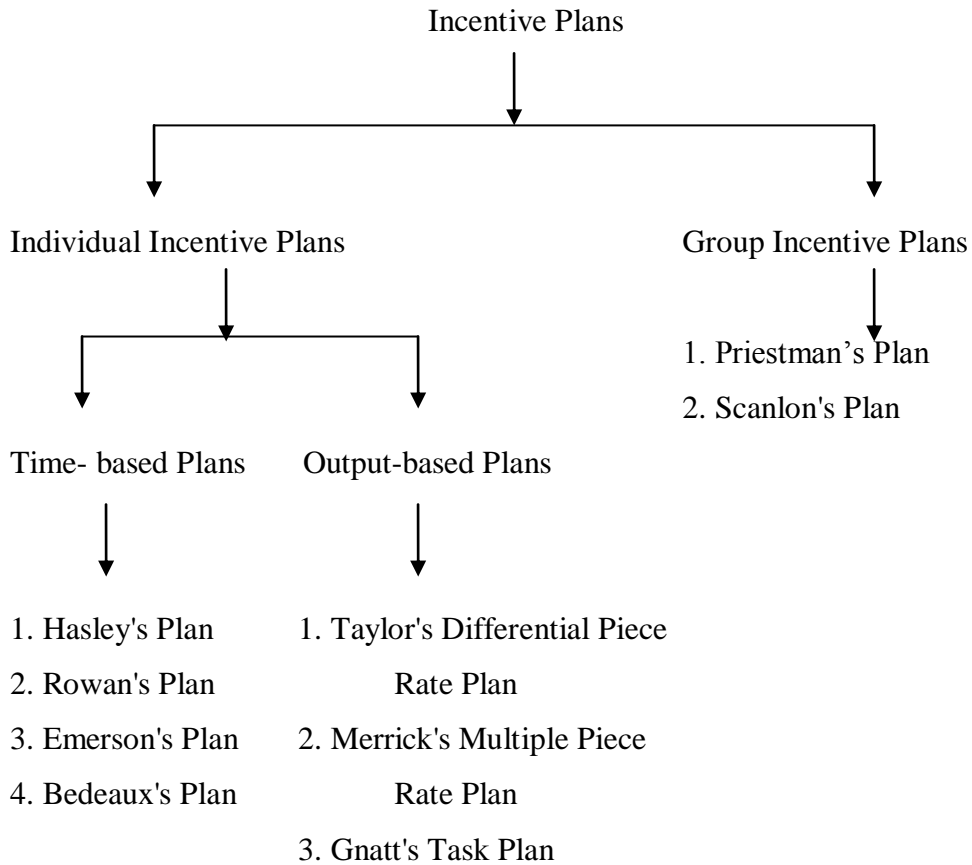
- (i) Time-based incentive plans and
- (ii) Output-based incentive plans

In the case of time-based plans, a standard time is determined for the job and the worker gets his incentive only when he completes the work in less than the standard time. Under the output-based plans, standard output is determined and the worker gets his incentive only when he produces more than the standard output.

Under the group incentive plans, incentive is determined based on the collective output of a group of workers whose work is inter-dependent. Such an amount is apportioned among the group members on an agreed basis.

The following chart explains the various individual and group incentive plans.

Various Individual and Group Incentive Plans



2.6 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:

$$\text{Bonus} = 50\% (\text{Time Saved} \times \text{Time Rate})$$

$$\text{Total Earnings} = \text{Time Rate} \times \text{Time Taken} + \text{Bonus}$$

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 of 50% 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:

$$\text{Bonus} = \% \text{ of } \frac{\text{Timesaved}}{\text{Standard Time}} \times \text{Time Wage}$$

$$\text{Total Earnings of the worker} = \text{Time Wage} + \text{Bonus}$$

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:

$$\begin{aligned} \text{Bonus} &= 75\% (\text{Standard Time} - \text{Time Taken}) \times \text{Time Rate} \\ \text{Total Earnings} &= \text{Time Wage} + \text{Bonus} \end{aligned}$$

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.

2.7 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:

1. 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:

1. 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 be 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.

2.8 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 of 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.

Questions:

1. What is definition of Incentives ?
2. What are the needs for Incentives?
3. What are the classification of Incentive and explain ?
4. What are the advantages of Incentives?
5. What are the categories of incentive plan and explain?

3. Fringe Benefits

3.1 Meaning

Benefits given to employees in addition to their salary or wage are called 'fringe benefits'.

Thus fringe benefits are those monetary and non monetary benefits given to the employees during and post employment period which are connected with employment but not to the employees contribution to the organization.

Cockmar defined those benefits which are not provided by an employer to or for the benefits of an employees and which are not in the form of wages, salaries and time related payments.

Coverage

The fringe benefits covers bonus, social security measures, retirement benefits like provident fund, gratuity, pension workmen's compensation, housing medical, canteen, Co-operative credit, consumer stores educational facilities, recreational facilities financial advice and so on.

3.2 Need

1. Employee Demands
2. Trade Union Demands
3. Employers preference
4. As a Social Security
5. To improve Human Relation

3.3 Objectives

1. To create and improve sound industrial relations.
2. To boost up employee morale.
3. To motivate the employees by identifying and satisfying their unsatisfied needs
4. To provide qualitative work environment and work life.
5. To provide security to the employees against social risk like old age benefit and maternity benefits

6. To protect the health of the employees and to provide safety to the employees against accidents
7. To promote employees welfare by providing welfare measures like recreation facilities.
8. To create sense of belongingness among employees
9. To meet requirements of various legislations relating to fringe benefits.

Factors Influencing Employee Benefit

- Absolute and per capita cost of fringe Benefit
- Organization financial ability to provide the benefits.
- Employee's deficiencies or needs.
- The bargaining strength of trade unions.
- Employee's significance to the organization.
- Fax benefits to the organization and individual employees.
- Need for building public image for the Organization.
- Organization's awareness and policy towards social responsibility.
- Employee's reactions to the benefits.

3.4 TYPES OF FRINGE BENEFITS

1. For Employment Security

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

2. Health protection

Benefits include accident insurance, disability insurance, health insurance, hospitalization, life insurance, medical care, sick benefits sick leave.

3. For Old Age and Retirement Benefits

It include deferred income e plan pension, gratuity, provident fund, old age pension old age counseling, medical benefits for retired employees, traveling concession to retired employees.

4. For Personnel Identification, Participation and Stimulation:

The category covers the following benefits: anniversary awards, attendance bonus, canteen, cooperative credit societies, educational facilities, beauty parlour services, housing, income tax aid, counseling,

quality bonus, recreational programmes, stress counseling, safety measures etc.

In addition to fringe benefits, managements provide different types of non-monetary rewards. These non-monetary rewards include:

- (i) Treats cover free lunches, festival bashes, coffee breaks, picnics, dinner with the boss, dinner for the family, birthday treats.
- (ii) Knick-Knacks cover desk accessories, company watches, tie-pins, brooches, diaries/planners, calendars, wallets and T-shirts.
- (iii) Awards include trophies, plaques, citations, certificates, scrolls, letters of appreciation.
- (iv) Social Acknowledgment includes informal recognition, recognition at office get-together, socialisation of advice, suggestions etc.
- (v) Office Environment covers redecoration, flexible hours etc.
- (vi) To kens covers movie tickets, vacation trips, early time-offs etc.
- (vii) On-the-job rewards include increased responsibility, job rotation, training etc.

3.5 Advantages of Fringe Benefits

Advantages of non-monetary rewards include:

- {i} Non-monetary rewards motivate employees to perform better.
- {ii} Non-monetary rewards build employee self-esteem.
- {iii} Employees become more loyal to the company.
- {iv} These benefits create an atmosphere where change is not resented.
- {v} These benefits can be provided without any extra cost.
- {vi} Create close bondage between the company and employee family.

3.6 Disadvantages of Fringe Benefits

The non-monetary rewards, despite the advantages discussed above, suffer from the following disadvantages.

- {i} These benefits demotivate the employees, if the processes are not transparent.
- {ii} These rewards may result in short-sighted and hasty decision-making.
- {iii} These rewards may result in unhealthy competition among employees.

{iv} Work intrudes on the home life of employees.

{v} Employees feel that managements concentrate on the non-cost programmes.

{vi} These rewards will not work, if monetary rewards are not adequate.

Questions :

1. What do you mean by Fringe benefit?
2. What are the needs for Fringe benefits?
3. What are the objectives of Fringe benefit?
4. What the types of Fringe benefit and explain?
5. What the advantages and disadvantages of Fringe benefit?

UNIT-III

Theories of wages - Wage structure - Wage fixation - Wage payment - Salary administration.

I. THEORIES OF WAGES

INTRODUCTION :

Henry George in his book *Progress and Poverty*, writes: As the employer generally makes a profit, the payment of wages is so far as he is concerned, but the return to the labourer of the portion of the capital he has received from the labour. So far as the employee is concerned it is but the receipt of a portion of the capital his labour has produced. Wages come from the direct product of the labour itself and they constitute only one part of that product. Wages is the payment received by an employee in exchange for labour. It may be in goods or services but is customarily in money. The term in a broad sense refers to what is received in any way for labour, but wages usually refer to payments to workers who are paid by the hour, in contrast to a *salary*, which implies a more fixed and permanent form of income (e.g., payment by the month rather than by the hour). In economic theory, wages reckoned in money are called nominal wages, as distinguished from real wages, i.e., the amount of goods and services that the money will buy. Real wages depend on the price level, as well as on the nominal or money wages.

WAGE ISSUES UNDER COLLECTIVE BARGAINING

Almost all contract negotiations pivot upon, and most grievances and arbitration procedures thus ultimately deal with, four major areas : (1) wages

and issues that can be directly related to wages; (2) employee benefits or economic "fringe" supplements to the basic wage rate; (3) "institutional" issues that deal with the rights and duties of employers and unions; and (4) "administrative" clauses that treat such subjects as work rules and job tenure.

Probably no issues under collective bargaining continue to give rise to more difficult problems than do wages and wage-related subjects. When negotiations reach a stalemate, they frequently do so because management and union representatives are not able to find a formula to resolve wage disputes. And wage controversies are, for that matter, by far the leading overt cause of strikes; Over the past decade, for example, they have accounted for over 40 percent of all such work stoppages.

This record highlights the vital character of wage negotiations in collective bargaining and also suggests that in the area of wages much can be done to decrease management-labour conflict substantially. In any area of human relations, ignorance breeds suspicion, distrust, and conflict; this principle of human behaviour is fully applicable to wage negotiations under collective bargaining. To the extent that understanding is substituted for ignorance, there will be a greater opportunity for peaceful settlement of wage controversies, even if conflict of interest in such matters never disappears.

It is not difficult to understand why wages do play such an important and controversial role in labour relations. For workers, wages are normally the only source of income, and the standard of living of the employee and his family is determined almost exclusively by this source. For workers' families, the weekly paycheck establishes the character and quality of their dwelling, food clothing, education, recreation, and all other items that are included in the concept of standard of living.

But if, from the point of view of the worker wages are income that establishes a standard of living, from the viewpoint of the company wages are a cost of production. And here is the heart of the wage controversy. On the one hand, employees press for higher and higher wages with the objective of raising their standard of living; on the other hand, employers are confronted with increasing pressures on the cost of production. When wages are a significant element of cost of production, when wage increases are not offset by such economic phenomena as increased efficiency, and when the union has been unable (or unwilling) to extract equal wage concessions from all competitive firms, wage increases tend to place the firm in an

undesirable economic position. A company so placed might not be able to survive for long in the competitive struggle. Under such a state of affairs, union wage policy, instead of advancing the standard of living of its members, could plunge them into economic oblivion.

In fact, as is the case perhaps with no other area of collective bargaining to that extent, wage problems test the skill, understanding, and attitudes of negotiators. The latter are, as we know, now confronted with a legion of wage issues, including the establishment of the basic wage rate, wage differentials, overtime rates, and wage adjustments during contractual periods, as well as with the thorny problems involved in the negotiation of the so-called fringe, or supplemental, wage payments, which will be discussed in the next chapter. It is hoped that the following discussion of some of the principles, practices, and trends concerning these several wage and wage-related areas will contribute to a better understanding of them.

DEFINITION OF WAGES UNDER INDIAN STATUTES

INDUSTRIAL DISPUTES ACT 1947

{(rr) "wages" means all remuneration capable of being expressed in terms of money, which would, if the terms of employment, expressed or implied, were fulfilled, be payable to a workman in respect of his employment, or of work done in such employment, and includes -

(i) such allowances (including, dearness allowance) as the workman is for the time being entitled to ;

(ii) the value of any house accommodation, or of supply of light, water, medical attendance or other amenity or of any service or of any concessional supply of foodgrains or other articles;

(iii) any travelling concession ;

(iv) any commission payable on the promotion of sales or business or both;

but does not include -

(a) any bonus;

(b) any contribution paid or payable by the employer to any pension fund or provident fund or for the benefit of the workman under any law for the time being in force;

(c) any gratuity payable on the termination of his service; }

MINIMUM WAGES ACT

(h) "Wages" means 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 (and includes house rent allowance), but does not include-

- (i) the value of
 - (a) any house accommodation, supply of light, water, medical attendance, or
 - (b) any other amenity or any service excluded by general or special order of the appropriate Government;
- (ii) any contribution paid by the employer to any Pension Fund or Provident Fund or under any scheme of social insurance;
- (iii) any travelling allowance or the value of any travelling concession;
- (iv) any sum paid to the person employed to defray special expenses entailed on him by the nature of his employment; or
- (v) any gratuity payable on discharge;

PAYMENT OF WAGES ACT

{(vi) "wages" means all remuneration (whether by way of salary, allowances, or otherwise) expressed in terms of money or capable of being so expressed which would, if the terms 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, and includes -

- (a) any remuneration payable under any award or settlement between the parties or order of a court.
- (b) any remuneration to which the person employed is entitled in respect of overtime work or holidays or any leave period;
- (c) any additional remuneration payable under the terms of employment (whether called a bonus or by any other name);

- (d) any sum which by reason of the termination of employment of the person employed is payable under any law, contract or instrument which provides for the payment of such sum, whether with or without deductions, but does not provide for the time within which the payment is to be made;
- (e) any sum to which the person employed is entitled under any scheme framed under any law for the time being in force.

but does not include -

- (1) any bonus (whether under a scheme of profit sharing or otherwise which does not form part of the remuneration payable under the terms of employment or which is not payable under any award or settlement between the parties or order of a Court;
- (2) the value of any house-accommodation, or of the supply of light, water, medical attendance or other amenity or of any service excluded from the computation of wages by a general or special order of the State Government;
- (3) any contribution paid by the employer to any pension or provident fund and the interest which may have accrued thereon;
- (4) any travelling allowance or the value of any travelling concession;
- (5) any sum paid to the employed person to defray special expenses entailed on him by the nature of his employment; or
- (6) any gratuity payable on the termination of employment in cases other than those specified in sub-clause(d)}.

Economic Theories about Wages

SUBSISTANCE THEORY OF WAGES - IRON LAW OF WAGES

Many theories have been advanced to explain the nature of wages. The first of them was the subsistence theory of wages, also called the "iron law of wages," of which David Ricardo was one of the main exponents. The theory maintains that wages cluster around the bare subsistence level of workers. A wage rate much above the subsistence level causes an increase in the number of workers; competition will then lead to a depression of wages back toward the cost of subsistence. Wages that are below subsistence reduce the size of the working population; in that case competition will raise wages, but only up to the subsistence level again.

SURPLUS VALUE THEORY

In the surplus-value theory as propounded by Karl Marx, the value produced by the worker in excess of what is paid in wages is called surplus value. The surplus value, exacted from the worker, constitutes the capitalist's profit. The wage-fund theory is that wages are advanced out of a fixed fund of capital, from which an excess withdrawal, either through legislation or through union pressure, will ultimately reduce the amount available for other workers. Any increase in wages would also have to be taken out of profits, and their reduction would cause a decline in savings, which provide the capital from which the wage fund is derived.

THE MARGINAL PRODUCTIVITY THEORY

The marginal-productivity theory maintains that employers will only pay a wage that is, at most, equal to the amount of extra value added to the total product by one additional worker. The bargaining theory modifies the marginal-productivity theory by taking into consideration other factors (e.g., laws and social and political changes) that might affect the determination of wage levels and by acknowledging that certain basic

assumptions (equal bargaining power of employer and employee, free competition between the two, and mobility of labour) that characterize the marginal-productivity theory.

Wage Theory advocated by Ricardo, David

Ricardo, David, 1772–1823, British economist, of Dutch-Jewish parentage. At the age of 20 he entered business as a stockbroker and was so skillful in the management of his affairs that within five years he had amassed a huge fortune. He then turned much of his attention to scientific topics, and in 1799, after reading Adam Smith's *The Wealth of Nations*, began to study political economy. However, 10 years elapsed before the appearance of his first writings on the subject, a series of letters to the *Morning Chronicle*. A number of pamphlets and tracts followed, in turn succeeded by Ricardo's major work, *The Principles of Political Economy and Taxation* (1817). In that book he presented most of his important theories, especially those concerned with the determination of wages and value. For the problem of wages he proposed the "iron law of wages," according to which wages tend to stabilize around the subsistence level. Any rise in wage rates above subsistence will cause the working population to increase to the point that heightened competition among the glut of labourers will merely cause their wages to fall back to the subsistence level. As far as value was concerned, Ricardo stated that the value of almost any good was, essentially, a function of the labour needed to produce it. According to his labour theory of value, a clock costing \$100 required 10 times as much labour for its production as did a pair of shoes costing \$10. Ricardo was also concerned with the subject of international trade, and for that he developed the theory of comparative advantage, still widely accepted among economists. In a now classic illustration, Ricardo explained how it was advantageous for England to produce cloth and Portugal to produce wine, as long as both countries traded freely with each other, even though Portugal

might have produced both wine and cloth at a lower cost than England did. Although his publications were often turgidly written, with little of the insight and breadth of knowledge that characterized Adam Smith's work, Ricardo was an enormously influential economic thinker. His rigidly deductive and scientific method of analysis served as a model for subsequent work in economics.

The Distribution of Wealth: A Theory of Wages, Interest and Profits

John Bates Clark (1847-1938) made important contributions to the economic debate of his time. In *The Distribution of Wealth: A Theory of Wages, Interest and Profits*, he developed the "marginal productivity" concept and the "product exhaustion" thesis behind the Marginal Productivity Theory of Distribution, which he was the first to develop in 1889, from which he then extrapolated enormous ethical conclusions. Clark believed that this theory was not only a correct theory of market incomes but demonstrated that market outcomes were just. In this book Professor Clark made the theory of marginal productivity clear enough that we take it for granted today. His work remains illuminating because of its classic explanations of the mobility of capital via its recreation while it wears out, the difference between static and dynamic models, the equivalence of rent and interest, the inability of entrepreneurs to "exploit" (meaning, underpay) labour (or capital) in a competitive market economy, the flaws of widely-quoted existing theories such as the labour theory of value and the irrelevance of rent on land, and, in a famous footnote, why von Thünen's concept of final productivity didn't go far enough. The author was Professor of Political Economy at Columbia University. He was a prominent apologist for the capitalist system whose insights influenced many other economists, including Frank Knight. He helped found the American Economic Association, serving as its president from 1893 to 1895.

Orthodox Labour Wage Theory

Equilibrium in the labour market is assumed to be optimal and self-adjusting in classical labour theory. Recognising this assumption as simplistic, Alan Stuart presents a critique of orthodox labour wage theory and discusses some alternatives.

Too often in economic analysis, labour market equilibrium is portrayed by a simple model of perfectly rational individual firms and individual workers coming together in a competitive market, where each economic agent is assumed to be motivated to maximise his own utility and arrive at a market clearing wage rate and employment level. Equally, it is too frequently assumed that any shocks to labour supply or demand necessitate adjustments in the wage rate until the labour market once again reaches competitive Walrasian equilibrium. Such a simple approach to the labour market, based upon marginal productivity theory, ignores a huge variety of specific traits associated with labour as a tradable economic commodity. Only recently have the assumptions underlying orthodox wage theory been relaxed and attention been devoted to other sub-optimal methods, of reaching equilibrium in specific labour markets, that have greater empirical validity (Thurow 1995).

Institutionalism in Labour Markets

The main area where orthodox theory has come under attack has been through the institutionalist view of labour markets. Its basic tenet is that collective bargaining on behalf of trade unions renders the assumption of individual 'atomised' wage bargaining unrealistic (Carlin and Soskice, 1990). A simple description offered by some advocates of collective

bargaining is that employers' associations and trade unions shift supply and demand curves to their consciously determined wage rate to clear the market (Brue and McConnell, 1995). Others consider it highly improbable that the wage rate resulting from collective bargaining will be the same as that which would emerge in a competitive setting, and consequently the level of unemployment would be different in the two scenarios (Masters; Moser and Reynolds, 1991).

A major issue in relation to the institutionalist viewpoint derives from theory regarding the nature and purpose of trade unions, with the point being that there is no single *raison d'être* of unions and that they may sometimes trade-off wage rate maximisation for reasons connected with the social and political welfare of members. Prominent industrial relations author Michael Salamon (1992) expresses trade unions' goals as follows, and claims that they are usually in conflict with each other: collective power, economic regulation, job regulation, social change, member services, and self-fulfilment of members. Robert Frank, in particular, has emphasised the importance of 'status' in the choice of jobs by certain unions which in certain circumstances overrides wage preferences (Elliott, 1991). Even when we safely assume that individual workers, and their collective organisations, wish to optimise their wage rate, there are a number of ways of analysing why the labour market will not necessarily reach an allocatively efficient equilibrium. A thorough analysis of two of such situations, monopsony and bilateral monopoly, can illustrate this point (Varian, 1990 and 1992).

Monopsony and Bilateral Monopoly Models

Monopsony in a labour market is a realistic assumption, since firms which have a sole right or ability to sell a particular commodity (i.e. goods market monopolies) will conversely be the sole buyers of the specific skilled

workers relevant to that industry (i.e. labour market monopsonists). The monopsonist is selling its product in a perfectly competitive market, so that the firm's marginal revenue is equal to the price received for each unit.

Bilateral Monopoly

Another quite feasible inefficient outcome is that of bilateral monopoly. In such situations, the firm is the sole buyer of the relevant specialised skilled labour needed, and a craft union or enterprise union is the sole seller of that labour. If it could, the union would set a wage level where marginal wage cost equals marginal revenue product, although this would lead to an excess employment level of ae and an equally large social loss to that described for monopsony above. Thus, in general, a bilateral monopoly will be more efficient and closer to competitive equilibrium than a monopsony market situation due to the Galbraithian countervailing power of the union (Schuster, 1983). Bilateral monopoly can approach real industrial collective bargaining structures in many industrial relations instances (Stuart, 1997).

Lagged Short-run Labour Supply

Orthodox wage theory also assumes away the difficulty in dynamic supply adjustment to long-run labour market equilibrium and the efficiency loss associated with labour supply inelasticity. Firms' marginal willingness to pay for an extra unit of labour is greater than the wage they would have to pay to workers for the extra labour.

The Cobweb Theory

A more advanced method of assessing lagged labour supply adjustment, adapted by labour economists, is the cobweb theory. The theory describes how an initial unexpected outward shift in the labour demand curve leads to prices fluctuating in a "cobweb" pattern, until the long-run equilibrium is achieved. The initial shift in demand leads to a shortage of labour, so that in effect there is a vertical short-run labour supply. However, this high wage rate leads to an increase in the number of workers willing to work and workers will eventually fill the market. The supply response equates to a shift rightwards in the vertical short-run supply. Yet, now that the quantity of workers employed is again temporarily fixed, a surplus of workers occurs. To eliminate the surplus the wage rate drops, which leads to workers slowly exiting the market. The resulting labour shortage once again leads to a wage cycle until long-run equilibrium is finally attained. This model disregards rational expectations and utilises an adaptive expectations approach to describing labour supply adjustment (Carlin and Soskice, 1990). Although the evidence for the applicability of the model has dissipated in most efficient labour markets, it can still be used to describe supply adjustments in markets which require heavy investment in human capital and training time (Freeman, 1976). It is also interesting to note that the convergent model described here contrasts with the divergent or oscillating models that would chaotically result from certain combinations of supply and demand elasticities (Jackman, Layard and Nickell, 1991). The idea that a conventional perfectly competitive approach to labour market equilibrium may only apply to certain labour markets leads to the next criticisms outlined in this paper.

Internal Labour Markets and Dual Labour Markets

A growing group of internal labour market theorists have criticised the neo-classical perspective of continuous open job competition. They have proposed that job ladders involving a sequential progression of jobs, based

upon seniority and investment in human capital, exist in many large firms involving different activities (Brue and McConnell, 1995). Consequently, jobs at the bottom rung of the job ladder (called a port of entry) are fought for competitively in an external labour market, since the firm must compete with other firms which are hiring the same kind of unskilled, unspecialised labour. On the other hand, an internal labour market which determines the recruits for higher positions on the job ladders is governed by administrative rules and seniority specific to the particular firm in question, and not the tâtonnement of external labour markets. Mulvey (1978) tried to illustrate this outcome as being Pareto sub-optimal by having a wage preference path not coincident with the output expansion path in a particular industry.

The two basic reasons for internal labour markets are that the skills required for some more senior and specialised jobs are specific to each firm and can only be learned by people within that firm; and to get a return on human capital investment, firms must employ workers for a significant period of time (Brue and McConnell, 1995). Although the resulting internal labour markets are said to allocate inefficiently, when viewed over time there are advantages which some authors refer to as dynamic efficiency. Such temporal efficiency results from the positive externalities associated with the reduced human capital investment for firms using internal labour markets and the job security and promotions which workers receive in internal labour markets, which are beneficial to both firms and workers (Salamon, 1992).

Some labour economists even extend the internal labour markets idea into a theory of segmented dual labour markets, consisting of primary and secondary labour markets. Primary labour markets are characterised by employment stability, the presence of job ladders, strong and effective trade unions and efficient management, while secondary markets have the opposite characteristics (Brue and McConnell, 1995). Although some criticise dual labour market theory for being undeveloped and excessively Marxist or Galbraithian, there has been increasing evidence of empirical

validity for the idea, due to certain industry structures and selective efficiency wage practices. Seasonal or cyclical variation in some industries will naturally lead to the development of secondary markets, while closed shop practices have proved an indomitable barrier to mobility in others. The central tenet of the argument is that, while predominantly classical wage characteristics can be seen in secondary markets, this is not the case in primary markets. (Masters, Moser and Reynolds, 1991).

Efficiency Wage Theories

In internal labour market and dual labour market theory the source of the market imperfection and involuntary unemployment lies in human capital costs and the ability of 'insider' employees to influence wage levels. In efficiency wage models, the source is the asymmetric information between employees and firms regarding their profitability (Lindbeck and Snower, 1986). Efficiency wage models explain how it is in the firm's best interests to pay a wage above the market clearing equilibrium rate in order to optimise the marginal revenue product of labour.

A number of different microeconomic underpinnings have been found to explain the phenomenon (Akerlof and Yellen, 1986). The threat of shirking on the job may prompt firms to pay an additional wage to eliminate the 'moral hazard' of employee dishonesty and improve the general morale of workers in the firm (Shapiro and Stiglitz, 1984). A corollary of this argument is Stoft's 'cheat-threat' theory which states that if the economy is nearing full employment, the threat of being fired for being caught cheating is less serious to employees, so they must be paid extra to dispel thoughts of dishonest behaviour (Stoft, 1982). Salop (1979) takes a different approach by emphasising the lower labour turnover costs associated with the decreasing quit rates, which in turn result from the above market-clearing wage rates.

A more sophisticated argument developed by some, like Weiss (1980), is that of adverse selection. Assuming that workers' abilities and dependability are positively correlated to their reservation wages, firms pay an efficiency wage in the hope of attracting the best workers. If workers underbid the efficiency wage, they stand the possibility of being regarded as 'lemons' by firms and will become involuntarily unemployed. Nevertheless, the lack of willingness to fire unproductive workers by some American firms prompted Akerlof to even suggest a sociological model based upon raising the standards of group work norms by above equilibrium wages that defies neo-classical wage theory.

An explanation for efficiency wages in less developed countries, described by Leibenstein (1986), especially relevant in the agricultural sector, says that workers need to be paid enough to be well-fed and clothed even if this means paying them a wage above their marginal product of labour, which in many sectors is even zero. All these efficiency wage models account for Pareto sub-optimal equilibria even in the absence of institutionalist or insider/outsider structures.

Conclusion

Taken together, the criticisms of orthodox wage theory illustrate how, in capitalist economies, labour market inefficiencies will arise in the absence of intervention. The simplicity of classical wage theory must be expanded upon to include the specific characteristics associated with labour as an economic commodity. While there has been disagreement over the degree to which labour market imperfections help in understanding the relationships between money, income, and unemployment, there are few adherents to the belief that neo-classical wage theory in its entirety can explain labour markets' operation. For example, many industrial relations authors claim that the worst inefficiencies and inequities of collective

bargaining have been mitigated with the rise of firm-specific 'co-determination' structures in many countries (Bean, 1994). More theoretical and empirical research into the criticisms outlined in this paper is needed before any effective policy measures to boost employment can be derived.

II. THE WAGE STRUCTURE

INTRODUCTION

The wage structure decision has to do with determining the wage rates for jobs. It combines the external marketplace considered in the pay level decision with the relative value that different jobs have to the organization. The organizational value of a job is determined through job evaluation, which in turn relies job analysis to provide the information required for the evaluation. The organizational and market values of jobs are integrated through the development of a wage structure, which defines job levels or grades, and assigns wage rates to those grades by reference to market rates.

Wage Structure Concepts

In most organizations wage and salary rates are still assigned to jobs. The relationships between the pay for jobs involve pay structure decisions. Although organizations often make pay level decisions (how much to pay) and pay structure decisions (pay relationship) at the same time, these decisions and the process by which they are reached require separate treatment. Actually, wage structures represent wage relationships of all kinds. Analysis of wage differentials of any kind (geographic, industry, community, or occupation) deals with wage structure issues. But because

our primary focus is on pay decisions in organizations, our concern is with pay differences between jobs. In fact, determining the pay structure of an organization may be usefully described as putting dollar signs on jobs. Decisions on wage relationships among jobs within an organization are largely within the control of its decision makers. Wage level decisions are usually influenced more by forces external to the organization than are wage structure decisions.

Some organizations pay for skills possessed by employees rather than for the jobs employees hold. The rationale is usually serious and continual skill shortages experienced by the organization. But most organizations measure employee contributions first in terms of the jobs employees hold. One interesting analysis of organizational compensation decisions is that pay structure decisions are intended to achieve retention of employees through prevention of dissatisfaction and encouragement of employee cooperation. Pay level decisions, in this analysis, are intended to attract employees. To this analysis could be added the statement that wage structure decisions are intended to encourage employees to make a career with the organization and to accept training in preparation for higher-level jobs.

DETERMINANTS OF THE WAGE STRUCTURE

Economic Determinants

Adam Smith explains occupational wage differentials in terms of (1) hardship, (2) difficulty of learning the job, (3) stability of employment, (4) responsibility of the job, and (5) chance for success or failure in the work. This is a theory of wage structure. But his standards of worth are equally useful in explaining the complexity of wage structure decisions. The market value of an item is the price it brings in a market where demand and supply are equal. Use value is the value an individual buyer or seller anticipates

through use of the item. Use value obviously varies among individuals and over time.

Job worth

These two concepts of worth and the concept of internal labour markets combine to explain important differences among employers in wage structure decisions. Organizations with relatively open internal labour markets (organizations in which most jobs are filled from outside) make much use of market value. They also make much use of wage and salary surveys in wage structure decisions. Conversely, organizations with relatively closed internal labour markets (most jobs are filled from inside) emphasize use value. Their analysis of job worth relies more heavily on perceptions of organization members of the relative value of jobs.

Training

Some other wage structure determinants derived from economic analysis may be noted. Training requirements of jobs in terms of length, difficulty, and whether the training is provided by society, employers, or individuals constitute a primary factor in human-capital analysis and thus job worth. The interaction of ability requirements with training requirements can yield different job values depending on the scarcity of the ability required and the number of people who try to make it in the occupation and fail.

Employee tastes

Employee tastes and preferences are another economic factor. People differ in the occupations they like and dislike. In like manner, occupations have non-monetary advantages and disadvantages of many kinds. Worker expectations of future earnings strongly influence occupational choice and thus labour supplies. Unfortunately, labour-market information is far from perfect, and responses to labour-market shortages are likely to be more prompt than responses to oversupplies.

Unions

Industrial as opposed to craft unionism has also been shown by economic analysis to affect wage structures. Industrial unions, with their heavy proportions of semiskilled members, are more likely to favor absolute increases. Although large organizations where employees are represented by industrial unions may have a highly differentiated wage structure, they pay less attention to percentage differentials than they would in the presence of craft unions.

Discrimination

Another economic determinant is discrimination. Although wage differentials based on sex or race are unlawful, they still exist. The extent to which such differences are based on productivity differences or represent discrimination is very much a wage structure issue.

Industrial Relations Explanations

Industrial relations scholars' explanations of wage structures tend to be different from those of labour economists. For instance, an employer concerned with the status of his or her organization as a dependable supplier, a considerate employer, or a wage leader is more likely to base

wage structure decisions on organization criteria than on economic forces. A short list of non-economic considerations on wage structures emphasized by industrial relations scholars would include organization goals, the health of employee-management relations, employee attitudes, employee comparisons, communication of pay decisions, and seniority policy. Also emphasized by these analysts is the force of custom.

One powerful analysis of considerations in wage structure decisions argues that wage structures keyed solely to the labour market are likely to be few, to result from very tight labour markets, and to be characteristic of organizations well insulated from product-market competition, unions, and technological change. One author classified organizations as having wage structures that are primarily oriented toward unions, markets, internally, or union-and-product. Union-oriented organizations basically have craft unions, and union-and-product oriented organizations basically have industrial unions. This classification suggests that in only one of the four market-oriented organizations, does the labour market drive the wage structure

Social Determinants

The just-price theory advocated setting wages in accordance with the pre-established status distribution: wages were to be systematically regulated to keep each class in its customary place in society. The theory emphasized equity, the tying of wages to status, and the preservation of customary relationships. But whereas social forces generally operate to maintain what is customary and accepted, market forces have been operating to narrow differentials. Market forces usually operate through the shifting of labour supplies. One reason that social forces seem to predominate is the slow reaction of supply to price. Supply shortages are more effective in raising pay than supply surpluses are in lowering it.

Organizational Determinants

Organizations develop jobs to get their work done. Labour services acquire specific economic meaning only in relation to the particular jobs in which they are performed. In our economic system, the organization typically designs jobs and selects employees to fill them. The jobs the organization designs are the source of the contributions provided by employees and a primary determinant of their rewards. Through these jobs and pay decisions about them, the organization is structuring the market for labour services. Other organizations differing in technology, management competence, competitive economics, and collective bargaining are also designing jobs. As a consequence, it is quite unlikely that the jobs designed by one organization will be identical to those of other organizations. Furthermore, the decisions that go into job design are not made once and for all, but are subject to revision, as market conditions, technology, and institutional influences change.

Employee Acceptance

The employment exchange and of equity theory suggests that a primary criterion of organization wage structures is employee acceptance. Both the employment exchange and equity theory strongly suggest that employees' decisions to acquire and retain organization membership are based on their perception of a favorable ratio of rewards to contributions. The most visible employee contribution is the job to which he or she is assigned. Most organizations base wage structures primarily on the work content of jobs and the value of that work to the organization. Work content is determined by job analysis. Relative value of work is determined by job

evaluation. Equity theory postulates that employees must accept both processes as fair if the system is to achieve its purpose.

OTHER INFLUENCES ON THE WAGE STRUCTURE

Society

People and institutions both have a hand in designing jobs and wage structures. Craft unions, for example, determine the kinds of work their members do and expect employing organizations to adjust to these decisions. Jobs for clerical workers are structured by the institutions that train them, with the result that clerical jobs are often quite similar in different organizations.

Professional employees and managers insist on having a say in the design of their jobs, and the result is influenced in part by the institutions that train them. At the other extreme are semiskilled factory employees. Organizations employing these workers are subject to little influence on job design by either employees or unions, except in job-redesign decisions. Unions of semiskilled factory workers typically insist, however, on participating in the latter decisions. This participation is guided by customary relationships among and within employee groups. Custom also operates in nonunion situations, causing resistance to change in job design.

The Labour Market

The labour market influences the wage and salary structure through the supply of labour. But organizations differ greatly on how many of their jobs are highly market-oriented, particularly in those organizations in which the labour supply is mostly provided from within the organization. Most

organizations replace the external labour market with an internal labour market that makes decisions by administrative means rather than according to supply and demand. These organizations have restricted ports of entry, which are highly sensitive to the labour market but rely on the organization's internal labour supply to fill most job openings. The exception occurs when there is an internal and external shortage of people to fill vacancies for specific skills. In fact, any job for which qualified people are in short supply becomes a market-sensitive job. But given relatively adequate labour supplies, the labour market determines wages only if the labour market: is structured by unions, is otherwise well organized, or is designed to fill openings from outside the organization.

Unions

Unions affect wage structure, but the differential effects of craft and industrial unionism and the type of bargaining relationship are considerable. Craft unions tend to determine craft rates as well as the design of craft jobs for all organizations employing members of the craft. The limit of craft rates is the cost-price resistance of employers. Industrial unions, on the other hand, are more concerned than craft unions with employing organizations, but less concerned with product markets because they often bargain with organizations in many product markets. Thus, industrial unions may attempt to impose a common wage structure on organizations, even if the wage structure clashes with product-market realities.

The Organization

Organizations whose members come largely from a well-organized and competitive labour market but are not unionized have what might be called market-oriented wage structures. Organizations of this type have

only limited choices, because jobs are easily identified and are quite uniform throughout the market. Banks, insurance companies, department stores, and restaurants are organizations with primarily market-oriented wage structures. Professionals are groups of employees whose jobs have been designed largely by the educational process they have been through. This makes for a commonality between organizations in the design of professional jobs.

Organizations having many specialized jobs, dealing in labour markets too disorganized to provide adequate grading and pricing, and lacking unionization have primarily internally determined wage structures. Such wage structures may be influenced by product markets, but only if labour cost is high relative to total cost. Internally determined wage structures result from management decisions and may range from highly rational structures flowing from job evaluation to a system of personal rates. Organizations in small towns, isolated locations, or nonunion communities provide examples, as do unique organizations in larger communities, and government employment.

JOB EVALUATION

Job evaluation is the process of methodically establishing a structure of jobs within an organization based on a systematic consideration of job content and requirements. The purpose of the job structure or hierarchy is to provide a basis for the pay structure. The job structure, as seen in foregoing paragraphs is only one of the determinants of the wage structure. But it is an important one, often used.

Job evaluation is concerned with jobs, not people. A job is a grouping of work tasks. It is an arbitrary concept requiring careful definition in the organization. Job evaluation determines the relative position of the job in

the organization hierarchy. It is assumed that as long as job content remains unchanged, it may be performed by individuals of varying ability and proficiency.

Objectives of Job Evaluation

The general purpose of job evaluation may include a number of more specific goals, including to provide a/an:

1. basis for a simpler, more rational wage structure
2. agreed-upon means of classifying new or changed jobs
3. means of comparing jobs and pay rates with those of other organizations
4. base for individual performance measurements
5. way to reduce pay grievances by reducing their scope and providing an agreed-upon means of resolving disputes
6. incentive for employees to strive for higher-level jobs
7. source of information for wage negotiations
8. data source on job relationships for use in internal and external selection, personnel planning, career management, and other personnel functions

Consultants

Consultants are sometimes employed to install job evaluation plans. Successful consultants are careful to ensure that organization members are deeply involved in installing the plan and are able to operate the plan on their own.

Consultants are most likely to be employed in small organizations where no member has the necessary expertise. They are also more likely to be employed when a complex rather than a simple plan is to be installed. Consultants often have their own ready-made plans. Sometimes consultants are brought in to insure objectivity in union-management installations. It is also common to hire consultants to evaluate management jobs, because the

objectivity of committee members rating jobs at levels higher than their own may be questioned.

Compensation Department Involvement

It is quite possible for the organization to assign installation and operation of a job evaluation plan to the compensation department. Sometimes the compensation professional heading the unit and a number of job analysts carry out the task. Those who favor this last approach emphasize the technical nature of the task. They may also be reacting to the difficulty of getting operating managers to devote the time that the program requires. While they may recognize the education and communication advantages of committees, they believe these advantages can be provided in other ways. It is doubtful that this position can be justified, though. Input by operating managers and perhaps employees during job evaluation installation is probably essential to acceptance of the results. Once the program is installed, however, there seems to be no reason why a department cannot operate it with proper provision for settling grievances.

Union Involvement in Job Evaluation

Union involvement has the same rationale as that offered in our discussion of job evaluation committees. Acceptance and understanding are the expected results of involvement.

Unions have criticized job evaluation on several grounds: (1) that it restricts collective bargaining on wages, (2) that wages shouldn't be based solely on job content, (3) that supervisors do not or cannot explain the plan

to employees, (4) that management doesn't administer the plan the way it explained it, and (5) that it is subjective.

Employee Acceptance

Job evaluation is usually judged successful when employees, unions, and organizations report satisfaction with it. Most surveys report organization satisfaction levels at 90 percent or better. Employee acceptance is the primary criterion organizations use in determining the success of a job evaluation plan. This is reflected in the increasing use of employees on job evaluation committees and in the communication steps accompanying job evaluation installations.

SUMMARY

The discussion here shows that the development of a wage structure is the result of a number of influences. These factors vary from ones over which management has a great deal of control to ones in which management must simply be responsive. Given the variety of influences, it is also not likely that organizations will always be able to develop optimum structures and that current structures will need adapting in the future.

While the economics of the labour market is a major consideration, it is not the only determinant to influence the design of wage structures. Most organizations also must consider labour-cost ratios, product market competition, and union demands, when determining their wage structure. Furthermore, many labour markets are abstractions that do not provide a close fit for an organization's jobs or wage-paying ability.

Wage structures have to do with the internal alignment of jobs in a wage hierarchy. To do this there must be a hierarchy or structure of jobs within the organization. Determining the internal job structure is the task of job evaluation. This process compares jobs, not people, in terms of a set of criteria, called compensable factors, to establish the job hierarchy. Job evaluation is a major tool that organizations use to make job comparisons when determining the

relative equity of jobs within the organization. In job evaluation there is an interesting conflict. On one hand, like wage surveys, this process requires technical expertise of a compensation professional. On the other hand, acceptability of job evaluation results relies on the perceptions of management and workers so that their participation would seem to be a necessity in job evaluation.

III. WAGE FIXATION

INTRODUCTION

In the course of the last decade, the culture of wage fixing has absorbed the notion that productivity improvement is the only sound basis for increased pay. The underlying concept which permeates the pay fixing system has thus become one in which pay increases cannot be contemplated without offsetting increases in productivity and increased productivity is a sufficient justification for increased pay. In most cases the link between pay and productivity is encapsulated in the terms of enterprise agreements whereby specific changes in work practices are required to secure specific increases in pay. In other cases, productivity measurement models are being put in place with automatic links between increases in measured productivity and pay. While there is merit in using pay increases to secure changes in work practices which enhance productivity, there is also a danger that productivity increases will be viewed as necessary and sufficient conditions for increases in pay.

The wage fixing can be divided into three categories - The basic 'minimum wage' which provides bare subsistence and is at poverty line-level, a little above is the 'fair wage' and finally the 'living wage' which comes at a comfort level. It is not possible to demarcate these levels of wage structure with any precision.

Certain principles on which wages are fixed have been stated by the Supreme Court in *Kamani Metals and Alloys v. Their Workmen*.

"Broadly speaking the first principle is that there is a minimum wage which, in any event must be paid, irrespective of the extent of profits, the financial condition of the establishment or the availability of workmen on lower wages. This minimum wage is independent of the kind of industry and applies to all alike big or small. It sets the lowest limit below which wages cannot be allowed to sink in all humanity. The second principle is that wages must be fair, that is to say, sufficiently high to provide a standard family with food, shelter, clothing, medical care and education of children appropriate for the workmen but not at a rate exceeding his wage earning capacity in the class of establishment to which he belongs. A fair wages is thus related to the earning capacity and the workload. It must, however, be realised that 'fair wage' is not 'living wage' by which is meant a wage which is sufficient to provide not only the essential above mentioned but a fair measure of frugal comfort with an ability to provide for old age and evil days. Fair wage lies between minimum wage, which must be paid in any event, and the living wage, which is the goal".

Minimum Wages. - The expression "minimum wages" is not defined in the Act presumably because it would not be possible to lay down a uniform minimum wages for all industries throughout the country on account of different and varying conditions prevailing from industry to industry and from one part of the country to another. It was held in *Hydro (Engineers) Private Ltd., v. The Wrokmn*, that :-

"The concept of minimum wages takes in the factor of the prevailing cost of essential commodities whenever such minimum wage is to be fixed. The idea of fixing such wages in the light of cost of living at a particular juncture of time and neutralising the rising prices of essential commodities by linking up scales of minimum wages with the cost of living index cannot, therefore be said to be alien to the concept of minimum wage. Furthermore in the light of spiralling of prices in recent years, if the wage scales are to be

realistic it may become necessary to fix them so as to neutralise at least partly the price rise in essential commodities".

Components of a minimum wages. - A minimum wage must provide not merely for the bare subsistence of life but for the preservation of the efficiency of the worker, and, so it must also provide for some measure of education, medical requirements and amenities. The concept of minimum wage does not mean a wage that enables the worker to cover his bare physical need and keep himself just above starvation. The capacity of the employer to pay is irrelevant in fixing minimum wage. Therefore, no addition shall be made to the components of the minimum wage, which would take the minimum wage near the lower level of the fair wage. In *Unichay v. State of Kerala*, it was held that "the Act contemplates that minimum wage rates should be fixed in the scheduled industries with the dual object of providing subsistence and maintenance of the worker and his family and preserving his efficiency as a worker".

The Tripartite Committee of the Indian Labour Conference (1957) accepted the following five norms for the fixing of 'minimum wage' :-

- (i) In calculating the minimum wage, the standard working class family should be taken to consist of 3 consumption units for one earner ; the earnings of workmen, children and adolescents should be disregarded.
- (ii) Minimum food requirement should be calculated on the basis of a net intake of calories, as recommended by Dr. Aykroyd for an average Indian adult of moderate activity.
- (iii) Clothing requirements should be estimated at per capita consumption of 18 yards per annum which would give for the average workers family of four, a total of 72 yards.
- (iv) In respect of housing, the rent corresponding to the minimum area provided for under Government Industrial Housing Scheme should be taken into consideration in fixing the minimum wage.

- (v) Fuel, lighting and other 'miscellaneous' items of expenditure should constitute 20% of the total minimum wage.

It was held in *Workmen of Reptakos Brett & Co. Ltd., V. Management*, that a worker's wage is no longer a contract between an employer and an employee. It has the force of collective bargaining under the labour laws. Each category of the wage structure has to be tested at the anvil of social justice which is the live-fibre of our society today. Keeping in view the socio-economic aspect of the wage structure one more component to minimum wage should be added, namely, children education, medical requirement, minimum recreation including festivals/ceremonies and provision for old age, marriages, etc. should further constitute 25% of the total minimum wage.

It was further held that the wage structure which approximately answers the above six components is nothing more than a minimum wage at subsistence level. The employees are entitled to the minimum wage at all times and under all circumstances. An employer who cannot pay the minimum wage has no right to engage labour and no justification to run the industry.

In *People's Union for Democratic Rights v. Union of India* it was held by the Supreme Court that where children below the age of 14 years are employed in violation of the *Employment of Children Act, 1938* and minimum wages are denied either to such children or to other persons who by reason of poverty or socially or economically disadvantageous position are unable to approach the Court, legal redress may be sought on their behalf by any member of public.

Fair wages. - There is difference between minimum wages and fair wages. In case of fair wage, besides the principle of industry-cum-region, the company's capacity to bear the financial burden must receive due

consideration. But mere hopeful observations made in the director's annual report cannot be basis for awarding increased wages because such observations are sometimes made to inspire hope and confidence in shareholders and they cannot be a substitute for actual audited figures.

S.A.F.L. Works v. State Industrial Court, Nagpur, is a leading case on the point. In this case the Supreme Court observed that in fixing the paying capacity the Tribunal will have to fix the income as well as permitted deductions and allowances properly incurred. There can be no dispute that expenses incurred for purchase of raw material, maintenance of the factory, expenses incurred towards, rent, public charges, maintenance of the establishment and expenses incurred in marketing of the produce should be deducted. These items are not exhaustive. As to whether a particular item of expenditure is liable to be deducted or not have to be determined on the facts of the case. No deduction should be allowed for payment of income tax or for allowances made for depreciation or for making provision for reserve. So far as expenses incurred towards payment of wage bill inclusive of dearness allowances, bonus, gratuity, etc. are concerned they will have to be deducted. After properly determining the paying capacity of the industry the Tribunal will have to proceed to fix fair wages which would include the fitment, scale of wages and dearness allowance. While after fixing the above the Tribunal will have to determine as to from which date retrospective effect will have to be given for payment of the wages thus fixed. As the paying capacity will have to be re-determined the wage including fitment, scale of wages, dearness allowance, period during which retrospective effect is to be given will have to be determined afresh.

It was held in Transport Corpn. of India Ltd., V. State of Maharashtra & others, that it is not for the Labour Court or "Tribunal to fix the minimum rate of wages. While fixing fair rates of wages the courts or tribunals take into consideration the minimum rates of wages and where the Government has not fixed the minimum rates of wages then the courts or tribunals

ascertain for themselves what would be the minimum rate of wages. In fact minimum rate of wages are fixed by the Government, Courts or tribunals, merely ascertain what are the minimum rates of wages for the purpose of deciding 'fair wages'.

Living wage. - The Fair Wage Committee in its report published by Government of India, Ministry of Labour in 1949 defined the 'living wage' as under :

"The living wage should enable the male earner to provide for himself and his family not merely the bare 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 the more important misfortunes including old age".

Wage Determination in Conventional Economic Theory

Conventional economic theory postulates that wages are determined by the balance of supply and demand in the labour market. In a competitive market, which is free of major imperfections, the structure of wages, which results from the play of market forces, will allocate labour within the market in a manner which will maximise output. This is the concept of the wage as the mechanism by which allocative efficiency will be achieved. It is a concept of efficiency which is relevant to the whole economy, to occupational or industrial labour markets within it and to individual enterprises.

Productivity and Wages at the Economy-Wide Level

Since the behaviour of wages is considered by most governments to be of central importance to the achievement of many of their most sensitive policy objectives, such as inflation and unemployment, economic policy will frequently be directed to achieve moderation

in wages growth. It is in this context that a link may be made between wages and productivity growth at the macroeconomic level.

A problem with this policy in practice is that productivity will increase in some individual firms more rapidly than the national average and will increase more slowly than the average in others. If wages rise throughout the labour force at a uniform rate in line with the growth rate of productivity averaged across all firms, the unit labour costs of the former group of firms will tend to fall while they will tend to rise in the latter group. Now, in order for the price level to remain stable on average, other things being equal, prices must fall where unit labour costs fall and rise only where unit labour costs rise. Under this regime, changes in the structure of wages between industries will not occur in such a way as to reallocate labour in an optimal fashion, except under highly restrictive assumptions about price and income elasticities of demand.

It would not be appropriate to base macroeconomic wage policy on a productivity-gearred principle for any prolonged period of time and that has not happened in any major country. To do so would be to distort the structure of relative wages such that the wage would fail to perform its role of allocating labour to the areas in which demand was highest and away from the areas in which demand was lowest. The attraction of a productivity-gearred wage policy is simply that it satisfies the requirements of anti-inflation policy while still meeting a criterion of appearing to be 'fair' in that it permits wages and other incomes such as profits to grow in line with national productivity. From time to time, average productivity growth has been specifically utilised as a criterion of national wages policy in countries such as the UK and Australia.

Measurement of productivity change at national level has been the subject of some controversy in recent times. The concept of productivity change as indicated by changes in Average Labour Productivity has been favoured.

Investment, Technical Change, Productivity and Wages

As a general rule increased productivity at the level of the firm should only be reflected in increased pay where some direct contribution from the workforce is the source of the increased productivity. Under macroeconomic wages policies of the kind discussed earlier, a productivity criterion is sometimes employed without making any distinction between capital and labour as the source of the increased productivity. This is because such policies usually have an overriding economic objective, such as preventing inflation or reducing unemployment, which can only be achieved by obtaining the cooperation of unions, employers and other institutions.

Wages, Productivity and Technical Efficiency

Recall that economic theory assumes that firms operate in a technically efficient way. In practice, in an environment in which the wage-work contract is the outcome of a bargaining process over many years between unions and employers with intervention by the Industrial Relations Commission, many work practices have grown up which prevent technical efficiency being achieved. Restrictive work practices of various kinds have traditionally been rife in industry and, when coupled with such things as demarcation rules, ensure that many firms will operate at rather less than technical efficiency. Productivity-related pay policies can seek to eliminate or reduce these inefficient practices by offering employees pay increases to abandon them. Increased productivity results from the elimination of the inefficient work practices or the acceptance of new practices and may simultaneously provide for increased pay for employees and increased profit for employers. Such a process is unambiguously desirable from an economic point of view so long as it is based on a genuine buy-out of restrictive practices. However, by definition, it is of limited potential since it cannot continue to underpin pay determination after all of the restrictive practices which employees are willing to trade-off are gone. The sorts of efficiencies which the workforce may contribute to achieving technical efficiency are well illustrated by the productivity improvements which have been negotiated within the enterprise bargaining process nationally since 1993.

Efficiency Wage

The concept of efficiency wages is relevant here also. Efficiency wage theory postulates that high wages, above the market rate, will bring about high productivity since the effort workers put into their work is held to be a function of the wage rate. Four reasons are usually advanced to explain why it is that workers will put more effort into their work when they are paid wages above the market rate; since workers earn more in the firm paying the efficiency wage than they could in the external market they will work as efficiently as possible in order to avoid the high costs which would be incurred if they were dismissed for shirking or poor work; high wages discourage voluntary quits – which economises on turnover costs and thereby raises productivity; high wages attract high quality recruits into the firm and high quality workers are the most productive;

Conclusions

At enterprise level, increases in wages in reflection of increased productivity may be justified on economic grounds where:

- psychological and sociological theories hold that high wages will generate high morale amongst workers and that this will lead to high productivity.
- the employees concerned take action to eliminate restrictive work practices or adopt new practices or methods of working which directly contribute to the increase in productivity;
- a policy of relatively high pay attracts a matching increase in productivity from the workforce along the lines of the efficiency wages model;
- productivity-related pay increases are restricted to changes in productivity resulting directly from some contribution on the part of the employees concerned and do not permit employees to capture increases in productivity generated by changes in technology with no contribution from labour.
- productivity change may be measured through some agreed mechanism, such as a continuous performance measurement mechanism, or may be explicitly agreed to in the form of future targets or milestones in a productivity agreement.

IV. WAGE PAYMENT

The payment of wages in India is regulated by four Industrial Statutes. They are :

- (1) The Payment of Wages Act, 1936,
- (2) The Minimum Wages Act, 1948,
- (3) The Equal Remuneration Act, 1976,
- (4) The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979.

The wages paid in India are by far below the wages paid in other countries. It is claimed that US \$ 2 per day is below subsistence level. In India, even wages of Rs.10 per day, Rs.20 per day or Rs.30 per day is paid to workmen. The Minimum Wages Act has been mistaken by the concerned State Governments and the Area Administration in fixing the minimum wage. Very low wages are fixed by the Authorities of Minimum Wages Act. Some of the Industries do not even guarantee payment of wages. The Industrial Laws in India are totally out-moded and is not in tune with the demand of the working class, much less the global community. It is high time that new laws are enacted to safeguard the interest of the working community in India. In the following paragraphs, we are going through the above listed statutes.

THE PAYMENT OF WAGES ACT, 1936

INTRODUCTION

In 1926 Government of India wrote to Local Governments to ascertain the position with regard to the delays which occurred in the payment of wages to the person employed in Industry. Material so collected was placed before the Royal Commission on Labour which was

appointed in 1929. On the report of the Commission Government of India re-examined the subject and in February, 1933 the Payment of Wages Bill, 1933, was introduced in the Legislative Assembly and circulated for the purpose of eliciting opinions. A motion for the reference of the Bill to a Select Committee was tabled but the motion could not be passed and the Bill lapsed. In 1935 the Payment of Wages Bill, based upon the same principles as the earlier Bill of 1933 but thoroughly revised was introduced in the Legislative Assembly on 15th February, 1935. The Bill was referred to the Select Committee. The Select Committee presented its report on 2nd September, 1935. Incorporating the recommendations of the Select Committee the Payment of Wages Bill, 1935 was again introduced in the Legislative Assembly.

Purpose of the Act :

An Act to regulate the payment of wages of certain classes of [employed persons].

Important Provisions of the Act :

Section 3. Responsibility for payment of wages. - Every employer shall be responsible for the payment to persons employed by him of all wages required to be paid under this Act:

Provided that, in the case of persons employed (otherwise than by a contractor)-

- (a) in factories, if a person has been named as the manager of the factory under [clause (f) of sub-section(1)of section 7 of the Factories Act, 1948 (63 of 1948)]

[(b) in industrial or other establishment, if there is a person responsible to the employer for the supervision and control of the industrial or other establishments;]

(c) upon railways (otherwise than in factories), if the employer is the railway administration and the railway administration has nominated a person in this behalf for the local area concerned,

the person so named, the person so responsible to the employer, or the person so nominated, as the case may be [shall also be responsible] for such payment.

Section 4. Fixation of wage-periods.-(1) Every person responsible for the payment of wages under section 3 shall fix periods (in this Act referred to as wage-periods in respect of which such wages shall be payable.

(2) No wage-period shall exceed one month.

Section 5. Time of payment of wages. - (1) The wages of every person employed upon or in -

(a) any railway, factory or [industrial or other establishment) upon or in which less than one thousand persons are employed, shall be paid before the expiry of the seventh day,

(b) any other railway, factory or [industrial or other establishment], shall be paid before the expiry of the tenth day,

after the last day of the wage-period in respect of which the wages are payable:

[Provided that in the case of persons employed on a dock, wharf or jetty or in a mine, the balance of wages found due on completion of the final tonnage account of the ship or wagons loaded or unloaded, as the case

may be, shall be paid before the expiry of the seventh day from the day of such completion.]

(2) Where the employment of any person is terminated by or on behalf of the employer, the wages, earned by him shall be paid before the expiry of the second working day from the day on which his employment is terminated;

[Provided that where the employment of any person in an establishment is terminated due to the closure of the establishment for any reason other than a weekly or other recognised holiday, the wages earned by him shall be paid before the expiry of the second day from the day on which his employment is so terminated.]

(3) The State Government may, by general or special order, exempt, to such extent and subject to such conditions as may be specified in the order, the person responsible for the payment of wages to persons employed upon any railway (otherwise than in a factory) [or to persons employed as daily-rated workers in the Public Works Department of the Central Government of the State Government] from the operation of this section in respect of the wages of any such person or class of such persons;

[Provided that in the case of persons employed as daily-rated workers as aforesaid, no such order shall be made except in consultation with the Central Government.]

(4) [Save as otherwise provided in sub-section (2), all payments] of wages shall be made on a working day.

Section 6. Wages to be paid in current coin or currency notes. - All wages shall be paid in current coins or currency notes or in both;

[Provided that the employer may, after obtaining the written authorisation of the employed person, pay him the wages either by cheque or by crediting the wages in his bank account.]

Section 7. Deductions which may be made from wages - (1) Notwithstanding the provisions of sub-section (2) of section 47 of the Indian Railways Act, 1890 (9 of 1890), the wages of an employed person shall be paid to him without deductions of any kind except those authorised by or under this Act.

[Explanation 1] - Every payment made by the employed person to the employer or his agent shall, for the purposes of this Act, be deemed to be a deduction from wages.

[Explanation II, - Any loss of wages resulting from the imposition, for good and sufficient cause, upon a person employed of any of the following penalties, namely :-

- (i) the withholding of increment or promotion (including the stoppage of increment at an efficiency bar);
- (ii) the reduction to a lower post or time scale or to a lower stage in a time scale; or
- (iii) suspension;

shall not be deemed to be a deduction from wages in any case where the rules framed by the employer for the imposition of any such penalty are in conformity with the requirement, if any, which may be specified in this behalf by the State Government by notification in the Official Gazette.]

(2) Deductions from the wages of an employed person shall be made only in accordance with the provisions of this Act, and may be of the following kinds only, namely:-

- (a) fines;
- (b) deductions for absence from duty;
- (c) deductions for damage to or loss of goods expressly entrusted to the employed person for custody, or for loss of money for which he is required to account, where such damage or loss is directly attributable to his neglect or default;
- [(d) deductions for house-accommodation supplied by the employer or by Government or any housing board set up under any law for the time being in force (whether the Government or the board is the employer or not) or any other authority engaged in the business of subsidising house-accommodation which may be specified in this behalf by the State Government by notification in the Official Gazette;]
- (e) deductions for such amenities and services supplied by the employer as the State Government [or any officer specified by it in this behalf] may, by general or special order, authorise;

Explanation-The word "services" in [this clause] does not include the supply of tools and raw materials required for the purposes of employment;

[(f) deductions for recovery of advances of whatever nature (including advances for travelling allowance or conveyance allowance), and the interest due in respect thereof, or for adjustment of over-payments of wages.

(ff) deductions for recovery of loans made from any fund constituted for the welfare of labour in accordance with the rules approved by the State Government, and the interest due in respect thereof;

(fff) deductions for recovery of loans granted for house-building or other purposes approved by the State Government, and the interest due in respect thereof;]

(g) deductions of income-tax payable by the employed person;

(h) deductions required to be made by order of a Court or other authority competent to make such order;

(i) deductions for subscriptions to and for repayment of advances from any provident fund to which the Provident Funds Act, 1925 (19 of 1925), applies or any recognized provident fund as defined in section 58 A of the Indian Income-Tax Act, 1922 (11 of 1922) or any provident fund approved in this behalf by the State Government, during the continuance of such approval;

(j) deductions for payments to co-operative societies approved by the State Government [or any officer specified by it in this behalf] or to a scheme of insurance maintained by the Indian Post Office, [and]

[[k) deductions, made with the written authorisation of the person employed for payment of any premium on his life insurance policy to the Life Insurance Corporation of India established under the Life Insurance Corporation Act, 1956 (31 of 1956), or for the purchase of securities of the Government of India or of any State Government or for being deposited in any Post Office Savings Bank in furtherance of any savings scheme of any such Government.]]

[[kk) deductions made, with the written authorisation of the employed person, for the payment of his contribution to any fund constituted by the employer or a trade union registered under the Trade Unions Act, 1926 (16 of 1926), for the welfare of the employed persons or

the members of their families, or both, and approved by the State Government or any officer specified by it in this behalf, during the continuance of such approval;

(kkk) deductions made, with the written authorisation of the employed person, for payment of the fees payable by him for the membership of any trade union registered under the Trade Unions Act, 1926 (16 of 1926);]

[(l) deductions, for payment of insurance premia on Fidelity Guarantee Bonds;

(m) deductions for recovery of losses sustained by a railway administration on account of acceptance by the employed person of counterfeit or base coins or mutilated or forged currency notes;

(n) deductions for recovery of losses sustained by a railway administration on account of the failure of the employed person to invoice, to bill, to collect or to account for the appropriate charges due to that administration, whether in respect of fares, freight, demurrage, wharfage and crantage or in respect of sale of food in catering establishments or in respect of sale of commodities in grain shops or otherwise;

(o) deductions for recovery of losses sustained by a railway administration on account of any rebates or refunds incorrectly granted by the employed person where such loss is directly attributable to his neglect or default;]

[(p) deductions, made with the written authorisation of the employed person, for contribution to the Prime Minister's National Relief Fund or to such other Fund as the Central Government may, by notification in the Official Gazette, specify;]

[(q) deductions for contributions to any insurance scheme framed by the Central Government for the benefit, of its employees.]

(3) Notwithstanding anything contained in this Act, the total amount of deductions which may be made under sub-section (2) in any wage-period from the wages of any employed person shall not exceed -

- (i) in cases where such deductions are wholly or partly made for payments to co-operative societies under clause (j) of sub-section (2), seventy-five per cent, of such wages, and
- (ii) in any other case, fifty per cent, of such wages;

Provided that where the total deduction authorised under sub-section (2) exceed seventy-five per cent, or as the case may be, fifty per cent, of the wages, the excess may be recovered in such manner as may be prescribed.

(4) Nothing contained in this section shall be construed as precluding the employer from recovering from the wages of the employed person or otherwise any amount payable by such person under any law for the time being in force other than the Indian Railways Act, 1890 (9 of 1890).]

THE MINIMUM WAGES ACT, 1948

INTRODUCTION

The concept of minimum wages first evolved with reference to remuneration of workers in those industries where the level of wages was substantially low as compared to the wages for similar types of labour in other industries.

As far back as 1928, the International Labour Conference of International Labour Organisation, at Geneva, adopted a draft convention on minimum wages requiring the member countries to create and maintain a machinery whereby minimum rates of wages can be fixed for workers employed in industries in which no arrangements exist for the effective regulation of wages and where wages are exceptionally low. Also, at the Preparatory Asian Regional Labour Conference of International Labour Organisation held at New Delhi in 1947 and then at the 3rd session of the Asian Regional Labour Conference, it was approved that every effort should be made to improve wage standards in industries and occupations in Asian Countries, where they are still low.

Thus, the need of a legislation for fixation of minimum wages in India received an impetus after World War II, on account of the necessity of protecting the interest of demobilised personnel seeking employment in industries. A Bill to provide for machinery for fixing and revision of minimum wages was prepared and discussed at the 7th session of the Indian Labour Conference in November, 1945. It was introduced in the Central Legislative Assembly on 11th April, 1946.

2. The Bill provides for fixation by the Provincial Government of minimum wages for employments covered by Schedule to the Bill. The items in the Schedule are those where sweated labour is more prevalent or where there is a big chance of exploitation of labour. After sometime, when some experience is gained, more categories of employment can be added and the Bill provides for addition to the Schedule. A higher period is allowed for fixation of minimum wages for agricultural labour as administrative difficulties in this case will be more than in other employments covered by the Schedule. The Bill provides for periodical revision of wages fixed.

3. Provisions had been made for appointment of Advisory Committees and Advisory Boards, the latter for co-ordination work of the

Advisory Committees. The Committees and the Boards will have equal representation of employers and workmen. Except on initial fixation of minimum wages, consultation with the Advisory Committee will be obligatory on all occasions of revision.

4. In cases where an employer pays less than the minimum wages fixed by the provincial Government a summary procedure has been provided for recovery of the balance with penalty and subsequent prosecution of the offending party.

5. It is not ordinarily proposed to make any exemptions in regard to employees of undertakings belonging to the Central Government except the difficulties might arise when the sphere of duty of such an employer covers more than one province and where the rates of minimum wages fixed by the different provinces may be different. For this purpose a provision has been included that the minimum wages fixed by a Provincial Government will not apply to employees in any undertaking owned by the Central Government or employees of a Federal Railway, except with the consent of the Central Government.

Purpose of the Act :

An Act to provide for fixing minimum rates of wages in certain employments.

Important Provisions of the Act :

Section 3. Fixing of minimum rates of wages. - [(1) The appropriate Government shall, in the manner hereinafter provided, -

[(a) fix the minimum rates of wages payable to employees employed in an employment specified in Part I or Part II of the Schedule and in an employment added to either Part by notification under section 27:

Provided that the appropriate Government may, in respect of employees employed in an employment specified in Part II of the Schedule, instead of fixing minimum rates of wages under this clause for the whole State, fix such rates for a part of the State or for any specified class or classes of such employment in the whole State or part thereof;]

(b) review at such intervals, as it may think fit, such intervals not exceeding five years, the minimum rates of wages so fixed and revise the minimum rates, if necessary :

[Provided that where for any reason the appropriate Government has not reviewed the minimum rates of wages fixed by it in respect of any scheduled employment within any interval of five years, nothing contained in this clause shall be deemed to prevent it from reviewing the minimum rates after the expiry of the said period of five years and revising them, if necessary, and until they are so revised the minimum rates in force immediately before the expiry of the said period of five years shall continue in force.]

(1A) Notwithstanding anything contained in sub-section (1), the appropriate Government may refrain from fixing minimum rates of wages in respect of any scheduled employment in which there are in the whole State less than one thousand employees engaged in such employment, but if at any time the appropriate Government comes to a finding after such inquiry, as it may make or cause to be made in this behalf, that the number of employees in any scheduled employment in respect of which it has refrained from fixing minimum rates of wages has risen to one thousand or more, it shall fix minimum rates of wages payable to employees in such employment [as soon as may be after such finding].]

(2) The appropriate Government may fix -

(a) a minimum rate of wages for time work (hereinafter referred to as 'a minimum time rate');

- (b) a minimum rate of wages for piece work (hereinafter referred to as 'a minimum piece rate');
- (c) a minimum rate of remuneration to apply in the case of employees employed on piece work for the purpose of securing to such employees a minimum rate of wages on a time work basis 9hereinafter referred to as 'a guaranteed time rate');
- (d) a minimum rate (whether a time rate or a piece rate) to apply in substitution for the minimum rate which would otherwise be applicable, in respect of overtime work done by employees (hereinafter referred to as 'overtime rate').

[(2A) Where in respect of an industrial dispute relating to the rates of wages payable to any of the employees employed in a scheduled employment, any proceeding is pending before a Tribunal or National Tribunal under the Industrial Disputes Act, 1947 (14 of 1947) or before any like authority under any other law, for the time being in force, or an award made by any Tribunal, National Tribunal or such authority is in operation, and notification fixing or revising the minimum rates of wages in respect of the scheduled employment is issued during the pendency of such proceeding or the operation of the award, then, notwithstanding anything contained in this Act, the minimum rates of wages so fixed or so revised shall not apply to those employees during the period in which the proceeding is pending and the award made therein is in operation or, as the case may be, where the notification is issued during the period of operation of an award, during that period; and where such proceeding or award relates to the rates of wages payable to all the employees in the scheduled employment, no minimum rates of wages shall be fixed or revised in respect of that employment during the said period.]

(3) In fixing or revising minimum rates of wages under this section, -

- (a) different minimum rates of wages may be fixed or -
 - (i) different scheduled employments;
 - (ii) different classes of work in the same scheduled employment;
 - (iii) adults, adolescents, children and apprentices;
 - (iv) different localities;

[(b) minimum rates of wages may be fixed by any one or more of the

following wage-periods, namely:-

- (i) by the hour,
- (ii) by the day,
- (iii) by the month, or
- (iv) by such other larger wage-period as may be prescribed, and where such rates are fixed by the day or by the month, the manner of calculating wages for a month or for a day, as the case may be, may be indicated:]

Provided that where any wage-periods have been fixed under section 4 of the Payment of Wages Act, 1936 (4 of 1936), minimum wages shall be fixed in accordance therewith.

Section 4. Minimum rates of wages. - (1) Any minimum rate of wages fixed or revised by the appropriate Government in respect of scheduled employments under section 3 may consist of -

(i) a basic rate of wages and a special allowance at a rate to be adjusted, at such intervals and in such manner as the appropriate Government may direct, to accord as nearly as practicable with the variation in the cost of living index number applicable to such workers (hereinafter referred to as the 'cost of living allowance') ; or

(ii) a basic rate of wages with or without the cost of living allowance, and the cash value of the concessions in respect of supplies of essential commodities at concession rates, where so authorised; or

(iii) an all-inclusive rate allowing for the basic rate, the cost of living allowance and the cash value of the concessions, if any.

(2) The cost of living allowance and the cash value of the concessions in respect of supplies of essential commodities at concession rates shall be computed by the competent authority at such intervals and in accordance with such directions as may be specified or given by the appropriate Government.

Section 5. Procedure for fixing and revising minimum wages.- (1) In fixing minimum rates of wages in respect of any scheduled employment for the first time under this Act or in revising minimum rates of wages so fixed, the appropriate Government shall either -

- (a) appoint as many committees and sub-committees as it considers necessary to hold enquiries and advise it in respect of such fixation or revision, as the case may be, or
- (b) by notification in the Official Gazette, publish its proposals for the information of persons likely to be affected thereby and specify a date, not less than two months from the date of the notification, on which the proposals will be taken into consideration.

(2) After considering the advice of the committee or committees appointed under clause (a) of sub-section (1), or as the case may be, all representations received by it before the date specified in the notification under clause (b) of that sub-section, the appropriate Government shall, by

notification in the Official Gazette, fix, or as the case may be, revise the minimum rates of wages in respect of each scheduled employment, and unless such notification otherwise provides, it shall come into force on the expiry of three months from the date of its issue :

Provided that where the appropriate Government proposes to review the minimum rates of wages by the mode specified in clause (b) of sub-section (1), the appropriate Government shall consult the Advisory Board also.]

THE EQUAL REMUNERATION ACT, 1976

INTRODUCTION

The Constitution of India - Part IV relating to the Directive Principles of State Policy - article 39 envisages that the State shall direct its policy, among other things, towards securing that there is equal pay for equal work for both men and women. In order to give effect to this provision, in the year which was being celebrated as the International Women's Year, President of India promulgated the Equal Remuneration Ordinance, 1975. On 26th September, 1975 to provide for the payment of equal remuneration to men and women workers and for the prevention of discrimination, on the ground of sex, against women in the matter of employment. To replace the said Ordinance of 1975 the Equal Remuneration Bill was introduced in the Parliament.

The purpose of the Act :

An Act to provide for the payment of equal remuneration to men and women workers and for the prevention of discrimination, on the ground of sex, against women in the matter of employment and for matters connected therewith or incidental thereto.

The important provisions of the Act:

Section 4: Duty of employer to pay equal remuneration to men and women workers for same work or work of a similar nature. - (1) No

employer shall pay to any worker, employed by him in an establishment or employment, remuneration, whether payable in cash or in kind, at rates less favourable than those at which remuneration is paid by him to the workers of the opposite sex in such establishment or employment for performing the same work or work of a similar nature.

(2) No employer shall, for the purpose of complying with the provisions of sub section (1), reduce the rate of remuneration of any worker.

(3) Where, in an establishment or employment, the rate or remuneration payable before the commencement of this Act for men and women workers for the same work or work of a similar nature are different only on the ground of sex, then the higher (in cases where there are only two rate), or, as the case may be, the highest (in cases where there are more than two rates), of such rates shall be the rate at which remuneration shall be payable, on and from such commencement to such men and women workers.

Provided that nothing in this sub-section shall be deemed to entitle a worker to the revision of the rate of remuneration payable to him or her with reference to the service rendered by him or her before the commencement of this Act.

Section 5: No discrimination to be made while recruiting men and women workers.- On and from the commencement of this Act, no employer shall while making recruitment for the same work or work of a similar nature, [or in any condition of service subsequent to recruitment

such as promotions, training or transfer,] make any discrimination against women except where the employment of women in such work is prohibited or restricted by or under any law for the time being in force.

Provided that the provisions of this section shall not affect any priority or reservation for Scheduled Castes or Scheduled Tribes, ex-servicemen, retrenched employees or any other class or category of persons in the matter of recruitment to the posts in an establishment or employment.

THE INTER-STATE MIGRANT WORKMEN (REGULATION OF EMPLOYMENT AND CONDITIONS OF SERVICE) ACT, 1979

INTRODUCTION

In Orissa and in some other States the system of employment of Inter-State migrant labour known as Dadan Labour is in vogue. In Orissa Dadan Labour is recruited from various parts of the State through contractors or agents called *Sardars* or *Khatadars* for work outside the State in large construction projects. At the time of recruitment *Sardars* or *Khatadars* promise that wages calculated in piece-rate basis would be settled every month but usually this promise is never kept. Once the worker comes under the clutches of the contractor, he takes him to a far-off place on payment of railway fare only. No working hours are fixed for these workers and they have to work on all the days in a week under extremely bad working conditions. The provisions of the various labour laws are not being observed in their case and they are subjected to various mal-practices. The question of protection and welfare of Dadan Labour was considered by the Twenty-eight Session of the Labour Ministers' Conference held on 26th October, 1976 at New Delhi. It was recommended to set up a Compact Committee to go into the whole question and to suggest measures for eliminating the abuses prevalent in the system. Accordingly in February, 1977 the Compact Committee was constituted and it recommended, inter

alia, that a separate Central legislation may be enacted to regulate the employment of inter-State migrant workmen as it was felt that the provisions of the Contract Labour (Regulation and Abolition) Act, 1970, even after necessary amendments, would not adequately take care of the variety of mal-practices indulged in by the contractors, *Sardars or Khatadars*. The recommendations of the Compact Committee were examined in consultation with the State Governments and the Ministries in the Government of India. Accordingly the Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Bill, 1979 was introduced in the Parliament.

The system of employment of inter-State migrant labour (known in Orissa as Dadan Labour) is an exploitative system prevalent in Orissa and in some other States.

The Twenty-eighth Session of the 'Labour Ministers' Conference (New Delhi, October 26, 1976) which considered the question of protection and welfare of Dadan Labour recommended the setting up of a small Compact Committee to go into the whole question and to suggest measures for eliminating the abuses prevalent in this system. The inter-State migrant workmen are generally illiterate, unorganised and have normally to work under extremely adverse conditions and in view of these hardships, some administrative and legislative arrangements both in the State from where they are recruited and also in the State where they are engaged for work are necessary to secure effective protection against their exploitation. The Compact committee which was constituted in February, 1977, therefore, recommended the enactment of a separate Central legislation to regulate the employment of inter-State migrant workmen as it was felt that the provisions of the Contract Labour (Regulation and Abolition) Act, 1970, even after necessary amendments would not adequately take care of the variety of mal-practices indulged in by the contractors/*Sardars/Khatadars* etc., and

the facilities required to be provided to these workmen in view of the peculiar circumstances in which they have to work.

3. The recommendations of the Compact Committee have been examined in consultation with the State Governments and the Ministries of the Government of India and the suggestions made by them have been taken into account in formulating the proposals for legislation. The main features of the Bill are as follows:

- (i) The proposed legislation will apply to every establishment in which five or more inter-State migrant workmen are employed or were employed on any day of the preceding twelve months. It will also apply to every contractor who employs or employed five or more inter-State migrant workmen on any day of the preceding twelve months.
- (ii) The establishment proposing to employ inter-State migrant workmen will be required to be registered with registering officers appointed under the Central Government or the State Governments, as the case may be, depending on whether the establishment falls under the Central sphere or State sphere. Likewise, every contractor who proposes to recruit or employ inter-State migrant workmen will be required to obtain a licence from the specified authority both of the State to which the workman belongs (home state) and the State in which he is proposed to be employed (host State).
- (iii) The contractor will be required to furnish particulars regarding the workmen in the form to be prescribed by rules to the specified authority of both the home State and the host State. The contractor will also be required to issue to every workman employed by him, a pass book containing the details of the employment.
- (iv) Specific guidelines have been indicated regarding the wages payable to inter-State migrant workman and he is required to be paid wages from the date of his recruitment.

- (v) The inter-State migrant workman will be entitled to a displacement allowance and a journey allowance in addition to his wages.
- (vi) The amenities that are required to be provided to the workmen would include provision of suitable residential accommodation, adequate medical facilities, protective clothing to suit varying climatic conditions and suitable conditions of work taking into account that they have migrated from another State.
- (vii) Inspectors will be appointed by the appropriate Government to see that the provisions of the legislation are being complied with. In addition, power has been given to the State Government of the home State to appoint, after consultation with the Government of the host state, inspectors for visiting the establishments wherein workmen from the former State are employed to see whether the provisions of the legislation are being complied with in the case of such workmen.
- (viii) The inter-State migrant workman may raise an industrial dispute arising out of his employment either in the host state or in the home State after his return to that State after the completion of the contract of employment. He will also be permitted to apply for the transfer of proceedings in relation to an industrial dispute pending before an authority in the host State to the corresponding authority in the home State on the ground that he has returned to the State after the completion of his contract.
- (ix) Deterrent punishments have been proposed for the contravention of the provisions of the legislation.

Purpose of the Act :

An Act to regulate the employment of inter-State migrant workmen and to provide for their conditions of service and for matters connected therewith.

Important provisions under the Act :

Section 13 - Wage rates and other conditions of service of inter-State migrant workmen. - (1) The wage rates, holidays, hours of work and other conditions of service of an inter-State migrant workman shall,-

- (a) in a case where such workman performs in any establishment, the same or similar kind of work as is being performed by any other workman in that establishment, be the same as those applicable to such other workman; and
- (b) in any other case, be such as may be prescribed by the appropriate Government;

Provided that an inter-State migrant workman shall in no case be paid less than the wages fixed under the Minimum Wages Act, 1948 (41 of 1948).

(2) Notwithstanding anything contained in any other law for the time being in force, wages payable to an inter-State migrant workman under this section shall be paid in cash.

Section 14. Displacement allowance - (1) There shall be paid by the contractor to every inter-State migrant workman at the time of recruitment, a displacement allowance equal to fifty per cent of the monthly wages payable to him or seventy-five rupees, whichever is higher.

(2) The amount paid to a workman as displacement allowance under sub-section (1) shall not be refundable and shall be in addition to the wages or other amounts payable to him.

Section 16. Other facilities - It shall be the duty of every contractor employing inter-State migrant workmen in connection with the work of an establishment to which this Act applies, -

- (a) to ensure regular payment of wages to such workmen;
- (b) to ensure equal pay for equal work irrespective of sex;
- (c) to ensure suitable conditions of work to such workmen having regard to the fact that they are required to work in a State different from their own State;
- (d) to provide and maintain suitable residential accommodation to such workmen during the period of their employment;
- (e) to provide the prescribed medical facilities to the workmen, free of charge;
- (f) to provide such protective clothing to the workmen as may be prescribed; and
- (g) in case of fatal accident or serious bodily injury to any such workmen, to report to the specified authorities of both the States and also the next of kin of the workman.

Section 17. Responsibility for payment of wages. - (1) A contractor shall be responsible for payment of wages to each inter-State migrant workman employed by him and such wages shall be paid before the expiry of such period as may be prescribed.

(2) Every principal employer shall nominate a representative duly authorised by him to be present at the time of disbursement of wages by the contractor and it shall be the duty of such representative to certify the amounts paid as wages in such manner as may be prescribed.

(3) It shall be the duty of the contractor to ensure the disbursement of wages in the presence of the authorised representative of the principal employer.

(4) In case the contractor fails to make payment of wages within the prescribed period or makes short payment, then the principal employer shall be liable to make payment of the wages in full or the unpaid balance due, as the case may be, to the inter-State migrant workman employed by the

contractor and recover the amount so paid from the contractor either by deduction from any amount payable to the contractor under any contract or as a debt payable by the contractor.

Section 18. Liability of principal employer in certain cases. - (1) If any allowance required to be paid under section 14 or section 15 to an inter-State migrant workman employed in an establishment to which this Act applies is not paid by the contractor or if any facility specified in section 16 is not provided for the behalf of such workman, such allowance shall be paid, or, as the case may be the facility shall be provided, by the principal employer within such time as may be prescribed.

(2) All the allowances paid by the principal employer or all the expenses incurred by him in providing the facility referred to in sub-section(1) may be recovered by him from the contractor either by deduction from any amount payable to the contractor under any contract or as a debt payable by the contractor.

V. SALARY ADMINISTRATION

Salary Administration for Administrative and Professional Position.

Determining appropriate compensation for an incumbent in an administrative and professional (A&P) position is left largely to the discretion of the administrative superior of that position. Salary administration for A&P positions is not subject to the same constraints as those for classified positions. Appropriate compensation levels and ranges are determined by the administrative superior of these positions based on his or her subjective assessment of the position, the variety of activities required to successfully fill the position, the relevant marketplace for incumbents of such positions, and a variety of other subjective variables.

PROCEDURE

I. Initial Appointment

The total compensation to be offered to an individual assuming an A&P position will be specified in his or her appointment letter upon initial appointment. Many academic A&P positions may encompass duties other than administrative duties (e.g., teaching, research, clinical service). In negotiating terms of employment with the academic A&P employee, the administrative superior will discuss and document the relative proportions of duties and will note the dollar amount of compensation that is associated with the administrative aspects of the position. The dollar amount of compensation that is associated with the administrative aspects of the position will be in addition to the negotiated rate of compensation associated with the teaching, research, or clinical service aspects of the position. This additional compensation will be stated in both the institutional operating budget and his or her annual appointment letter.

Retaining the administrative portion of total compensation will depend on continued incumbency in the specific A&P position and may be proportionally reduced upon a change in present time appointment or administrative duties, or discontinued should the incumbent change jobs within the institution. In those situations in which the duties for the A&P employee are proportioned among administrative duties and teaching, research, or clinical service activities, salary increases will be awarded proportionally as long as the conditions of the original appointment are in effect.

II. Salary Increases

Requests for salary increases for A&P employees are normally submitted as part of departmental and/or operating unit budget requests and may be approved as such to take effect at the beginning of each fiscal year. Requests for salary increases outside this process are made to the chief through the head of the affected organizational unit and are subject to budgetary constraints as well as approval by the administration.

Promotions or reclassification from one A&P position to another may also be requested and accomplished through the operational budget process. Requests for such actions outside this process should be made to the chief through the head of the affected operating unit. They are subject to salary constraints as well as approval by UT System administration when necessary.

III. Merit Awards

Merit awards are provided to recognize truly extraordinary job performance and productivity that are well above and beyond that normally expected. The actual salary percentage associated with a merit award will be determined by the management each time such awards become available; however, merit awards should not exceed ten percent of base salary. Requests for exceptions should be directed to the Manager, Human Resources.

A lump sum merit is a one-time award, not added to base pay, that can be awarded to an employee for meritorious job performance. Meritorious job performance is defined as either consistently high level of job performance over a sustained period of time; or successful completion of an assigned project that had a significant positive impact on the department. Documentation must be provided and a copy maintained in the employee's personnel file within the department concerning the specific nature of this activity and its impact.

The criteria that follow, apply to either type of merit award; all criteria must be met in order for such actions to be processed:

- The amount of either type of merit award can be in any amount up to 10 percent of the employee's current base salary.
- An employee may receive only one of each type of merit award per fiscal year. The total amount for merit awards of either type cannot exceed 10 percent in a fiscal year.
- An employee cannot be guaranteed in advance a payment of a lump sum merit for achieving performance targets.
- An A&P employee must have completed six months of continuous service with the management prior to any merit award increase.
- At least six months must have elapsed since the employee's last salary change or transfer from another department before a lump sum merit can be awarded.
- A current written performance appraisal conducted within the last twelve months must be on file.
- Lump sum merits can be awarded anytime during the fiscal year and must be in accordance with payroll guidelines.
- Lump sum merits are subject to availability of funds.
- A lump sum merit may be paid from any fund source. Payment from a grant fund will be up to each individual granting agency.
- Should a total proposed merit award exceed the salary range maximum for that job, the merit award must be two separate, simultaneous transactions: merit added to base pay up to salary range maximum and the remainder in a lump sum non-recurring merit. Base pay cannot exceed salary range maximum.

IV. Administrative Supplement

A temporary administrative pay supplement may be given to an A&P employee under certain circumstances. An administrative pay supplement is defined as a temporary pay supplement paid at the discretion of the designated budgetary official for specific situations when an employee assumes substantial, additional responsibilities on an interim basis for an

extended period of time, generally not to exceed one year. The temporary pay supplement is discontinued when the employee is no longer responsible for the additional responsibilities.

V. Salary Adjustment

As a guideline, salary adjustments should not be greater than 10 percent of the A&P employee's current salary. Should it be found that a salary adjustment greater than 10 percent be required, HR Compensation should be consulted.

SALARY ADMINISTRATION FOR REGULAR STAFF

1. Purpose:

To provide a fair and equitable method of determining pay rates for staff members.

2. Policy:

It is the policy to provide staff members with optimum compensation; that is, wages and employee benefits consistent with the judicious expenditure of funds entrusted to the Unit, and within the employer's ability to pay. It is also the policy that inequities in pay do not occur among staff members, and that the management conforms to the various laws concerning payment of salaries and equal treatment of staff members.

3. Salary Rates for Classified Titles:

Salary Grades: Each classified title is assigned to an established salary grade with a stated minimum, entry, and maximum rate. Salary grades and ranges are established to insure external equity - that is, the salaries are maintained at a level which is approximately comparable to the general level of salaries paid by comparable employers for similar jobs; and to insure internal equity - that is, the salaries are equitable in relation to the level of work performed.

Beginning Salary Rates for Classified Employees: Generally, all new staff members and all reemployed staff members will be compensated at the entry level rate of the salary grade applicable to the classification

assignment of their respective positions. No rate of pay higher or lower than the entry level rate assigned to the classified title may be committed to a new staff member without prior approval from the Manager for Human Resources and the division Manager. In order for a higher rate of pay to be offered, the position vacancy posting must reference the higher salary rate. A higher starting salary will be authorized (subject to the availability of funds) only in those instances where:

- a. The individual has directly related work experience and/or formal education or training substantially above the minimum requirements of the position, and
- b. The occupation is critical and there is a demonstrated lack of qualified applicants at the entry.

Such starting salaries will generally be no more than 5% more than the established entry rate.

A lower starting salary than the established entry level rate will be authorized in those instances where:

- a. The individual's qualifications are within close range of, but not equivalent to, the stated minimum qualifications for the classification. Such reduction in starting salary will generally last no more than 6 months.
- b. The department has agreed to establish a training rate for probationary employees. Upon completion of the probationary period, the employee's salary shall be raised to entry.

In no case will the lower starting salary be less than the established minimum rate for the position's classification.

Reinstated Employee Salary Rate: A reinstated classified staff member returning from a seasonal layoff or from an approved leave of absence without pay is entitled to the same salary level previously held at the time of separation. The staff member is also entitled to any across-the-board increases which were granted to all other staff members in the classification while he/she was laid off or on leave.

Maximum Rate: The salary of a classified staff member will not exceed the maximum of the salary range applicable to the staff member's position classification except when a salary increase mandated by the State Legislature results in a salary rate in excess of such maximum, or when the excess rate is approved by the

division Manager or the Chief.

Pay Adjustment Upon Promotion, Transfer, Demotion, or Reclassification:

Promotion: When a classified staff member is promoted to a position of increased responsibility or complexity of duties requiring a change of title and having a higher salary grade, the staff member will receive a minimum salary adjustment to the entry level of the new classification; or to a salary rate which is at least 3.5% above the staff member's salary before promotion whichever is greater, and provided that funds are available.

Retention of Merit Pay: The department may request approval to increase a classified staff member's salary rate more than the levels stated above in order that previous pay awarded for merit may be recognized in the new salary rate. Such request is dependent on the available funds at the time of request, and consideration should be given to such factors as length of service, amount of the overall increase, and internal equity. In any case, the additional adjustment to retain merit may not exceed an amount equivalent to the amount of merit pay previously granted to the employee, or 10% of the minimum new salary rate (after 3.5% adjustment), whichever is less. (Variance or equity adjustments may not be retained upon promotion.)

Transfer: When a classified staff member is transferred laterally to another position having the same title, or to a different title having the same salary grade assignment, the staff member will be given the same salary rate as before the transfer, if funds are available. A staff member will not receive a salary increase as the result of a lateral transfer, unless a pay differential is part of the regular assignment of the position.

Demotion: When a classified staff member is demoted to a position of decreased responsibility or complexity of duties requiring a change of title and having a lower salary grade, the staff member's salary may remain unchanged, if within the salary range of the new position, or may be adjusted to an appropriate level within the new salary range as agreed upon by the department official concerned and the Manager for Human Resources, and subject to the approval of the Chief. The new rate shall be determined by consideration of the circumstances related to the demotion, the staff member's employment record and job performance.

Reclassification: When a staff member's job classification is reclassified to a higher salary grade, as in a market adjustment, the staff member's salary shall be adjusted to the entry salary for the new grade, if the staff member was salaried at entry for the previous grade. If the staff member has prior merit pay, the staff member's salary may be adjusted by an amount not to exceed the amount of merit pay previously granted to the employee, provided that funds are available. Such request is dependent on the available funds at the time

of request, and consideration should be given to such factors as length of service, amount of the overall increase, and internal equity.

Special or Other Salary Increases: Salary increases not related to promotion or merit may be given periodically and are normally effective on March 1, the beginning of the fiscal year. These increases include across-the-board salary increases to all employees, mandated by the State Legislature, or salary grade adjustments for specific job classifications recommended by the Manager for Human Resources.

Salary Administration Responsibility: The Manager for Human Resources is vested with the responsibility and authority to administer and maintain the Salary Administration Program for classified staff personnel and to insure that salaries for classified staff members are paid on a fair and equitable basis. Full cooperation of all levels of management and supervision in the administration of the Salary Administration policies, rules and procedures is required. All personnel transactions involving hiring a new staff member or requiring a change in a staff member's status must have the prior approval of the Manager for Human Resources before being presented to the division Manager, or to the Chief, for implementation.

Salary Rates for Non-classified Titles:

Beginning Salary Rates: The beginning salary rate for a vacant non-classified administrative or professional position shall be determined by the department official and/or the appropriate Manager and the Chief based on a recommendation by the Human Resources department after a review of the position.

Merit Salary Increases: A non-classified administrative official or professional staff member shall be eligible for review and recommendation for a salary increase within the merit increase policy announced periodically and in accordance with the general provisions outlined below.

Special or Other Salary Increases: Statutory or other special increases may be granted to non-classified staff members. Normally, such increases apply to all staff members.

Salary Administration Responsibility: The Board of Directors have the power and duty to appoint, to change the status, or to change the pay of non-classified staff.

Merit Salary Increases:

Merit increases are pay increases granted to a staff member for demonstrated above average job performance.

Merit increases may be granted subject to the availability of funds and within the merit salary increase policy announced periodically. A salary adjustment for merit shall be dependent upon specific written request of the staff member's department official and the approval of the division Manager or the Chief. The Manager for Human Resources shall determine that all increases granted are within the approved policy. The following factors are among those which shall determine whether a staff member is granted a merit increase:

- a.** The availability of funds.
- b.** The staff member's significant performance contributions and/or achievements.
- c.** A current Staff Development review with an overall numeric rating (if applicable) of 3.0 or higher.
- d.** The staff member's length of service with the University and/or in his/her current position. Minimum criteria for length of service with the University will be established within the merit salary increase policy announced periodically.
- e.** The staff member's past and current salary treatment, i.e., when was the last time the staff member received an increase? How much? etc.
- f.** The staff member's disciplinary history; a staff member must not have received a Counseling Memo or other formal disciplinary action within the 12 months prior to receiving merit pay unless otherwise specified in the Merit Program Instructions.
- g.** Comparison of the staff member's salary to the salaries paid to other staff members who make roughly comparable contributions.

Unit – 1

Sales Personal Reward

Objective

Pay in one form or another is certainly a one of the main springs of motivation in our society. The Reward for Work done not only provides. the needs of a sales person but also recognises him, he detains a sense of job satisfaction we will see in this lesson what is wage? How it is fixed, purpose etc..

Structure

- 1.1 Introduction
- 1.2 Sales Personal – Duties – Types
- 1.3 Field Seller – Sales Promoters
- 1.4 Methods of Payment
- 1.5 Requirements of Pay plan
- 1.6 Remuneration
- 1.7 Rewards
- 1.8 Characteristics of Rewards
- 1.9 Summary – Questions – keys

1.1 Introduction

Sales Persons and Sales Department, is the – ‘is the’ important department of an organisation No sales – means, No production, No profit – stand still. Hence it requires adequate attention (i.e.) proper compensation to sales persons. An acceptable wage pattern should be derides may be devised rate or time rate – Minimum salary protection should be there. There should be

a direct relation between the input sweat, effort and reward. Talented workers with ambitions should be given a scale of pay, growing with their sales volume. This type of performance based wages allow us to distinguish between efficient and inefficient workers. The normal remuneration components are Basic Wages / Salary. Dearness Allowance, Bonus and other incentives.

1.2 Sales Personnel

Personnel who deal with the disposal of produces / services for a profit at a given target.

They are “Ambassadors of product and services” In any marketing; hierarchy. Sales personal are the connecting link with the customers. They communicate with customers – find out potential customers.

Duties – Types :

- (i) Help the production activity to run and gain profit for the company (By quick selling not allowing stock filing)
- (ii) Finding customers for their products by various advertisements or personal approach methods.
- (iii) Luring customers to buy make them aware of the products utilities.
- (iv) Take effort to retain the customer by attending their complaints, grievance and wants.
- (v) Behave as a good two way communicator between company and customers.
- (vi) Special approaches to production centre through proper channels so that the marketable produces are produced not only as her wishes of the customers but also keeping in mind their future necessities.

Types of Sales Persons

Field selling Sales promotion – Through Dealer.

The Sales persons should be capable of

- (i) Locating customers for their product
- (ii) They should perform the job in a targeted time so that “make hay while the sun shines” become true.
- (iii) Should communicate, well and effectively their products, utilities etc.
- (iv) Make impression on the customer.,
- (v) Should be able to clear their doubts and appreciations.

Field seller – otherwise personal selling

Is a process where the sales people contact the identified customers as per programme motivate them and conclude the selling of the product.

Here there is direct communication between customer and sales person which can create an impression about the product in the minds of the customer which will promote further purchases by them.

The Field sales persons makes scheduled calls to understand and remove the problem of the customer.

In some cases service contacts also are drawn. sales promoter. These types of sales persons are more or less R & D (Research and Development Oriented) and do some sales ‘spying’ also. The word spying appears a bit derogative but here it means ‘to keep their eyes open to see what others in the field are attempting to do. A tool for ‘one up ’ man ship. In this competitive world of sales and marketing – always the latest and first gets well. In any sales venture. Early bird gets more worms.

The Sales persons of R.D. do not only sell but finds ways and means to improve sales, suggests to his manager what could be done to further, the prospects His knowledge is based on his own intelligence and on the basis of his deservation as what other competing sales personnel of other companies around are doing.

Sales – Dealers

This is more like marketing choosing good dealer with potential. The sales personnel taps and dumps products with the dealers whose main job is to sell.

1.3 Methods of Payment

Every workers not only sales persons gives his energy, work, sheds spreads sweat for the organisation to get compensated in the form of wage et. Payment is a tonic for the efforts done by the worker primary compensation is his pay (i.e) wages or salaries.

Payments done in the form of time rate – (i.e.) for each shift or one day (taking 8 hours work) he is paid a fixed rate. When eight hour period is exceeded he will get over time payment at 2 times the normal rate. Another form of payment is piece rate wages; Here quantum of work is given and at its confection he will get one day wages / salary, If he does more than that with in the time frame automatically he will get proportionate increase. It will be ensured while fixing rates on quantity of work, that he is ensured of minimum wages.

There should be proper links between wages and work loads. Equal rate for equal work should be applied. Any discrimination of pay between sales persons may affect their morality and result in dissatisfaction and labor turn over.

Hence Job evaluation is to be done while fixing wages – according to relative worth of the job of an enterprise.

Necessary care should be taken to pay compensation in an equitable manner keeping company's growth, ability and the sales persons merit in view

- (i) That person possessing necessary skill, effort and responsibility are given suitable high wage, salary one should see how other companies are paying and keep an edge – for retention of talents.
- (ii) Trainees should be given adequate salaries and absorbed in to main stream –on satisfactory completion and after a test.
- (iii) Some differentiation should be there from place to place – if they are to, pierce a new territory to establish sales or sell at the routine usual places the two aspect should be differentiated as per the work load.
- (iv) Usually sales are linked with 'quantum' that will induce sales persons to work more, A linkage of salary with sales volume should consider the ups and downs in the sales market, lean period etc. and ensure that sales person get some minimum remuneration due to lean period in the market and environment He should have his 'living wage' untouched all throughout .
- (v) Merit should proceed seniority in compensation packages.
- (vi) For, near similarly there should not be much difference in wages.
- (vii) There should be equity in wage dispensation without considering caste, creed, colour and sex.
- (viii) The wage plan should be clearly spelt, and understood by sales force without ambiguity sales person should be made to understand how their achievement (sweat) is converted into earnings. This will be a good interacting plan.

- (ix) The wages should attract the capable and best team and should retain them.
- (x) It should not be influenced by political religious considerations. Specific requirements of the compensation / remunerations plans are
 - A. Transparent, flexible, mutually agreeable and adjustable.
 - B. Maintain customer relations on the up and up
 - C. Sales force should be able to take free and on the spot decisions (even if they need some extra expenditure)
 - D. Should come with in sales budget – fitted in companys cost / profit budget.
 - E. The ultimate aim of company is to sell to get profit.

1.6 Remuneration

This is also another terminology for compensation – inreturn to the work given – Every care should be taken while rate of remuneration Is fixed. This acupies an important cost centre in the sales and marketing budget. At the same time this is the life line of an employee how the company wants his sales man. Nicely dressed well mannered comfortable or tardy hanky – panky – dole.

One English company few years before cheked whether their sales persons are actually traveling in I class compartment during their travel – wearing full shirt and tie – whether they use cabs to reach customers and dealers or go by rickshaw, walk etc., Every move personality dress etc of a sales person – Speaks almost about his product and company. Hence the importance of proper remuneration to take care of all these

necessities. Remuneration package normally consists of monetary and non monetary benefits. Monetary – direct and indirect payments.

The Direct remuneration are

Wage Salary : A basic wage is fixed along with a gradual salary 10000-50012000-750-20000.

Allowances : Dearness Allowance – Almost fixed variable D.A. – May differ as per price index + House rent + Car etc.

Incentives : Paid on the productivity on extra work input as per special schemes.

Fringe benefits : Like medical, P.F. gratuity insurance, Uniforms, Club fees et. These are all paid in slabs as per the salary structure of the sales persons.

Perquisites – pet names as ‘perks’ include company car facility chauffeur driven or otherwise exclusive club membership; Holiday tour furnished housing, Non monetary compensations.

Increasing value of the job (value addition), required transfers, Touring job is requested or stationary as per his desire giving more rope to operate, improving work environment. Provision of a separate cabin – Secretarial assistance when needed.

1.7 Rewards

Is an offering of an organisation in acknowledging the superior, laudable exemplary performance of a person so that others can emulate the efforts taken by him – Which will result in the overall growth of the company. Rewards can be financial type and non financial type it may be intensive or extrinsic – Financial rewards can be a gift cheque, special offers, free air tickets, paid holiday vacation.

Non Financial rewards are :giving a certificate on ‘May Day’ Celebrations.

Club Membership – House, office room allotments. Uniforms – office furnishing et. Special mention in office, Company bulletins invitation to chairman’s dinner party- Company day Celebrations. Garlanding on special occasions with the special mentions - citations.

In L.I.C. India some of the sales agent are made as member of regional club Zonal Club Chairman Club et as per their volume of work done and recognition Chairman Club a pride possession New designation promotion transfer also can be considered ads a reward,

1.8 Characteristics of rewards

- i. Rewards should be transparent and pronounced it should not only motivate the recipient but also his group and other. He worked late ; hard and was rewarded for that; when things are transparent people go with confidence more work more benefit.
- ii. It should optimize the performance of persons.
- iii. It should fit in with the age group of salespersons. A rewards of Singapore trip may be very attractive for a going newly married sales persons. Not to a newly joined or alone middle aged persons.
- iv. There should be justice and equality in the reward offerings.
- v. Should not be a costly venture affecting or eroding profit.
- vi. Flexible and timely.

Summary

Sales persons compensation should be attractive and lure best brains. Not only attracting but should be able to retain them ; and bring out their, ability to promote sales. For this apart from salary package incentive, remuneration reward should be sprinkled to continuously motivate the group.

Rewards need not be financial only timely acknowledgement, open appreciation trumpeting the best performance etc. also are effective rewards.

Rewards also can be financial as per company. Cost / budget / statue. Should not erode profit and should not create any ill will among other sales persons.

Questions

1. What are different methods of payment to sales persons.
2. What are the requirements of a pay plan.
3. Discuss aspects of remuneration.
4. Describe rewards,
5. What are the characteristics of reward.

Key Points

In this age of competition in production sales et. It will be wise to select a good sales person and also retain him with satisfaction. Hence remuneration of sales person becomes a important act sales man should be given adequate enticing salary with perks etc- at the same time it should be seen that total salary is kept with in sales budget. Wages

remuneration cannot sky pocket eroding the profit of the company – should not drive it towards, loss.

Several wage plans are there like premium bonus Halsey premium plan, Taylor differentiable privilege plan etc are there, but for sales decision a suitable one can be adopted as explained earlier.

Unit – 2

Performance of Sales Personnel

Objective

1. To Know what is performance evaluation
2. How it is done and how objectives targets are set by direct or by M.B.O. approach.
3. Different criteria's for evaluation.
4. Assess the performance deviation and take corrective action.
5. Attempts to links pay with performance.
6. Adopting control process through feed back information and facilitate proper adjustment of sales organisation resources as per changes in market conditions.

Structure.

- 2.1 Introduction
- 2.2 Performance Measurement
- 2.3 Need for performance measurement
- 2.4 Performance Measurement Techniques
- 2.5 Pit falls in P.A. practice
- 2.6 Characteristics of performance appraisal procedure
- 2.7 Short coming as per professor Deming.
- 2.8 Summary – Questions – keys
- 2.1 Introduction

Performance appraisal is a formal, structured system of measuring and evaluating an employees job, related behavior and out comes to discover how and why the employee is presently performing on the job and how the employee can perform more effectively in the future so that the employee, organisation and society all can benefit.

The sales persons behaviors, dealings with customers customer complaints grievance et. Can be appraised at parameter of the sales persons performance.

Performance appraisal will related to wages, incentive et. By properly doing this we can do justice to best worker and take corrective action to straighten the wrong does.

2.2 Performance Measurement

1. This measurement gives the correct idea of sales person job relevant strengths and weaknesses
2. draw backs in his approach can be located and action can be taken to remove it, correct it.
3. This is done systematically showing the degree of progress made by the person in each appraised topic to is example sales 5% increase; Realization 20% less compared to earlier year – etc.
4. This shows how better a persons has done over his (previous year performance) or targeted performance.
5. Performance measurement is an audit – just as auditing is necessary for closing of accounts in any business – performance also is required to be assessed continuously.

Need for performance appraisal of sales persons:

1. gives correct idea how well sales persons have performed.
2. Pay pockets can be decided as per performance, giving an edge credit to best performers and advising draggers.
3. Promotion and demotion needs of sales persons can be scientifically found out in an often manner
4. Corrective action can be initiated promptly to curbe the derivation in performance and assist in the areas where improvements required.
5. Performance efforts involve monitoring of the number of visits made by the sales persons and the number which has triggered the sales.
6. Persons are induced to give satisfactory level of performance.
7. indirectly helps the sales men in their growth and development since appraisal gives his training and development needs.
8. Peers, seniors and subordinates can understand and the deficiencies of individuals and action, adjustment can take place accordingly.
9. To let the persons know where they stand in so far as their performance is concerned and assist them with conservative criticism and guidance for the purpose of their career growth et.
10. It indicates whether the selection, Training, placement of the sales person have been done effectively or requires modification.

2.3 Performance Measurement Techniques

- i. Straight Ranking Method
- ii. Graphics rating scale

- iii. Field Review
 - iv. Critical incident method
 - v. Group rating
 - vi. M.B.O approach
1. In ranking method persons are serialized as per their marks obtained in different venues example – volume of sales, number of new customers obtained et. The total maximum mark obtainer is No. 1 and poorest marks scorer is last number in the sales group.
 2. Graphic rating: Here each sales person personnel qualities, loyalty, behavior, dependability, talking, skill its quality etc. are marked giving a scaling from outstanding – very good – good – poor to very poor.
 3. Forced Choice method : Here a rater selects among different statements the one which best fits the individual who is being rated. Thereafter the statements marked are weighed or scored higher scorer is best performer.
 4. Grading Method : On selection sales persons required features their position is graded example. In Job knowledge – Very good

In communication – Poor

In Cooperativeness – Good

Dependability – Very good

Situation assessment – Very good

For: outstanding group one

Very good group two

Good Group three

Poor group Four

As per necessity features can be increased and in group one those who obtain maximum are best sales person.

Field Review.

In this the opinion of the nearest supervisor of the sales person is elicited under different headings – say performance, strength, weakness et. And this is analysed – and graded.

Critical incident Method

In rating we normally look to his initiative dependability, etc in critical incident method we see how he behaves at a particular situation thus it is more or less as continuous monitoring actual incidents during the course of activities are seen and then and there the positive and negative side of his actions are indicated.

Example : “See how the customer is angered by your insulting taunts – you have to correct it – keep cool bearing. Thus this advice on the spot is most corrective. Group rating – Each appraiser may have different standard of rating. Thus to one rater he may be good; to another he may be very good. To avoid the differential rating; group of appraisers (involving his immediate supervisor) see the performance of sales person compares, the actual with standards and give a fairly a good appraisal and rating because there is collective wisdom.

Management by objective method – In this in consultation with supervisor the sales person draws a target of performance in different angles which is agreeable to the management and the sales person This

is arrived out after discussion) vis in I the accepted target then performance is reviewed and markings are done from very good to bad.

Essay Method

Here the appraiser is required to write a paragraph on the subordinate's strength and capabilities, weakness etc. And this write up is not amenable for evaluation analysis and markings. In this the performance may not be gauged correctly as volumes of writing will be there if we are to compare several sales persons; working under the appraiser there are several other innovated methods, this also could be used as per circumstance.

Pitfalls in sales performance appraisal for promotion / demotion.

1. Personal prejudice of the rater will totally affect the correct appraisal and its aftermath.
2. Leniency or severity on the part of rater makes the assessment erroneous, selective – defeats the main purpose – It is coupled with – which is dangerous.
3. Effect of central tendency: When employee care incorrectly rated, near the average or middle of the scale. A play safe attitude of the rater – Results in failure to note correct performance difference of individuals.
4. Effect of recent behavior. Rater ratings may be deflected by the behavior exhibited by the person just before rating exercise starts there may be inflation – boosting image miserable errors – plunging him down in spite of continuous better performance.

5. Halo Effect : When one aspect of an individual's performance influences the evaluation of the entire performance of the individual, just as the assessment of the performance of a cricket player who fails in the 14 over one should not depend excessively on one trait. Main criteria To follow in salesman. Performance assessment in general are.

1. Quality of salesmanship : Nature of work done perfect ness, customer contacts effectiveness.
2. Timelines : Assessment should be done with in a time frame so that normal activity will not be affected. A relief from a feeling of concern anxiety
3. Quantity : in volume of sales, recoveries plus customer contacted
4. Economical : The resource should be fully utilised, optimization, position should be review.
5. Supervision necessities : How for a sales man can go with out assistance from supervisors or manager How best he can copet with situations.
6. Good will – how much good will self esteem he has produced between him and customers, peers and subordinates.

2.4 Essential Characteristics of performance appraisal

1. Should provide consistent, correct information data etc. should be made by a unliased appraiser it should give information relating the potentials of sales person – to enable to give more load promotion etc.

2. It should be concerned with sales activity, customer satisfaction level, growth etc.
3. There should be a standard format for comparing different sales person of a group and different groups
4. Trained appraisers should do the appraisal, it should be economical and easy to carry out.
5. Appraisal should be transparent so that the persons also know their short comings and try to make it up – himself.
6. It should be for the genuine development of the sales force- corrective steps – not for punitive steps.
7. Provide for behavioural analysis, scope for professional development should be located results achieved should be evaluated.
8. Profitability as shown by the sales person in a comparative way.
9. Amount of effort taken with the gains obtained as a ratio.
10. Qualitative measures are assessed through the judgments of the supervisors.

Pay should be linked with performance of the sales person but care should be taken that there is a base salary structure below that the wage should not go during bad periods.

2.5 Quality expert professor Deming is not in favour of employee assessment because

1. Manipulators may be catapulted (escape and go up)
2. The systems is inherently unfair – we have to think all are good workers Theory Y.

3. This is not suitable for team work.
4. The purpose is self defeating and acts as a substitute for proper managerial supervision and control.

After appraisal, sales persons are rated and their promotion / demotion action is contemplated.

2.6 Summary

Performance appraisal is a process through which individual employees behavior and accomplishment for a fixed time period are measured and evaluated it is a systematic and objective way of judging the relative worth or ability of an employee in performing his tasks. This enables to identify the employees who do better, who lack, who requires guidance etc. It assists his potential for future improvement. This is required for effective administration of business as for individual and company benefit.

Self Assessment questions

1. What is performance appraisal
2. State and explain few method.
3. What are the salient features of performance appraisal to be looked in sales men appraisal procedure.
4. State steps in performance appraisal.

Key guides

Performance appraisal of sales person needed for his own development and companies. By evaluating efforts management is also signaling the

importance of using proper selling strategy. If efforts analysis was omitted, the sales force might pay far less attention to the means used to achieve their sales results.

Sales organisation should employ both result based and input based measures while evaluating sales persons performance.

Annexure

2.3.1 A sample merit rating form used by a well known Company

	A	B	C	D	Comments Suppose out rating if
Quantity of Work Regardless of quality ; how does his volume of work compare with what he should be expected to accomplish	Unusually high output	Always turn out a good volume	Production insuffiecinend should be improved to be acceptable	Definitely unsatisfactory	
Quality of Work Regardless of quantity consider his regularity in getting accurate, through and neat results, upto company standards and with a minimum of waste	Highest quality always upto standard. Thoroughly competent	Quality above the average. Makes but few mistakes	Makes quite a few errors, a wasteful of materials of products	Work below standard, careless requires considerable checking	
Ability to learn Consider ability to understand and remember instructions. Grasp new ideas and methods	Exceptionally intelligent	Learns rapidly, Grasps new ideas readily	Learns slowly	Does not remember instructions	

<p>Knowledge of Work</p> <p>Consider his knowledge and understanding of all phases of his job and matters related to it.</p>	<p>Has through, up-to-date knowledge of all phases of his job</p>	<p>Well informed knows all operations, except those rarely encountered</p>	<p>Some knowledge but requires considerable lining up</p>	<p>Definitely inadequate knowledge</p>	
<p>Initiative</p> <p>Consider ability to go ahead without being told every details and to think and act constructively</p>	<p>Self starter Always sees what should be done plans work well</p>	<p>Usually finds some thing useful to do has practical ideas</p>	<p>Follower and routine worker</p>	<p>Seldom sure what to do next. Needs close supervision</p>	
<p>Dependability</p> <p>Consider Compliance with instructions and to what extent he can be relied upon to do the right things with a minimum of supervision</p>	<p>Thoroughly reliable on all assignments Exceptionally trustworthy</p>	<p>Requires very little follow-up., Uses good judgment</p>	<p>Should be checked frequently</p>	<p>Should not be left without supervision</p>	
<p>Personality</p> <p>Consider his effects on others including such items as disposition, act, courtesy, poses aggressiveness, appearance and manner of speech</p>	<p>Usually winning personality liked by everyone</p>	<p>Generally well-liked and respected</p>	<p>Somewhat difficult to get along with</p>	<p>Disagreeable</p>	
<p>Tidiness</p> <p>Consider his care for tools & equipment and his endeavours to keep these and his place of work clean and in good order</p>	<p>Takes especially good care of tools & equipment. Meticulous in keeping his place of work in order</p>	<p>Takes good care of tools & equipment keeps place of work tidy</p>	<p>Leaves things lying about needs frequent checking</p>	<p>Definitely lacking Does not care about appearance of tools & equipment</p>	

Attendance	Not more than one day	Between 1 to 5 days	3 to 10 days (includeing Leave without pay)	10 days and above (including leave without pay)	
Casual Leave					
Sick Leave					

Suggestions / Innovations Safely consciousness Any other remarks

Your recommendations must be supported by valid reasons

Recommendation for

- (i) Extra merit increase
- (ii) Stoppage at Efficiently Bar
- (iii) Issue of advice for improvement and follow-up action on adverse report

<p>Confidential</p> <p>Personnel Department</p> <p>Earlier merit scorers</p> <p>Extra increment last given</p> <p>Any other comments</p> <p>(based on previous records)</p>

Discussion of the report with the employee(Please give reactions to the report)

Final Remarks

Date

Department Head or his Deputy

2.3.2 A Sample Performance Appraisal Format

name..... Date of Birth.....

Present Job..... Date of joining

A. Work Performance

Has he full knowledge of all aspects of

his

Job knowledge – Technical Ability

own job or does he still need much help

an

advice?

- A. Has an exceptional range and depth of knowledge
- B. Has sound knowledge of Lis work better than most.
- C. Knowledge is good, but occassionaly needs help.
- D. Fair knowledge, but still some gaps.
- E. Has a lot to learn about the job.
Needs frequent attention

Comments

Energy and Applications

Does he show keenness and energy in applying himself to the job?

- A. Exceptionally keen and energetic
Works hard.
- B. A good industrious worker.
- C. Usually works hard, but culd apply himself better
- D. Wastes time, Easily discouraged.
- E. Easily distracted. Not enough attention paid to the job.

Does he work hard and effectively?

Comments

Organising Ability
or

Does he organize his work/department section well?

- A. An extremely able organizer
- B. Good organizing ability, canm plan ahead well
- C. Efficient in normal cirmustances.

Can he plan so as to ensure a good work flow?

Comments

D. Not a very good organizer on the whole.

E. Sometimes gets in a middle.
Holdups occur

Leadership
his

Has he a good working relationship with staff?

A. Well liked and respected. Excellent relationships with subordinates.

Can he maintain discipline?

B. Usually respected. Gets on well with subordinates.

Does he lead by example and command respect?

C. Satisfactory in his relationships.

Comments

D., Does not inspire a great deal of respect.
Relationship could be better.

E. Little attention paid to him. Not respected.

Constructive Imagination
originate

The ability to produce ideas and new thoughts looking beyond presents

A. Does he find new ways of attacking a problem?
criticism.,
Does he initiate new ideas?

Practice, the skill of constructive

B. Does he have an open and progressive mind?

Comments

C. Is he quick to recognize opportunities for improvement

Integrity

Basic character, quality of honesty, plus frankness and directness in all

relationships

and intellectual honesty.

- A. Is he always completely frank and straightforward?
- B. Does he avoid exaggeration bias in making statements
- C. Is he trustworthy?

Comments

Verbal / Written Ability
consisely?

Does he speak/write clearly and

on

can be express himself well in speech /
paper?

- A. Excellent command of language. clear and consise.
- B. Can express himself well, with few mistakes
- C. Adequate ability in making himself understood
- D. Cannot convey ideas to others very well.
- E. Cannot express himself clearly. Difficult to understand

Comments

Qualities

Personality

The habits, attitudes, taitis and emotional qualities which affect one's

relationshipwith

customers and olders.

- A. Is he reasonably adeptable to new or changing circumstance?

- | | | |
|----|--|---------|
| B. | Does he give impression of insecurity.
inferriety or imagency | Comment |
| C. | Is he self consction solve problem | |
| D. | does he work with minimum lesson | |

Judgement

- | | | |
|----|--|----------------------------|
| A. | Is he courgeous inhis decision | Ability to analyse problem |
| B. | Does he consciously try to profit from
his mother | accurately and evaluate |
| C. | Are his opinion soud | |
| D. | Does he shown common serve. | |

Personal Contacts

- | | | |
|----|--|---|
| A. | Highly successful in his outside
contents | Can be inspire considence
is the targul courteous. |
| B. | Activates good will | |
| C. | Tactless | |
| D. | Not fit for out side | |

Selling Effectiveness

- | | | |
|----|--|------------------------------------|
| A. | Does he exceed or touch targets | His previous performance (records) |
| B. | Does he actively half his lean to achieve target | |
| C. | Does he adhere to sales policy | |
| D. | His Action inference company image. | |

Unit – 3

Incentives to Sales persons – Commission – payment etc.

Objective

Understanding what is incentive and what is its difference with motivation. These variable rewards are granted according to changes in the achievement of expected results. Why it is to be paid is discussed in this lesson. While wage payment is a matter of great importance to workers, their interest and involvement in the work depend on the wage payment. Incentive wages relate earnings to productivity and may use premiums, bonuses or a variety of rates to compensate for superior performance – Dale Yoder.

Advantages and disadvantages are discussed. Introduction of 'Commission' Commission as pay is discussed in this lesson

Structure

- 3.1 Introduction
 - 3.2 Definitions of incentives – I.L.O's definition
 - 3.3 Essentials of sound wage plan
 - 3.4 Essentials of a good incentive plan
 - 3.5 Advantages of incentive plan
 - 3.6 Disadvantages of incentives
 - 3.7 Compensation and productivity
 - 3.8 Commissions
 - 3.9 Summary
- 3.1 Introduction

Normally wages are paid as per time rate scale a piece rate plan, in this piece rate payment may affect the quality of the work done since persons will get more if quantity is more. Whereas time rate improves quality but affect volume.

A system of wage payment which would maintain both quality and volume of sales is called as incentive wages plan. Incentive includes psychological incitation which insists a person to do more work. Incentives are in away groups greed they are part of motivation. Which is continuous process. Commencing from need. Motivation is active till the completion of internal need after the aim has completed, while incentive is meeting same, outer thing completing the need and lessening of drive of that person.

The International labour office refers to incentives as ‘payment’ by results It is appropriate to call them as incentive systems of payments emphasizing that point joint of motivation, that is, the imparting of incentives to workers for higher production and productivity while wages and salaries are relatively fixed, incentives generally vary from person to person and time to time.

3.2 Incentives to Sales Persons

Definition of incentives

“Incentive means that which incites or has to tendency to incite action” – George Terry. Incentive is a stimulus or a reason for productive action almost all of the human motivation can serve incentive. Anxiety, fear, prestige, money security and so on are all actual or potential incentives in our daily life.”

- Dr Earnest Ditchine

International labour organisation classifies incentive schemes into four categories.

1. Schemes in which earnings vary in proportion to output (sales)
2. Schemes where earning vary proportionately less than output (sales)
3. Schemes where earnings vary proportionately more than output.
4. Schemes where earning differ at different levels of output.

The basic objective of any incentive plan for sales person is to enhance the sales by giving an inducement to sales people in the form of increased wages. An efficient plan must provide for minimum guaranteed wage based on hourly rate (time rated) and extra wages for increased output.

3.3 Essentials for sound wage plan should have the following components

1. Measurement of the amount of sales done. (work done)
2. Establishment of norm, standard – basing on this incentive has to be worked out.
3. Utilising a formula to relate pay to (sales quantity) performance

The sales quota fixed should not be too higher too low.

If is too high it will be prejudicial to the sales person it may not be accepted by sales people or their group even if they accept they will not

put their heart and soul to achieve the target. The proverb "Grapes are sour": saying thus the fox will not (jump it catch the grapes launch which is at a very high level) take effort to achieve the incentive target. If it is too effortlessly the sales quantity target will be achieved - initiative ness will be marred resulting in heavy sales budget –loss of profited.

3.4 Essentials of a good incentive plan

1. Based on sound policies, transparent and acceptable to sales person ether group. This should be easily understandable by the people.
2. Based on Research and development, departmental study a sales quota standard must be establish (on the basis of some practicability) salesman should be explained some ways and means to achieve the quota set.
3. Guaranteed minimum wage payment should be inbuilt in every incentive system. Such provision creates a sense of security and confidence among the workers.
4. Simplicity Easy to understand and simple to operate. An ordinary salesman must be able to know the incentive rate offered and what he can get. This knowledge will give an impetus and increase the salesman's enthusiasm,
5. There should be guaranteed rate – not susceptible to frequent change. Frequent charge in rate will be counter productive, resulting in disappointments however at fixed intervals 1 year or 3 year period the plan can be changed, if there is wide variation due to change in method of sales, tools etc.

6. There should be wide coverage so that the total chain can move forward.
7. In sales no upper limit is needed.,
8. There should be a mechanism to hear the grievance of salesmen regarding incentives, rate time of payment, delay etc. and system should be followed up properly. If there is deficiency it should be investigated and corrective steps taken to facilitate the smooth functioning of wage incentive system.

Main objects of salesman, sales officer incentives are :

1. To get increased sales.
2. Reduction in controllable sales budget expenditure.
3. Improvement in overall efficiency like customers contact, logistics, customer complaints, timely supply of goods to customers and dealers.
4. Rise in earnings of sales personnel
5. High morale of sales force – with increased loyalty.

Wage incentive plan can be 1. Individual incentive

2.,. Group Incentive

Individual incentive i. Based on time basis

ii. Based on quantum of sales

Group Incentive – can be in the form of profit sharing. Other plans like Rowan, Halsey, Bedau, Gant's, Taylor, Merrik, Emerson, etc are not much favorable in practical with sales persons but ideas are taken from this..

These are explained in depth in personal and H.R. Management chapters/papers.

3.5 Advantages of incentive plan are

2. Incentive is a tacit inducement and motivation of workers for higher efficiency and growth in sales volume.
3. In normal conditions it excels other forms of payment in respect of economy as well as justice. Remuneration being dependent. Upon volume of sales, there is a direct stimulus to the workers to expand sales.
4. A feeling of secured income fails to evoke positive response. Positive response will surely come when incentives are included as a part of the total Remuneration.
5. The total sales expenditure / unit will reduce because of high quantity of sales due to incentive
6. Reduced necessity to supervise
7. Very good for management because it won't affect employer's P.F. contribution, necessity and other retirement benefits.

3.5.1 Disadvantages of incentive method

1. While more sales are pushed out the corresponding increase in service necessity may be affected. Compatibility may be affected.
2. There is a risk that sustained high earnings of incentives may be taken as total wages and any decrease or when you want to stop incentive scheme the system may agitate sales persons – contra productive risk.

3. Jealousies may arise in sales group and between groups and territories.
4. In case of group incentive the salesman who are fast in their work may be dissatisfied with these who are poor contributors – resulting in split in team / group work.
5. When the sales item is seasonal – sales persons are affected in cyclical way.
6. When work is given and wages for that every sales person should do them best for the company. Then why incentive.
7. Incentive alone may not push sales volume there should be opportunities. Buyers disposition environments.,
8. Too much running, over working by sales person may result in their health break down and undermining of efficiency.

3.6 Incentive and productivity performance

Incentive wages relate earnings to productivity and sales persons are compensated for improved performance

The incentive plan offer an attraction of extra and they try to increase volume of sales.

Total wage consists of a) base minimum usage

b) element related to cost of living and

c) element related to rise in productivity.

1. Wage system should be related to total sales results of that organisation it should be an agreed figure between sales persons.
2. while fixing wages disparity should receive alteration wages should be standardized.,

3. Simple incentive schemes should be evolved through joint understanding and efforts.
4. Facilities for sales should be given adequately (i.e.) like transport, advertisement, coverage etc.
5. Proper work itself is a strong motivator for productivity. If the sales organisation material, area (territory) is meaningful, challenging and interesting the salesmen will have his own motivation for productivity increase.
6. Productivity is a better criteria for making incentive payments. Productively linked bonus is what our government is loudly thinking.

3.7 Commission as a compensation to sales person

The wage / salary / compensation to a sales force are essentially

- (i) a monetary compensation for specific duties at intervals (monthly)
- (ii) Wages calculated as per sales volume for the sales done by the particular salesman called as commission.
- (iii) Combination of certain fixed salary and commission

Salary Method

Salary amount is paid as monthly fixed salary as described earlier. It is guaranteed be receive same amount, without any tie with sales volume calls, or any other measures of his productivity. In this system of wage payment there is no direct relationship between selling costs and sales volume.

Commissions

This is a payment for some particular type of achievement, this is designed to provide incentive and at the same time encourage a feeling of freedom by

the sales persons because rewards are tied directly to his personal efforts in this high performance, receives handsome dividend. commission method consists of receive handsome dividend.

- i. The commission can be paid for specified performance.
- ii. The rate or the relationship between amount of pay and measures of performance.
- iii. A starting point (base) which is a minimum necessity over which commission starts with separate calculation (may be one or two percent of sales profit)
- iv. It is related with timing of periods of incentive et. For example hoteliers for selling their rooms (renting) offer a commission / rebate when rooms are booked during raining season, off season, lean season periods.
- v. Similarly textiles during new year, Christmas, Deepavali seasons will have boosted sales Maturaly – but in other month the sales will be low – At this time sales man are given special commission out of sale proceeds to boost sales. This commission linkage plays miracle salesperson increases his calls expand his contact to push sales.

3.8 Summary

The incentive plans should be based on management objectives at the corporate; and marketing level. Sales peoples needs and priorities and customer treatment. Sales organisation must function to contribute to the goals of the organisation.

Unlike wages which are as per same grade, state and fixed at a point of time (year). Incentives vary from salesperson to person, time to time for the same individual. Incentives schemes generates some positive response. “Yes you can do it” attitude is developed.

The incentive plans will be more effective when implemented as part of a comprehensive sales management programme aimed at maximising sales by testing the potential and commitment of sales people. Lavish incentives may beget “A sales man selling refrigerator to an Eskimo” – such is the potency of ‘incentive – positive’

Related Questions

1. Define incentive, What are its categories.
2. State the components of a sound wage plan.
3. What are the essential of a good incentive plan
4. State the advantage and disadvantage of incentive.
5. Describe commission aspect of remuneration to sales persons.

Key Answers / Points

A minimum guaranteed wage is fixed over which incentive scheme can be woven. Apart from this bonus or extra payment can be contemplated. There is an incentive for efficient workers in the form as above. It is fair to all workers as the rate of bonus is related to the efficiency in a rational manner.

The target of sales in quantity is to be done in a targeted period for incentive claim.,

There is a plan which gives special incentive reward to efficient sales person and punishment to those who are inefficient (similar to Taylor's plan) It improve the general efficiency of the workers.

Unit – 4

Executives – Compensation plan

Objective

To discuss about sales executives, their compensation, remuneration, etc.

Executants remuneration differs from wages and salaries paid to other employees. A major chunk of executive salary is taken away by taxes. Professional tax , income tax et. They do not have any organized unions, because they are very few, also they cannot resort to different ‘potent’ union activities. Most of the companies do not pay to executive in a transparent manner. Their Remuneration consists of Bonus special incentives, several perquisites and at places commission also. This unit we will discuss several aspects of executive Remuneration.

Structure

- 4.1 Introduction
- 4.2 Sales Executives Remuneration
- 4.3 Perquisites of Sales executives
- 4.4 Characteristics of executive compensation
- 4.5 Modern trend in executive compensation
- 4.6 Reasons for high compensation of executives
- 4.7 Summary –questions – keys
- 4.1 Introduction

Executives in sales are treated sumptuously with different compensation, perks, facilities, grants, commission, etc. The Financial aspects of these compensation may be

- (1) City Compensatory Allowance
- (2) H.R. A or Furnished Bungalow with Housing Loan (soft)
- (3) Chauffeurs driven cars or car allowance with car loan (soft)
- (4) Leave travel commission with family both in India and in Foreign Travel
- (5) Provident Fund
- (6) Gratuity
- (7) Group linked insurance
- (8) Personal pension and Family Pension
- (9) Medical benefits (depending on person to person)
- (10) Accident / death compensation through insurance or otherwise.
- (11) Leave with pay, Holiday resort facilities
- (12) Educational allowances.
- (13) Club membership and thinks like that
- (14) Profit sharing,
- (15) Sales commission. Etc.

In executive remuneration we have to see that they are paid hearily., why they are given, why not less. Is it because they are the highest decision makers. for company target goal et are to be discussed. Is it due to competition among companies to attract competent persons, which results in luring them with hefty compensations we find several

competent managers executives from government leaving taking VRS mostly to joins private companies. Let us discuss these executive remunerations.

4.2 Sales Executives Remuneration consists mainly of salary, Bonus Incentives, Commission, perquisites. The salary of the executives are capped by company law provision. Not more than about 11% of profit should go to top echelons is a practice limits their salary. Hence the additional emoluments general necessity to pay. The intrinsic worth. Charisma necessity to get such people and retain highly competent executives we have to pay more.

Their salary is also related to what our competitors pay .

The success of the enterprise depends on the proves of sales executive a Satisfied executive will turn the pages of the organisation, can being if from red to Green.

For better sales an executive should be motivated as such their pay pocket requires consideration. Bonus; Play a subtle in executives. pay packet. They get bonus not as a natural at the end of a year but as a reward linked with their performance, profit.

There is no uniformity in the extent of bonus paid to executives. It goes as per will and pleasure of the management. A good does gets a hefty payment. These are given in the form of annual, Festival bonus etc. as per profit of the company. Persons who are directly responsible for this sales growth and resultant and benefit gets more incentives are normally a short term profit for continuous affinity towards the company sales executives of top hierarchy may be given some shares also as a long term benefit. However this may create problem like heart burning at other quarters plus

after becoming a share hidden (i.e) owners of the company complacency may prevails – making whole exercise counter productive

4.3 Perquisites of sales executives

Forms a major chunk of their pay pockets Perks are general type common to all and there is special perks to elite sales executives the general type common perks are provident fund. Super annotation relief gratuity special perks includes, special office, furnished residence and office accommodation. Facility to hold, office at Mastodons (residential office) simultaneously this arrangement may reduce IT liability to some extent. Membership at elite club. Their holiday trips with spouse and children all expenses bourn by company but shovan as sales expansion business trip. (again to gain 1. tax benefit) provision of gardener, servants, driver, Free telephone (all call booked as official) gas, electricity bills,. At full rate or at a concessional rate by company.

Coal India gives to their sales officers at company residences water, Electricity free + gas cylinder free.

Manali Refinery for their Sales executives and family arranges annual thickenicks through company or company arranged buses meeting all expenditure.

4.4 Characteristic of Executive Compensation

1. Sales executives compensation cannot be compared with salaries and wages of sales persons. This cannot be rated properly since they have to manage all kinds of job, beyond intended one's also,.

2. They cannot raise their voice of protest regarding salary through union, or in a concerted way. Because executives strength is comparatively low to raise their voice to reach the top. They cannot make effective union.,
3. Always there is some secrecy about sales executives pay. Mostly it is based on individuals performance measures rather than unit or organizational overall performance Normally they pay depending upon length of service, sales dynamism and loyalty etc.
4. There is no top limit for their salary and perks
- 4.5 Modern trend in executive compensation

Especially sales executives are offered commission over their fixed salary – Commission depend upon their sales profit volume of the company yet other companies have started offering shares to few executives in top echelon.

Though there is a statutory limit on the salaries of top executives (up to almost 10% of total profit of company) generous exemption are given by government.

Criteria adopted for benefits like shares offer et. To top level executives – whose retention will be very important for sales directorate Executives whose performance had been consistently superb.

And persons who have lived with the company for a long period.

Sales executives with whom we have seen outstanding loyalty and affinity towards the company.

General criteria to decide Sales executives compensation may depend on their

- a. ability to make short term long term planning to expand sales
- b. ability to organized and install regions, zones and requisite sales force posting there, including sales supervisors.
- c. Their ability to arrange training stimulate, motivate and direct the sales force
- d. General control over the sales zones sales persons to retain and expand territories

This incentive reward Bonus compensation may be based / linked with their achievement of main objective

1. Increase sales volume, cover new areas improve upon margin
2. Economic objectives – Quality of sales to be fixed for region all the cost factors to be controlled for maximum return,.
3. Maintaining of sales call – ‘There should be specific objective for each call’

See that skills of sales person are improved by all means.

Case 1

Salary of Sales Executives

- a)Salary : Rs. 40,000/- per month
- b) Commission : 1% of the Net Profit
- c) Perquisites : Perquisites are classified into three categories A,B and C as follows :

Category ‘A’

Housing

- a) The expenditure incurred by the Company on hiring unfurnished residential accommodation will be subject to a ceiling of 60% of the salary.
- b) Where accommodation in the company owned house is provided, Company shall deduct 20 salary of the Exexutive Sales Director. Wherever the Company does not provide accommodation, House Rent Allowance shall be paid in accordance with (a) above :

Gas, Electricity and Water

Reimbursement of Expenditure incurred on gas, electricity and water.

Medical Reimbursement

Expenses incurred for the Executive sales Director and his family, subject to a ceiling of one month's salary in a year of three month's salary over a period of three years.

Leave Travel Concession

For the Executive Sales Director and his family, once in a year incurred in accordance with the Company Rules.

Club Fees

Fees for clubs subject to a maximum of two clubs. This will not include admission and life membership fees.

Personal Accident Insurance

Premium not to exceed Rs. 1000/- per annum.

Category "B"

Contribution to provident Fund, Superannuation Fund and Gratuity as per the Company's Rules.

Category "C"

Provision of car for use on Company's business and telephone of residence will not be considered as perquisites. Personal long distance calls on telephone and use of car for private purpose shall be billed by the Company to the Executive Sales Director.

The remuneration aforesaid including the benefits and amenities but with the exception of the commission payable on Net Profits be paid and allowed as minimum remuneration for any year in the event of loss or inadequacy of profits though it exceeds the ceiling limit prescribed in sections 198 and 309 of the Companies Act, 1956.

4.5.2 Remuneration proposed for sales executives

Case 2

Salary	In the Scale of Rs. 50,000/- to Rs. 4,00,000/- per month. Annual increment will be merit based and effective 1 st April 2007.
Commission	At the discretion of the Board, based on Sales performance criteria, within the stipulated limits under the Act.

Perquisites & Allowance	Perquisites and allowance like accommodation (furnished or otherwise) or house rent and maintenance allowance, in lieu thereof : together with reimbursement of expenses or allowances for utilities such as gas, electricity, water, furnishings, repairs, servants' salaries; medical reimbursement; club fees and leave travel concession / allowance for himself and his family ; medical / accident insurance and such other perquisites and allowance in accordance with the Rules of the Company.
Incentive Remuneration	At end of service incentive of upto Rs. 62.50 lakhs will be payable at the end of his tenure, if the Board judges that he has achieved a successful turnaround of profits.
Minimum Remuneration in case of indadequacy of profits during any financial year	Salary, perquisites and allowance, incentive remuneration as mentioned above, but excluding commission.

Case 3 Sales Executive remuneration sample

- (i) Salary : Rs. 1,50,000/- per month
- (ii) Commission :

Not exceeding two per cent of the net profits of the company for a financial year, as may be decided by the board of directors for each financial year.

(iii) Perquisites

I. Housing :

Housing I : The company shall provide its own furnished accommodation free of rent

Housing II : In case no accommodation is owned by the Company :

- a. the expenditure on hiring furnished accommodation will be subject to a ceiling of sixty per cent of the salary; or
- b. he shall be entitled to house rent allowance subject to a ceiling of sixty per cent of the salary.

Explanation : The expenditure incurred by the company on gas, electricity, water and furnishings shall be valued as per the Income – tax Rules, 1962. This shall, however, be subject to a ceiling of ten per cent of the salary of the Sales Executive.

II. Medical Reimbursement :

Medical expenses incurred by self and his family, including premium for medical insurance.

III. Leave Travel Concession :

Leave travel concession for executive and his family, once in a year, incurred in accordance with the rules of the company.

Explanation : For the purposes of medical reimbursement and leave travel concession, family means the spouse, dependent children and dependent parents of the Sales Executive,.

IV. Club Fees

Fees of clubs subject to a maximum of two clubs. This will not include admission and life membership fes.

V. Personal accident insurance

Personal accident insurance for an amount, the annual premium of which does not exceed Rs. 10,000/-

VI. Company's contribution to provident fund and superannuation's fund which shall not, in the aggregate exceed 27% of the salary or such other higher rate as may be notified by the Central Government from time to time.

VII. Gratuity as per rules of the Company, not exceeding half a month's salary for each completed year of service.

VIII. Earned leave : on full pay and allowances as per rules of the company, but not exceeding one month's leave for every eleven months of service. Leave accumulated shall be encashabe at the end of the tenure.

IX. He shall be provided with Car for use on company's business and telephone at residence. Personal long distance calls on telephone and use of car for private purposes shall be billed by the company of to the joint managing director.

X. He shall be entitled to reimbursement of all actual expenses including on entertainment and traveling incurred by him in the course of the Sales Executive.

In the event of loss or inadequacy of profits in any financial year, the board of directors shall revise the remuneration payable to executive during such financial year, in such manner as agreed within the

limits prescribed in this behalf under Schedule XIII to the Companies Act, 1956.

4.6 Reasons for high compensation for Sales Executives are

1. Their drive, and ability, intrinsic value not mere extrinsic qualification.
2. Their mission and vision to uplift the company
3. Talented capable are attracted towards a good salary perks
4. We have to pay comparatively better than competitors for retention of sales executives. Moreover there is a short supply of such personal in the developing nation with lot of marketing industries.
5. Opening of free trade, globalization, M.N.C entry into our country has increased our marketing necessity hence there has come a sudden shortage of sales executives.
6. Retention of top executives can be done only by proper salary perks administration
7. The brainy talented sales executives are to be inducted to yield more better results. This motivations can be done by changing their total emoluments.
8. When we are competing with foreign companies necessarily our sales executives also should be paid almost similar 'Himalayan' rate of payment.
9. Changing life styles, frequent trips with in state interstate, intercontinental bring lot of change in executives as such the compensation shoots up

10. Each company should retain their prestige by retention of their creamy sales executive by giving satisfactory payment. Happy pay pocket will not drive sales executives, to try short cut methods to earn more personal money which may be detrimental to the company and result in general dishonor.

Summary

Sales executives who are talented, skill full are an asset to sales department of an organisation. Unless materials products produced are sold, profit, finance cannot be generated as such the testing point of an organisation is its ability to push out (sales) products to market and reap wealth. This unique pushing in the midst of competitors requires unique or outstanding performance by sales executives. To avoid hijacking of senior sales executives by competing companies a 'rat race' is growing in industrial in paying, compensating the talented sales executives. We find some purge of sales people from public to private.

This is due to the freedom of action, given by private companies due to that their ego and self a** need of indication will be satisfied.

Related Questions

1. Who are sales executives?
2. Why there should be a pay difference between salesman and sales executives?
3. Why sales executives compensation is very High?
4. What are the characteristics of executive compensation?
5. Mention few types of sales executives compensation.

Key Notes

We have to attract, retain and motivate, sales executives through proper pay pockets. We cannot compare executives pay packet and sales persons. Because executives are the persons who create retain, confide, direct and compensate the sales force. Hence a satisfactory pay pocket should be given to sales executive more over the foreign company investment in this country, globalization, M.N.C's entry liberalization schemes has ** a change in salary pattern also.

When a sales executive of phoenix company at Singapore gets lakh dollars salary, per year, Indian branch of Phoenix sales executive may expect a similar pay pocket which about 50 lakhs year. Hence it has become a global necessity.

Unit – 5

Compensation Plans, Packages, Case Studies

Objective

Indian Scenario in sales persons and sales executives pay pockets. Executive do not get pay, salary alone, various forms of financial, non financial gains are given to them Free trade, foreign companies invasion, dumping, world Trade Organisation et. has caused a stir in the compensation packages of sales personnel. We will make some in depth analysis of this in this unit.

Structure

- 5.1 Introduction
- 5.2 Executive Packages
- 5.3 Commission Plan
- 5.4 Non Financial Incentives
- 5.5 Summary – Questions – keys

51 Introduction

There is a tendency that highly skilled sales marketing personnel have become high flying. To compete with different sales methods in states of our country, with different companies and internationally, we have to show lot of marketing activities. These activities are not a direct consequence of college education. It is an intrinsic worth and hence command very high compensation.

While Zeal, dynamism, Concentration, intelligence, et are intrinsic motivation, education, experience, Training can be taken as extrinsic worth.

This also should be bourn in mind that executives alone are not responsible for hike in sales. Their brain power and talent are to be utilised in sales organisation with salaries and sops as earlier explained

Again while we can ganged the salary necessities of salesmen by evaluating their jobs we cannot use the same yard stick to sales executives. For executives it also depends on employer ability availability of such persons (depending on the product be the marketed) and employees bargaining capacity If he is experienced; “he will build a castle in the air around’ and show them to the employer.

5.2 Packages

And when you proceed you take something else also with you. (ie) when salary grade is fixed for you compensation package also is given to the sales person.

This package depends on the intelligence, talent education, nature, nurture, sincerity, zeal initiative, devotion will power and optimism of the person. A sample of the above requirement can be seen from his earlier employment place position et,.

Package datas are general type, and particular type as explained earlier.

General type in package is pronounced at the outset like P.F. , Medical, Insurance, Leave Travel, Picnic provision H.R.A., Car allowance etc.

Later packages will be limited with performance productivity – like incentive, ((commission etc.

Compensation

Which are of straight salary method the assurance of regular pay at the end of the month makes sales force feel secure their safety needs as per Maslow's motivational steps are achieved. They will put their heart and soul to the work.

Another method as discussed earlier, commission plan rewards are tied directly to the sales volume done, this method helps high performers risk (calculated) takers gain more. But in all cases, fluctuating market may make the pay pocket dangling uncertainty looms consequent panic reaction will swallow vitality of the sales force. This aspect may turn as 'Carrot and Stick' type of luring the sales people.

To avoid this Catastrophic conditions a combination plan is envisaged wherein a base line fixed salary is fixed for his decent lining wage on which the commission is worked and slapped.

An arrangement like : Commission and profit sharing Bonus; may work well as per nature of selling product. Non financial compensation.

Career growth –Nowadays when hefty salaries are given to sales executives – they want attention of the company on their career path It is designation which counts than few hundred chips here and there sales manager wants to be called as salesme. sales manager wants to be designated as marketing officer regional, Zonal etc.

sales boy wants to be called as salesman Now the above circle indicate the necessity to look to the designation. At the same time requisite management training and Development programmes are to be undertaken to enable them to cope with their new assignments.

Proper and timely recognition besides reward- sans reward recognition of meritorious exemplary out standing service done can be openly applauded.

First recognition by fattening , putting the performance of excellence volume etc on the notice boards, company in house magazines etc.

Second stage of recognition is giving token reward performance excellence certificate, citations etc in company meetings, annual or on republic day etc.

Monitoring :- All incentive, compensation plans should be well calculated and implemented properly. There may be needs to revise it at regular intervals or whenever there is upheavals in the marketing volumes. All above should be monitored relentlessly to retain and attain the purpose for which they are established.

Unit – V

Lesson 1

Wage Boards

Objectives:- The aim of this lesson is to familiarize the student with:

- The concept of wage boards
- Functions of wage boards
- Working of wage boards

- The concept of pay commission

Structure:-

1.1 -	Introduction
1.2 -	The objectives of wage boards
1.3 -	Growth and Development of wage boards
1.4 -	Composition and functions of wage boards
1.5 -	Working of wage boards
1.6 -	Evaluation of wage boards
1.7 -	Pay commission
1.8 -	Self Assessment Questions
1.9 -	Further Readings

1.1 - INTRODUCTION

The institution of wage boards has come to be widely accepted in India as a viable wage determination mechanism. The boards have been successful in fulfilling their primary object of promoting industry-wise negotiations and active participation by the parties in determination of wages and other conditions of employment.

Wage boards are set up by the Government, but in selection of members of wage boards, the government cannot appoint members arbitrarily. Members to wage boards can be appointed only with the consent of employers and employees. The representatives of employers on the wage boards are the nominees of employers' organization and the workers' representatives are the nominees of the national center of trade unions of the industry concerned.

The composition of wage boards is as a rule tripartite, representing the interests of labour, Management and Public. Labour and management representatives are nominated in equal numbers by the government, with consultation and consent of major Central Organizations. These boards are

chaired by government nominated members representing the public. Wage board function industry-wise with broad terms of reference, which include recommending the minimum wage differential, cost of living, compensation, regional wage differentials, gratuity, hours of work etc.

1.2 - THE OBJECTIVES OF WAGE BOARDS :

- (a) To work out wage structure based on the principles of fair wages as formulated by the Committee on Fair Wages.
- (b) To work out a system of payment by results.
- (c) To involve a wage structure based on the requirements of social justice.
- (d) To evolve a wage structure based on the need for adjusting wage differentials in a manner to provide incentives to workers for advancing their skill.

1.3 - GROWTH AND DEVELOPMENT OF WAGE BOARDS

The history of wage boards in India dates back to the 1930's. The Royal Commission on Labour recommended the setting up of tripartite boards in Indian industries. It said :

We would call attention to certain cardinal points in the setting up of (wage - fixing) machinery of this kind. The main principle is the association of representatives of both employers and workers in the constitution of the machinery. Such representatives would be included in equal numbers, with an independent element, chosen as far as possible in agreement with or, after consultation with, the representatives of both the parties.

Take decisions regarding wage adjustments suo motu or on reference from parties or from the government.

No action was taken during that plan period. However, the Second Plan emphasized the need for determining wages through industrial wage boards. It observed.

The existing machinery for the settlement of wage disputes has not given full satisfaction to the parties concerned. A more acceptable machinery for settling wage disputes will be the one which gives the parties themselves a more responsible role in reaching decisions. An authority like a tripartite wage board, consisting of an equal number of 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.

This recommendation was subsequently reiterated by the 15th Indian Labour conference in 1957 and various industrial committees. The government decision to setup the first wage board in cotton textile and sugar industries in 1957 was also influenced by the Report of the ILO.

The appointment of a wage board often results from the demands for labour unions. It has been reported: The formation of wage boards in all industries has been the result of demands and pressures on the part of trade unions. In their efforts to secure the appointment of wage boards, trade unions have to repressurise not only the government but also the employers whose formal or informal consent to their establishment must be obtained.

In India, the Bombay Industrial Relations (Amendment) Act of 1948 may be regarded as perhaps the earliest legislation included a provision for the establishment of wage boards in any industry covered by the act. Accordingly,

the first wage board was set up in Bombay for the cotton textile industry. The principal purpose of starting wage boards was to relieve the Industrial Courts and Labour Courts of a part of their adjudication work. The amending act of 1953 has tried to avoid multiplicity of proceedings under the Act. It empowered Industrial Courts and Labour Courts wage boards to decide all matters connected with or arising out of any industrial matter or dispute.

Industries Covered

The first non - statutory wage board was set up for the cotton textile and sugar industries in 1957. Since then, 24 wage boards covering most of the major industries, have been setup by the Centre: cotton textiles, sugar, cement, working journalists and non - working journalists (twice each), jute, tea, coffee and rubber plantations, iron ore, coal mining, iron and steel, engineering, ports and docks, leather and leather goods, limestone and dolomite. On 17th July 1985, three wage boards were constituted, one each for working journalists, non - working journalists and the sugar industry. But no central act contains any provision for setting up wage boards. They are set up by a resolution of the government; and they come to an end with the submission of their reports.

1.4 - COMPOSITION AND FUNCTIONS OF WAGE BOARDS

The wage boards is, as a rule, tripartite body representing the interest of labour, management and the public. Labour and management representatives are nominated in equal numbers by the government, after consultation with and with the consent of major central organizations. Generally, the labour and management representatives are selected from the particular industry which is investigated. These boards are chaired by government - nominated members representing the public.

They function industry - wise with broad terms of reference, which include recommending the minimum wage, differential cost of living compensation, regional wage differentials, gratuity hours of work, etc.

Wage boards are required to :

- a. Determine which categories of employees (manual, clerical supervisory, etc.) are to be brought within the scope of wage fixation.
- b. Work out a wage structure based on the principles of fair wages formulated by the committee on fair wages.
- c. Suggest a system of payment by results.
- d. Work out the principles that should govern bonus to workers in industries.

In addition to these common items, some wage boards may be asked to deal with the question of Bonus (like that of the wage boards for cement, sugar and jute industries); gratuity (like that of the wage boards for iron ore mining, limestone and dolomite mining industries) and the second wage board on cotton textile industry; demands for payments other than wages (wage boards for jute and iron and steel industry); hours of work (rubber plantation industry); interim relief (wage boards for jute industry and post and dock workers).

Some wage boards (Wage boards for sugar, jute, iron ore, rubber, tea and coffee plantations, limestone and dolomite mining industries) have been required to take into account the 'special features of the industry'.

Thus, wage boards have had to deal with a large number of subjects. Of these, the fixation of wage - scales on an industry - wise basis constitutes the biggest of all the issues before them.

In evolving a wage structure, the board takes into account:

- (a) the needs of the industry in a developing economy including the need for maintaining and promoting exports:
- (b) the requirements of social justice, which ensures that the workman who produces the goods has a fair deal, is paid sufficiently well to be able at least to sustain himself and his family in a reasonable degree of comfort, and that he is not exploited;
- (c) the need for adjusting wage differentials (which is in relation to occupational differentials; inter-firm differentials; regional or inter-area differentials; inter-industry differentials and differentials based on sex) in such a manner as to provide incentives to workers for improving their skills.

For the determination of fair wages, the board has to take into consideration such factors as the degree of skill required for his work, the fatigue involved, the training and experience of the worker, the responsibility under-taken, the mental and physical requirements for work, the disagreeableness or otherwise of the work and the hazards involved in it. The board is required to make due allowances for a fair return on capital, remuneration to management and fair allocation to reserve and depreciation.

1.5 - WORKING OF THE WAGE BOARDS

Although wage boards are set up by the government, the basic reason for their establishment is the pressure brought to bear on the government, by the trade unions, industrial federations and national organizations on the one hand after the employers' formal or informal consent on the other. Pressure has been used

for the appointment of wage boards for the jute industry by the jute workers association and for the coal mining industry by their trade union. The formation of wage boards in other industries has been the result of similar demands and pressures on the part of trade unions – such as plantations, iron and steel, engineer, sugar electricity.

The government cannot appoint members of the wage boards in an arbitrary way. Independent members can be appointed only with the consent of employers and employees. The representatives of employers on wage boards are the nominees of the employers organisation and the workers representatives are the nominees of the national organisation of trade unions of the industry concerned. However, before their actual appointment, a great deal of negotiations take place not only between the two main reclusatrant interests but also among different groups representing particular interests.

Item to be included for the consideration of the wage boards are the outcome of the negotiations between the parties. The issues are unanimously determined by trade unions and employers; but these invariably relate to gratuity, bonus, hours of work and grant of interim relief. The quantum of interim relief is also decided by negations and bargaining which have sometimes resulted in temporary deadlocks.

The board functions in three steps :

1. The first step is to prepare a comprehensive questionnaires designed to collect information on the prevailing wage rates and skill differentials, means of assessing an industrys paying capacity and workloads, prospects for industry in the immediate future, and regional variations in the prices of widely consumed consumer goods. The questionnaire is sent out to labour unions, employers

associations, interested individuals, academic organisations and government agencies.

2. The second step is to give a public hearing at which leaders of labour unions and employers associations, not represented on the board, as well as others interested in the industry in question, are given a verbal or oral bearing on issues dealing with wages, working conditions and other items.
3. The third step is to convene secret sessions at which members of the board make proposals and counter - proposals regarding the items covered under the terms of reference.

In the case of failure to reach a unanimous decision on the issues, each party has the right to veto the others decision.

The role of independent members on the board is limited to conciliation and mediation; they try to prevent deadlocks by promoting communication between labour and management representatives. They also offer advice and suggestions to the parties, but the final decision must result from the parties give - and - take attitudes and compromises.

The decision - unanimous recommendations - is written down in the form of a report and submitted to the government, which usually accepts unanimous agreements, although it may modify any provisions thereof. Then the report is to be complied with by the parties. The government has no legal powers to enforce the boards recommendations. It tries to persuade the parties to narrow their differences and aim to unanimity.

Wage boards like their own time in the submission of reports, e.g., the second wage board for cement and the first wage board for cotton textiles and

sugar took a little less than 3 years; while the wage board for coal mining, non journalists, jute, iron and steel took a little over 3 years; that for tea plantations took 5 ½ years and for coffee plantation 4 years and iron ore mining 5 years. Some of the wage boards constituted in 1964 did not submit reports even by 1969, e.g., heavy chemicals, fertilizers, engineering industries and ports and docks. The average time taken by wage boards in the finalization of their deliberations varies from 3 years to 5 ½ years.

The main reasons for the delay in the completion of wage boards work have been :

1. Routine delays in the recruitment of staff; preparation and printing of questionnaires;
2. Getting replies to questionnaires
3. Time involved in public hearings and
4. Lack of accord among members in arriving at a decision.

1.6 - EVALUATION OF THE WAGE BOARDS

The boards have been successful in fulfilling their primary object of promoting industry - wise negotiations and active participation by the parties in the determination of wages and other conditions of employment.

The following quotation point to the success of this institution :

The board's deliberations and awards have contributed significantly towards the development of a national and 'development oriented' outlook on questions pertaining to particular areas and sectors. They have given serious attention to the impact (of wage increase) on factors like prices, employment and the profitability of the industry.

The committee setup by the National Commission on Labour identified three major problems from which the wage boards suffer :

1. A majority of the recommendations of the wage boards are not unanimous.
2. The time taken by the wage boards to complete their task has been rather unduly long and
3. The implementation of the recommendations of the wage boards has been difficult.

But it concluded: The system of wage boards has, on the whole served a useful purpose. As bipartite collective bargaining on wages and allied issues on an industry wise basis at the national level has not been found practicable at present for various reasons, this system has provided the machinery for the same. It is true that the system has not fully met all the expectations; and, particularly in recent years, there has been an erosion of faith in this system on the part of both employers and employees. The Committee is convinced that these defects are not such as cannot be remedied.

Remedies

The committee made some important recommendations. These have been given below :

1. the chairman of the wage should selected by common consent of the organizations of employers and employees in the industry concerned.
2. In future, the wage board should function essentially as a machinery for collective bargaining and should strive for unity.
3. Wage boards should be assisted by technical assessors and experts.

4. The terms of reference of wage boards should be decided by the government in consultation with the organisations of employers and the workers concerned.
5. A central wage board should be set up in the Union Ministry of Labour on a permanent basis to serve all wage boards through the supply of statistical and together material and lending of the necessary staff.
6. Unanimous recommendations of wage boards should be accepted and in case of non - unanimous recommendations, the government should hold consultations with the organizations of employers and employees before taking a final decision.
7. Wage boards should not be set up under any statues, but their recommendations, as finally accepted by the government, should be made statutorily binding on the parties.
8. For the industries covered by wage boards, a permanent machinery should be created for follow-up action.
9. Wage boards should complete their work in one years time and the operation of its recommendation should be between two or three years, after which the need for a subsequent wage boards should be considered on merit.

If these recommendations are accepted, the working of wage boards may be made more affective.

1.7 - PAY COMMISSION

It is an administrative system that the Government of India set up in 1956 to determine the salaries of government employees. The first pay commission was established in 1956, and since then, every decade has seen the birth of a commission that decides the wages of government employees for a particular time-frame. For instance, the recommendations of the Fourth Pay Commission

covered the period between 1986 and 1996. The Fifth Pay Commission covered the period between 1996 and this year.

The Centre constituted the Sixth Pay Commission headed by Justice B.N.Srikrishna, to recommend the principles and guidelines for revision of wages of about 33 lakh Central Government employees. The four-member Commission, to be headquartered in the capital, is to submit its report within 18 months. The other three members of the panel are Ravindra Dholakia, J.S. Mathur and Sushama Nath who is to function as Member-Secretary.

The commission, besides looking into the pay structure, allowances and other benefits of the Central staff, has also been directed to recommend new pay structures for personnel of the armed forces and officers and employees of regulatory bodies set up under Acts of Parliament. The commission will also look into the desirability and need to sanction interim relief, if any, till the time its recommendations are submitted and accepted by the Government. Under its terms of reference, the Commission is to make recommendations for pension and gratuity for employees appointed prior to January 1, 2004, as those recruited after this date covered under the defined contributory pension scheme.

1.8 - SELF ASSESSMENT QUESTIONS

1. Comment the practical utility of wage boards?
2. Discuss the growth and development of wage boards in India?
3. Explain the composition and benefits of wage boards?
4. Discuss about pay commissions?

1.9 - FURTHER READINGS

1. K.K. AHUJA, Personnel Management, KALYANI PUBLISHERS, NEWDELHI.

2. C.B. MEMORIA & S.MEMORIA, Dynamics of Industrial Relations in India, HIMALAYA PUBLISHING HOUSE, DELHI.
3. P.C. TRIPATHI, Personnel Management & Industrial Relations, SULTAN CHAND & SONS, NEWDELHI.

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Unit – V

Lesson 2

Global Pay Systems: Compensation in Support of a Multinational Strategy

Objectives:- After studying this lesson you should be able to :

- Under stand global pay systems
- Knowing the traditional system
- Learn about balance sheet method

Structure:-

- 2.1 - Introduction
- 2.2 - Traditional systems
- 2.3 - Challenges for the traditional systems
- 2.4 - Global system
- 2.5 - Concluding comments
- 2.6 - Self Assessment Questions
- 2.7 - Further Readings

2.1 - INTRODUCTION

For many companies, maintaining a domestic compensation program that supports the strategic goals of the organization and meets the needs of employees is a difficult challenge. This challenge is intensified when a similar program must be designed to operate in multiple countries with different cultures. For organizations competing in a global marketplace, managing compensation requires a through understanding of the

taxation of compensation and benefits, differing state social systems, differences in living standards and employee values and expectations.

Some of the most challenging questions are following:

How does a company pay expatriates from difference home countries brought together to work on a project.

What about compensation packages for same country nationals sent to different regions of the world?

Traditional compensation systems for expatriates, such as the balance - sheet approach and going - rate approach, may not be adequate for the company or expatriate in facilitating an case of transfer. Global enterprises require global compensation systems that allow the organization to maintain the flexibility and ease of transfer between countries and regions while providing employees a just wage. A compensation system must be designed to work regardless of where the expatriate is sent on assignment. To some degree, this requires rethinking the traditional focus on location and national culture in determining expatriate compensation.

2.2 - TRADITIONAL SYSTEMS

Of the traditional global compensation schemes, the balance - sheet method is most commonly used. More than 85% of North American companies use some variation of this method to compensate their expatriates. The objective of the balance sheet method is to keep the expatriate economically whole or to ensure that the expatriate doesn't financially suffer or come out ahead as a result of the international assignment. It is intended to maintain the employees home standard of living during the international assignment.

The base salary for parent – country nationals and third – country nationals is linked to the salary structure of the relevant home country. Additional salary is often given to cover tax differences, housing costs and the other basic living expenses. Perquisites may also be offered such as foreign service premiums, hardship allowance, relocation assistance and home leave allowances to help make the assignment more attractive. There are several versions of the balance – sheet approach, such as the headquarters based system. They each essentially are applied in the same manner with the primary difference being that the base salary is equated with a different location.

An advantage of the balance sheet method and perhaps the reason why it is one of the most widely used international compensation scheme is that it eases the repatriation process because it generally maintains comparable compensation with home country colleagues. It further provides equity between assignments and is relatively easy for employees to understand. Multinationals using the balance sheet approach must frequently review compensation package to ensure that it is keeping up with any rise in cost of living.

Opposite to the balance sheet method is the host – country – based or going – rate approach. This approach uses comparable salary in the host country as the base in setting compensation. It perhaps best integrates the expatriate into the host country and host business unit more quickly because salary survey comparisons are closely linked with host country nationals. As an alternative, compensation may be benchmarked against expatriates of the same nationality or of all nationalities within the local market. Advantages afforded by this approach include better identification with the host country living standards and host company compensation levels. This may be particularly important in

diffusing any resentment that may develop among local national employees regarding inequities in expatriate compensation.

These traditional methods of international compensation are based on the premise that eventually the expatriate will return to his or her home country. However, as globalization requires a constant mobile workforce, these traditional compensation packages are becoming less and less adequate. Challenges develop as the need to transfer employees among international business units increases. It becomes an expensive proposition for companies to continue paying salaries, allowances and perquisites based on a home country location when there are no immediate plans to repatriate the employee.

2.3 - CHALLENGES FOR THE TRADITIONAL SYSTEM

Although the balance sheet approach provides the benefits of equity for the expatriate between assignments and better facilitates repatriation, it generally comes at a high cost to the company. The longer the foreign assignment lasts, the challenge to maintain a life style the expatriate may have been accustomed to at home becomes greater. The balances sheet approach infers that the expatriate should never have to make any adjustments to his or her host country and company. This can result in great compensation disparities between the expatriate and host company employees as well as third - country expatriates. Problems arise when employees are paid different amounts for performing essentially the same job, leaving a perception of unfairness among the lower paid employees.

Another challenge with the balance sheet approach is the complexity in administering the program as more expatriates from different home countries are sent abroad.

Multiple home countries complicate the administration of the base pay and allowances required to keep the expatriates economically whole.

The going rate approach also has its disadvantages as a global compensation program. Assignments to multiple locations likely result in variation of pay. This is particularly evident when an employee is transferred from an economically advanced location to perhaps a Second or Third World country. Expatriates facing a possible loss of compensation may be reluctant to take the pending assignment. Further more, expatriates from the same home country performing equivalent work in different locations can have a notable difference in pay depending on the host country compensation level. Again, this can result in expatriates being reluctant to take the lower compensating assignments and lead to rivalry among coworkers for the higher paying assignments.

2.4 - TOWARD A GLOBAL SYSTEM

A global economy has emerged as companies all over the world are joining forces through alliances, mergers, joint ventures, acquisitions and the like. The mobility of the workforce is increasing as companies recruit employees worldwide. Multinational corporations are looking to foster collaboration among their foreign business units. The availability of television, the Internet, e-mail, cell phones and other means of instant communication have allowed employees to easily obtain and exchange information about pay and other working conditions. To be competitive in this global economy, companies must identify those skills and competencies that they require globally and pay accordingly.

Much has been written on compensating the expatriate from a home country perspective. The assumption is that the international assignment is temporary and therefore an inducement should be paid to entice the expatriate to take the assignment. However, as true globalization of business becomes more common, the trend is drifting away from the temporary expatriate with a home base country toward true international employees who are expected to remain abroad throughout their careers. It is becoming more important to establish a strategic compensation system that provides the flexibility to easily relocate employees to meet company needs, equability among similar jobs worldwide, cost savings and ease of manageability of the compensation program.

To create a global culture where employees located in different parts of the world can feel a sense of equality within the organization, companies must implement a core compensation program that is essentially similar everywhere. A case in point is Seagram Spirits and Wine Group, a multinational company with roughly 10,000 employees in more than 60 countries. To support its globalization efforts, Seagram needed to have the flexibility to relocate managers frequently between countries. The company revamped its existing compensation policy and developed a pay approach aimed at providing worldwide equity in overall compensation.

The new international compensation package started with a job evaluation system that matched comparable jobs with comparable pay. Managers covered under the new global pay policy are paid at the top quartile of local compensation. Benefits are set at the median of each local market, with employees having some flexibility in their choice of benefits.

Although some adjustments to the pay and benefits package may have to be made to address local tax, social, and other issues, the overall compensation

scheme adheres to seagrams global pay principles. Although Seagram does not necessarily have the perfect formula for a global compensation system, it has taken measures to better align its compensation strategy in support of its multinational strategy.

2.5 - CONCLUDING COMMENTS

Multinational corporations that commonly require the transfer of technology, technical skills or corporate vision must develop compensation systems that simplify the relocation of employees. Further more, the compensation systems must be perceived as equable among similar jobs worldwide, provide cost savings and be efficient and easy to manage.

A job based compensation system similar to Seagrams approach that establishes a base salary for comparable jobs worldwide can be an effective start in developing a global compensation system. From this, flexibility can be built in to the systems to address social, economic and political issues in local and national regions. The compensation system should reflect the company culture and be designed to attract qualified employees that have the necessary knowledge, skills and abilities that support the organizations strategic goals and objectives.

As companies expand their operations globally, compensation systems must evolve to mirror the global strategies and objectives of the companies. The workforce is becoming less inhibited by borders and increasingly willing to remain internationally based employees. Companies are recruiting international candidates with the intent of being able to relocate them throughout their entire career. This change in international business practice warrants a change in traditional expatriate compensation, focused on corporate culture and business strategy rather than national culture and local conditions. With an effective compensation system designed to support the global strategy,

multinational organizations can enhance their competitiveness through attracting, retaining and motivating their workforce.

2.6 – SELF ASSESSMENT QUESTIONS

1. Explain the compensation packages in different regions of the world?
2. Discuss about the new international compensation packages?

2.7 – FURTHER READINGS

1. JOSEPH. J. MORTOCCHIO, Strategic Compensation-A Human Resource Management Approach, PEARSON EDUCATION PVT. LTD., DELHI.
2. C.B. MEMORIA & S.MEMORIA, Dynamics of Industrial Relations in India, HIMALAYA PUBLISHING HOUSE, DELHI.
3. MACHAEL ARMSTRONG AND HELLEN MURLIS, Hand Book of Reward Management, CRUST PUBLISHING HOUSE, DELHI.

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Unit – V

Lesson 3

Compensation in a Knowledge Based Global Economy

Objectives:- After studying this lesson you should be able to understand:

- The importance of a rapidly growing global economy.
- The relationship between labor costs and organizational competitiveness and profitability.
- The contribution of organizational compensation to the lifestyle opportunities of employees and their families.

- Structure:-**
- 3.1 - Introduction
 - 3.2 - Capitalism and Knowledge in a Global Economy
 - 3.3 - Compensation and Organisational Strategy
 - 3.4 - Organisational Compensation and Employee Income
 - 3.5 - Life style and Compensation
 - 3.6 - Social Structure and Income
 - 3.7 - Life style and Social Class in the U.S
 - 3.8 - Work force Demographics
 - 3.9 - Self Assessment Questions
 - 3.10 - Further Readings

3.1- INTRODUCTION

Develop a compensation program that recognizes the lifestyle and standard of living of all employees. Ever since the end of World War II, social, political and economic systems have moved toward a world economy. In the past 20 years, however, this move toward a more complex and competitive world has accelerated at a rapid pace. Today and into the future, the focus on market forces and international resource allocation will expand. Although a global economy focuses on such macroeconomic factors as inflation, gross domestic product, monetary policies, trade tariffs and international resource allocation, one microeconomic factor has been and will continue to be of critical importance within a global economy. That factor is labor costs.

Labor cost issues affect the efficiency and even the survival of public and private sector organizations. Long before the advent of a global economy concept, governments in some manner developed various approaches and efforts to redistribute income to the poorer members of their society. It has been recognized that if some kind of subsistence level of income or necessary goods and services is not provided to the poor, a belligerent society develops with constant warfare between the haves and the have-nots. One major method of providing for the poor promoted some kind of welfare payments in the form of money, food, housing, health care services and even clothing. Another method was for government agencies – Civil Service – to provide jobs and job related paychecks. In many countries, all kinds of non government service and goods producing organizations were stimulated to hire as many workers as possible. A major problem with these hiring practices was that many job holders made little or no constructive contributions to the output of the hiring organization. Not only did these practices result in drastically overstaffed organizations, but the overall performance of these organizations was poor and inefficient. Providing jobs and paychecks to unneeded, non productive workers

not only leads to overstaffing but most often results in inefficient operations and promotes cronyism and corruption.

To survive in a complex, competitive global economy, all organizations, private and public must be able to focus on the effective and efficient delivery of the products they are designed to offer. A key factor in promoting effective delivery of essential goods and services is the provision of a performance based remuneration system for all workers. Compensation Management provides a step by step approach for designing a remuneration system that recognizes job requirements; employee related knowledge and skills and performance related incentives that link individual, team, work unit, and organization performance. Total remuneration also includes a host of benefits that protect and expand the lifestyle and health of workers and their families. The total of these contributions by the organization represents its labor costs. On the one hand these costs should contribute to improved employee performance and on the other hand, expanded productivity so that an organization can be competitive and profitable in providing its goods and services within a global economy.

3.2- CAPITALISM AND KNOWLEDGE IN A GLOBAL ECONOMY

It is not often that world events have a major influence on organizational support operations. What the fall of the Soviet empire and a world wide decline in communism, however, interest in capitalism has risen to an all time high. The political - social - economic battle between capitalism on one side and communism - socialism on the other side has focused renewed worldwide attention on jobs, employee income from job related efforts, organizational profitability, ability to compete in global markets and income distribution in the United States and throughout the world.

To gain appreciation of the influence of these worldwide events on the role of compensation professionals and managers, it is helpful to start with a brief explanation of capitalism and the dynamics that support it as a viable economic solution to global problems. A critical factor underlying capitalism as an economic theory is that profit is OK; it is neither wicked nor unacceptable to make money. For capitalism to succeed, however, a strong, direct and supportive relationship must exist between work and the monetary rewards available through work. Today, more than ever before, there is recognition all over the world that if an organization is to succeed, it must have a motivated workforce that receives joy from working and is dedicated to successful operations. In a capitalistic world, employees must respect money and the challenges of their work to gain satisfaction from work performed.

The move of capitalism into a knowledge based world centers attention on an enlightened society. The importance of knowledge demands a predisposition toward continuous self improvement. To be successful in a knowledge based capitalistic world, a passion for learning must exist that includes a recognition of the need for education.

A major problem facing the United States and its leadership role in a capitalistic democratic world is an increasing and unacceptable difference between the income of the lower paid and the higher paid members of the workforce. The growing disparity of income between the lower income and the higher income members of society relates directly to the increasing influence of higher levels of knowledge and skills in pay determination. Those members of society who do not have an adequate or acceptable level of education are going to find themselves in an unenviable position regarding current and future income opportunities. The pay and compensation for those with acceptable

levels of knowledge and skills will rise, whereas those with minimal levels of required knowledge and skills will see their income opportunities stagnate, or even decline.

More than ever before, the compensation professional must be able to support all activities that will make the organization more successful. In the past decade, wide spread activities have reduced the size of the workforce – downsizing or reduction in force (RIF) and the elimination of entire levels of management structure called reengineering. These efforts have been successful in decreasing organizational costs and increasing profitability. For some employees, it has meant increased workloads with minimal to no change in pay. For others, it has meant the loss of well paying jobs.

From the beginning of these organizational redesign efforts, compensation professionals have been called upon to identify (1) jobs in which worker efforts can be combined (2) unneeded jobs and (3) possibly jobs in which incompetent, obsolete or unneeded employees are being hidden. In addition, these same compensation professionals are being asked to redesign compensation and reward programs to improve employee morale and motivation while keeping labor costs within specified limits.

To assist their organizations in competing while functioning within these often conflicting requirements, compensation professionals have had to increase their knowledge and skills dramatically. Because of these advances in knowledge and skills, the importance of the compensation profession has risen in the managerial professional world.

3.3- COMPENSATION AND ORGANIZATIONAL STRATEGY

To develop a competitive advantage in a global economy, the compensation program of the organization must support totally the strategic plans and actions of the organization. The individuals occupying the executive positions of the organization are responsible for establishing and developing the strategy

of the organization. The overall strategic plans inform all of its members of the direction the organization wishes to take. Management and organizational specialists review these strategic plans and take the actions necessary within their domain to ensure accomplishment of the plans.

For the human resources compensation specialist, the assignment to ensure accomplishment of organizational strategy begins with determining (1) the work that must be performed by some work unit or individual (2) the kinds and levels of knowledge and skills required (3) the quality of people needed to promote organizational success and (4) the rewards the organization can offer to its members that promote a work culture that ensures accomplishment of organizational strategy.

A human resources compensation strategy that fulfills the preceding four requirements will provide a competitive advantage to the organization. Of equal importance, these efforts assist in developing an organizational structure that promotes effective use of all available resources.

3.4- INTEGRATING KNOWLEDGE AND SKILL REQUIREMENTS ORGANIZATION COMPENSATION AND EMPLOYEE INCOME

To be successful in a knowledge based world, each organization must make full use of available technologies. The efficient and effective use of these technologies requires a workforce that has the needed knowledge and skills. Recognizing that available technologies are constantly changing and expanding, the matters of these technologies also must have constantly expanding levels of knowledge and skills. The ability of the individual to interact with ever changing technologies places boundaries on work assignments. The issues of work boundaries and work required knowledge

and skills are a major part of the discussions regarding the setting of base pay and the design of compensation systems.

The major point presented in this lesson is that work does pay off. However, to be successful, the worker must be willing to accept challenges to solve problems. In solving problems, job opportunities expand, which leads to the need to take risks and accept challenges. In these situations of uncertainty, a focus on correctness is necessary to minimize the chance and cost of improper action. Change is inevitable in the knowledge based world. Living and successful adaptation to change require the continuous expansion of knowledge and skills.

Although organizations are searching constantly for ways to keep labor costs within acceptable limits, they must recognize that employee satisfaction relates directly to income obtained from work performed and the lifestyle opportunities made available to the workers and their families from this work earned income. To gain an appreciation of the relationship between work provided pay and employee work satisfaction, it is helpful to gain an understanding of social class, class lifestyle and income in the United States.

3.5- LIFE STYLE AND COMPENSATION

For at least the past 50 years, behavioral scientists and economists have discussed at length the two critical forces of pay the absolute and the relative. As the United States moves further into the twenty first century, its future survival, let alone growth, focuses on these twin factors of pay.

Gone are the days when anyone would, or could, think that money pay is NOT a motivator. It exerts a powerful influence on human behavior. As the famous

English poet John Milton said more than 300 years ago, Money brings honor, friends, conquests and riches. As with any force that is available to one individual to direct or redirect the behavior of other individuals, money and its workplace counterpart, pay, must be used with skill and integrity if they are to accomplish their mission of directing behavior in a positive manner. To better understand how to direct or influence human behavior with money, it is recognize the relationship between lifestyle and social class. The first step in understanding class is to define it. A social class consists of a group of people of roughly equivalent status in an unequal society. Various criteria are normally used to measure status to differentiate social classes. These criteria are income, property, occupation and education. Typically, society is divided into three classes - upper, middle and lower.

PAY AND SOCIAL CLASS

From the dawn of civilization, humanity has been divided into at least two social classes - the haves and the have - nots. As families merged into tribes and tribes into governments a small, insignificant social class emerged between the haves and the have-nots. Members of this middle group were government and religious administrators, military officers, artists, entertainers, traders and merchants. During the past 500 years, as democratic practices began to emerge, this middle social group moved from a minority to a majority in a small number of industrialized nations and became the driving force to spread democratic concepts throughout the world.

Almost from its start, the United States has flourished within a democratic, middle class environment. Today, with the continued prosperity, let alone survival, of the nation in peril, it is important to recognize the relationship among pay, earnings and income and social structure within the country.

3.6- SOCIAL STRUCTURE AND INCOME

For hundreds of years, those involved in the identification of social classes have used a variety of criteria for determining who should be in a particular social class. Today, in capitalistic - democratic America, one criterion can be used to determine the class of an individual or family unit and that is income. Most adults in the United States must depend on their job - related pay or earnings for their income. The typical upper, middle and lower class divisions can be separated further into seven subsets. Each of these subsets defines a significantly different standard of living based on family income. The three classes, seven subset classed and annual family income intervals are show in Figure 3-1.

Figure 3 - 1

Seven Classes of Society in the United States

	Class	Family of Four Annual Income	Percentage of U.S. Population
Upper	Ultrarick Wealthy	Over \$1,000,000	Less than 0.5 of 1
	Wealthy	\$250,000 to \$1,000,000	Less than 2
Middle	Upper Middle	\$1,000,000 to \$250,000	6
	Middle Middle	\$50,000 to \$100,000	25
	Lower Middle	\$30,000 to \$50,000	37
Lower	Working Poor	\$18,000 to \$30,000	17
	Poverty	To \$18,000	13

Although these annual family income intervals are somewhat arbitrary, a review of a wide variety of readily available economic data provides a sound basis for these interval values. Like any data used for making rather sweeping generalizations for example, placing 284.8 million inhabitants of the United States into seven social classes (Figure 3-1) - they are approximate, especially for middle and upper classes in which the income amounts could vary by ± 15 to ± 20 percent based on geographic location of the family. The plus amounts would recognize significantly higher housing costs and state and local government taxes for urban and suburban dwellers in such high - cost - of living cities as New York, San Francisco, Los Angeles and Boston, whereas minus amounts would relate to inhabitants in much of rural America, where living costs and taxes are far lower than those for city dwellers.

Establishing Class Family Income Limits

The actual dollar values presented in Figure 3 -1 were established from the top down and from the bottom up. Poverty - level income statistics generated annually by the U.S. Department of Health and Human services to determine

eligibility for food stamps and other government welfare programs are used to establish the dollar level for the poverty class. Early each year, this federal government agency establishes poverty level income are show in the following table.

Family size	Income	Percentage of 4 Person Family
4 Persons	\$17,650	100.00
3 Persons	14,630	82.9
2 Persons	11,610	65.8
Single Person	8,590	48.7

The \$17,650 family income statistic provides a useful dollar income value for separating the poverty class from the working poor.

Another useful statistic comes from the Internal Revenue Service with its earned income tax credit. Working families making less than \$29,290 in 2002 and having at least two children under 18 living at home were eligible for a maximum credit of \$3,656.

An assumption made regarding the working poor is that at least two members of the family work. Today, one member working full time at minimum wage (\$5.15) would earn \$10,712 and the other half time at minimum wage, would earn \$5,356 for a total of \$16,068 approaching the bottom dollar income list of the working poor. This family still would be eligible for a variety of government subsidies, including food stamps, housing subsidies and federal income tax rebates.

A number of valuable statistics are available for establishing the limits of the lower-middle class. A primary statistic is the U.S. Congress upper limit on tax rebates for the working poor-approximately \$30,000. The national Association of Realtors identified a median income of first-time home buyers for 2001 as \$30,674. A starter home for 2001 was priced at \$125,400. A first-time home buyer would have to have an income of approximately \$39,700 to qualify for a

loan of \$112,800 with a 10 percent down payment of \$12,540. the median - priced resale home for 2001 was \$147,800 and required a qualifying income of approximately \$40,789. The median family income for all home buyers for 2001 was \$51,995. ¹ The ability to qualify for a home mortgage is one of the first badges of entry into middle class. The transition income from lower-middle to middle-middle class is a gray zone, but somewhere at around \$50,000 a family of four begins to truly enjoy the fruits and opportunities available to the middle class.

Federal income tax legislation begins to be useful in establishing the limits between middle-middle and upper-middle class. Various pieces of tax legislation identify who must be considered the highest-paid 5 percent of the organization. For organizations to qualify their benefit programs, including retirement options, they must meet certain nondiscrimination requirements. Over the years, the federal government has attempted to democratize, if not socialize, employer-provided benefits. It has developed some stringent nondiscrimination rules regarding the kinds and amounts of benefits an employer can provide to ensure that its plan is qualified from the view of the IRS.

As an individual moves from the largely inhabited ranks of middle-middle class to the more sparsely inhabited ranks of upper-middle class, the lowest figure provided in IRS pay discrimination regulations uses annual earnings of \$45,000 and \$50,000 (indexed annually based on the increase in the Consumer price Index). Here, a two-wage-earning family would be in the realm of at least middle-middle class.

The \$250,000 cutoff between upper - middle class and the wealthy class can again use IRS statistics to identify who truly are the highly compensated. In

1993, the highly compensated statistic was \$235,840. By 1996, this figure had been reduced to \$150,000. A review of the pay of senior executives and top professionals also provides an insight to the \$250,000 bottom limit to the upper class and the \$100,000 threshold to the upper middle class,

The cutoff between the wealthy and the ultra rich is probably the most arbitrary of all the class income interval values. The annual million dollar earnings appear to continue to attract the attention of all kinds of publications, including National Enquirer, AFL - CIO News, the Wall Street Journal, the New York Times, other major city newspapers, and business magazines such as Fortune, Fortune, forbes, and Business Week. Stories of The rich and famous fascinate many readers. The rich and famous in the United States include a select group of top corporate executives, athletes, entertainers, artists, and professionals.

The various breaks between the seven social classes are the results of analysis of pay for different kinds of work and lifestyle opportunities available through different levels of income. The percentage of members of American society in each social class, again, are approximation using widely available data from the U.S. Bureau of the Census and other reports that identify percentages of the population and income data for various purposes.

Using IRS data, the Tax Foundation of Washington, DC, found that by 1999, the top 5 percent of all taxpayers had an adjusted gross income (AGI) above \$87,682, whereas the top 25 percent of all taxpayers had an AGI of least \$52,965. It must be recognized that the income levels of a family of four as presented in Figure 3-1 are gross income dollars before taking any kind of income tax-related deductions. However, a comparison of the tax Foundation cutoff-dollar incomes supports this model.

The U.S. Census Bureau compiles income data by quintiles (20th percentiles). This provides a barrier in relating Census Bureau data to the seven-class social structure presented here. However, even with this difference, the Census Bureau data do provide some interesting comparisons. For example, in 1997, the median family income for a family of four was \$44,508 (toward the middle of lower-middle class). The census low income category (bottom 20th percentile) was for families with an income below \$18,576 (middle of working-poor class). Using data calculated by the Institute on Taxation and Economic Policy, the Citizens for Tax Justice claimed that in 2001, the average income for the lowest 20 percent was \$9,300, and for the second 20 percent, \$20,600. The high income category (top 20th percentile) was for families with an average income of \$170,000. The top 1 percent had an average income of \$1,117,000. This 2001 report noted that changes in income distribution from 1992 to 1999 were marked by an increase in overall inequality.³ Ever-increasing inequality in income distribution among social classes continues to be a major social and political issue in the United States.

3.7- LIFESTYLE AND SOCIAL CLASS IN THE UNITED STATES

To appreciate the importance of employer-provided pay, it is necessary to have an understanding of the lifestyle and standard of living dictated by pay, earnings, and income. A 1989 analysis of a survey of 2,387 men and women age 18 or older noted that stress decreases with age and income. The study found that the lower the incomes between \$45,000 and \$50,000. If this study continues to be valid, the income a decade later should be between \$55,000 and \$60,000.

The poverty Class: Those who, unfortunately, are members of the lowest-income group in the United States are not enjoying the good life available to the majority. Most of the people in this income group do not have full-time jobs. A large number of the individuals are illiterate and are school dropouts. Housing is a critical problem for this group. It is not unusual for families in this group who have housing to spend from 25 to 50 percent of their income on rent and utilities. Many of the females are or were teenage mothers, with Dependent Children. A 1989 analysis by the U.S. Bureau of the Census indicated that among all American children, 24 percent lived in single-parent homes.

Research by the National Center for Health statistics indicates that children living in nontraditional families have substantially greater health and emotional problems than those living with both natural parents. Within this segment of the population are the truly impoverished economically, socially, and intellectually. Here reside many of the hard-core poor. Many of the underclass live in urban ghettos where crime and drug selling are common, everyday life activities, and drug addiction is rampant. In fact, a major underground economy revolves around some kind of criminal activity such as robbery, stealing, and selling drugs. A 1990 study of drug dealers in Washington, DC, revealed that the typical drug dealer is between 18 and 40 years old and nets \$29,000 a year tax free. Earnings from legitimate, tax-paying jobs for these individuals average \$7 per hour, whereas moonlighting drug deals earns them an average of \$30 an hour.

The working Poor: One feeble and fragile step away from complete destitution are the working poor. Many of these individuals hold part and full time jobs that pay a wage equal or close to the government established minimum wage. Many of these individuals supplement their income with food stamps. They

frequently live in government subsidized, low income housing and rely on government assisted medical services. Few individuals in this group have any kind of estates and major possessions are a well used automobile or truck, some furniture and clothing. A major life improvement goal for those in this group is to move into the lower middle class, which is made possible principally through a better job that pays at least \$1 or \$2 per hour over minimum wage to the single person and \$4 or \$5 more per hour than minimum wage to those maintaining a family.

Lower-Middle Class : Lower-middle class families do not have the luxury of wasting their money. When lower-middle class individuals spend their earnings on frivolous pastimes, they are only one short step away from returning to the lower-income class. A family of four earning from \$30,000 to \$50,000 a year can afford to buy their own house and have their two cars (purchased used), but they are usually deep in debt. Their mortgage payments and utility bills could consume as much as 40 percent of their income. They have little to no savings, and any kind of financial problem can be disastrous. A major financial problem is job loss. Without the earnings coming from one of the jobs, a two-wage earner, four-member family can become destitute quickly. Even with the extra earnings of the second wage earner, the Bureau of Labor Statistics noted that child care and other work-related expenses consumed 20 to 30 percent of the extra income.

In 1992, the U.S. Congress expanded federal grants to U.S. students who needed money for a college education. The family income limit was raised from \$30,000 to \$42,000.

Middle - Middle Class : When people talk about middle class in the United States, they are usually referring to those in this group. Once family income

exceeds \$50,000 to \$55,000, the payment of monthly bills does not require extensive manipulation of the family's financial resources. House mortgage payments and utility bills will consume about 14 percent of their family income. The median price of a house in the United States in July 1998 was \$133,800. Making a 10 percent down payment and carrying a monthly principal and interest payment of approximately \$1,000 is not a hardship.

At middle-middle class, a little reserve fuel for rainy days begins to develop. Individuals in this class can begin purchasing extras that make life so enjoyable. A new car every 4 or 5 years is possible and no longer a dream. A 1 - or 2 - week vacation for the entire family is something to look forward to. Money to pay for some fashionable clothes is available without cutting back on some other essentials. At middle-middle class, children can expect to go to college and without being a top-of-the-line athlete, in the top 5 percent of the achievement test scores, or a straight-A student. However, even when entering the desired grounds of middle-middle class, job based income is critical. If anything happens to eliminate the income of the major wage earner or even one of the wage earners, lifestyle can revert to lower-middle class or even lower-income class. In middle-middle class as well as within those classes that are lower on the income ladder, a drug habit can quickly make a family destitute or involve members in criminal activities. When this situation arises, chances of jail sentences, injury, and homelessness increase significantly.

Upper-Middle Class : Some feel that families of four with annual incomes in excess of \$100,000 per year are wealthy. It is easy to see why someone living in a low - income housing unit would feel this way. Those having an annual income in excess of \$100,000 can afford the comfortable home in the suburbs, which in the United States has a median price of \$176,000, or a house in a well-kept, secure section of the city. Financial investments become of significant

concern to these members of society. Ski trips, beach vacations in the tropics, and tours to Europe become part of the lifestyle. Upper-middle class parents no longer worry about finding affordable day care for their preschool children; rather, they worry about the qualifications of their prospective nannies and how to retain them after they have been hired. Options develop regarding elementary and secondary education. Public schools are no longer the sole option. Expensive private schools are a possibility. House furnishings and clothing begin to have the feel of luxury.

The good life of the upper-middle class is made possible by earnings \$100,000+a year. Although job security is not an absolute requirement, because individuals holding these kinds of jobs are usually able to find other high-paying jobs, the pay in the new job might not be as high as that in the previous job. A loss of job or change in job could reduce the family to middle-middle class status. From an outsider's perspective, this might not be as dramatic as returning to the lower-income class from the lower-middle or middle-middle class because of loss of job income, but to those enjoying the fruits of upper-middle class, it can be traumatic.

The Wealthy Not too many years ago, few individuals and an extremely small percentage of families had annual earnings of between \$250,000 and \$1 million. The numbers and percentages are still small, but they are growing. Many of those occupying the top five to ten positions in American corporations now have annual earnings well in excess of \$250,000. owners of closely held small businesses (annual revenue between \$1.0 million and \$100,0 million) of the 10 highest-paying industries among 35 industrial groups received \$202,000 in 1988. The overall median total compensation for executives in these 35 industries was \$151,000. Successful professionals (attorneys, physicians, dentists, consultants) entertainers (actors, artists, athletes, authors and writers,

models, musicians), and sales personnel can expect an annual income greater than \$250,000. With income at this level, most individuals can develop savings and investments that will ensure them the good life for the remainder of their lives. Five to 10 years of earnings at this level can provide protection from loss of job. There is little that life offers that those in this income class cannot afford. Individuals with incomes of greater than \$250,000 a year can quickly become millionaires. In the decades of the 1980s and 1990s, it is estimated that more than 100,000 Americans became millionaires each year.

For the wealthy, a second or even third home in an exclusive vacation area is easily affordable. Pursuit of distinctive household furnishings is commonplace. Eye-catching designer clothing and sleek, high-performance automobiles help identify a member's place in the social order. In this social class, it is possible to spend 25 percent of income on leisure activities. Luxury for the wealthy is the way of life.

The Ultrarich Not a week goes by that the daily news does not inform the world of the pay of the rich and famous. In 1998, the wealthiest person in the United States was William Gates, founder and chairman of Microsoft. In 1986, Lee Iacocca made the headlines with his \$41.6 million in pay and stock options; in 1987, Michael Milken made the front page with his half a billion dollars in earnings, and in 1998, Michael Eisner, CEO of Disney, received a salary and short-term bonus of \$5.7 million and exercised stock options worth \$569.8 million. The billions accumulated by the late Arkansas merchant Sam Walton were well noted each year in *Forbes* magazine. The many entertainers who annually earn more than \$1 million receive daily recognition. The executive compensation consulting firm of Pearl Meyer & Partners, Incorporated noted that in 1995, the average compensation, which included salary, bonus, restricted stock options, and stock grants valued at the time of the grants, plus

other long - term payoffs, for 30 highly paid CEO's was \$4,367,000. From a review of 350 of the nations largest business, William M.Mercer, Incorporated reported that the median salary and bonus of CEO's was \$1,432,000.

Fortune magazine stated that the top 1 percent of wage earners had pretax incomes for a family of four starting at \$350,000. It noted that percentage by occupation in 1991 of the top 1 percent of wage earners were corporate executives (31 percent), business owners (18 percent) attorneys (13 percent), doctors and dentists (15 percent) and others such as sports stars, actors and consultants (23 percent).

Developing an appreciation of lifestyle opportunities further emphasizes the importance of pay and compensation practices in the United States. Because job related earnings can affect every part of the life style of the wage earners and their families, it becomes readily apparent that pay has an economic and emotional impact on the wage earner.

Two - Wage - Earner Family

Historically, adult female members of families in the lower class of society performed some kind of work activities in addition to raising the family and performing house hold duties. During World War II, however a major change began to develop in the work pattern of families in the United States. As many male members of the workforce joined the military and marched off to war, females who normally would have been housewives staying at home and raising a family joined the workforce to provide the goods and services necessary for a rapidly escalating war machine. By the 1950s, large numbers of females in middle - class households were searching for and accepting permanent employment. Most of these women continued to have children and primary responsibility for family maintenance. The job related earnings

provided the income necessary to move from the working - poor class to lower middle class and from lower middle class to middle - middle or even upper - middle class became a primary motivator of increasing importance for the two - wage - earner family. The median family earnings of a two - wage - earner family in 1998 was \$61,675.

The social and family wage earners to the two - wage - earner family are significant. Both the male and female wage earners have to make major adjustments among their work, family and recreational activities. In addition, these efforts for an improved lifestyle make these wage earners more critically analyze their job opportunities and the pay and compensation they receive from the work they do. These interests and concerns about pay and job opportunities place additional burdens on compensation managers for developing pay systems that treat all employees in an equitable manner. It also requires ever - improving communications among employers, their compensation representatives and employees regarding all aspects of the compensation system of the organization.

3.8- WORKFORCE DEMOGRAPHICS

As of January 2002, the following statistics provide a picture of the workforce as it presently exists.

	In millions
Population of the United States	284.8
Non institutionalized Population (16years and over)	213.1
Civilian Employment	141.4
Unemployed Persons	7.9
Labor Force in Non agricultural Industries	132.9

Full Time Employed	110.7
Part Time Employed	22.8
Employed Husbands	42.8
Employed Wives	33.2
Union Members	16.3
Employed Managerial and Professional Specialty	41.7

The future picture for the United States and its workforce for the first decade of the twenty - first century is now established. Two - wage - earner families have become even more commonplace. Sixty - one percent of working - age women hold jobs, 47 percent of the workforce are female, 61 percent of working are mothers, and 53 percent of these working mothers have children under 8 years of age. Pressure to raise a family and be productive has increased stress on employers and employees. Although minimally skilled unemployed workers are available, organizations are constantly searching for skilled and dedicated workers who will be able to perform assignments in knowledge-oriented, service-providing jobs. Many of the most highly trained and dedicated members of the organization are those who want to raise a family. These individuals with joint allegiance to family and employer will need the income from their jobs to survive, let alone obtain some of the extra things that make life in the United States enjoyable.

3.9 - SELF ASSESSMENT QUESTIONS

1. what is the relationship among money, labor costs, profitability, and knowledge in the modern democratic-capitalistic society?
2. Briefly describe the three major classes of society and their seven subsets.
3. What is the greatest force for the continuation of poverty in the current democratic-capitalistic society?

4. Will the two-wage-earner family become more or less important in the future?

3.10 - FURTHER READINGS

1. GARY DESSLER, Human Resource Management , PEARSON EDUCATION PVT. LTD., DELHI.
2. H.JOHN BENARDIN, Human Resource Management, TATA MCGRAW HILL, DELHI.
3. RICHARD.I. HENDERSON, Compensation Management in a Knowledge based World - PEARSON EDUCATION PVT. LTD., DELHI.

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Unit – V

Lesson 4

The World of Pay and Compensation

Objectives:- The aim of this lesson is to familiarize the student with:

- The compensation program
- Compensation and Global economy
- International Compensation

Structure:-

- 4.1 - Introduction
- 4.2 - The compensation program
- 4.3 - Job and Pay in the United States
- 4.4 - Compensation and Global economy
- 4.5 - Deregulations and takeovers
- 4.6 - International Compensation
- 4.7 - Developing a Compensation program for Expatriates
- 4.8 - Self Assessment Questions
- 4.9 - Further Readings

4.1- INTRODUCTION

Prior to the computerization and robotization of manufacturing, the allocation of 40 percent of revenues for labor costs was a good ballpark figure. This meant that for each dollar of revenues generated by a manufacturing company, 40 cents went for base pay and benefits for the workforce. With the move toward heavy capital investment for continuing automation and robotization, labor costs in the manufacturing sector of the economy have been declining from the

40 percent figure. However, employment in the manufacturing economy also continues to decline. Today, less than 20 percent of the workforce is involved in manufacturing; more and more people are working in service-related industries and jobs. More than 70 percent of all workers perform what are considered service jobs. Most service-sector organizations are heavily labor intensive and it is not unusual for service-related companies to spend 40 cents and sometimes as high as 80 cents of each revenue dollar for employee compensation costs.

4.2 - THE COMPENSATION PROGRAM

To understand something about these labor costs, a good first step is to identify the major parts that can be included within a compensation program - (1) base wages and salaries;(2) wage and salary add-ons; (3) incentive payments, both short and long term; and (4) employee benefits and services.

Base wages and Salaries: From the perspective of many employees, the most important part of the compensation program involves the determination and administration of base wages and salaries. The lifestyles of the great majority of workers revolve around their paychecks. The after-tax amount on the paycheck determines the kind and quantity of food, clothing, housing, and transportation a worker can afford. Leisure activities are in many ways restricted or defined by the paycheck. These powerful influences on the lifestyles of wage earners and their dependents underscore the importance of the job and the pay received by employees for performing the job.

Wage and Salary Add-Ons : For many employers, this is the least critical of the four major components of the compensation system. It includes overtime pay, shift differentials, premium pay for working weekends and holidays, and other add-ons for being on call or for other demands not normally required of workers. In some cases, overtime pay can add 30 to 50 percent kinds of

companies, these add-ons are practically permanent, and the employees can depend on receiving them with a high degree of certainty.

Incentive Payments: Possibly the oldest part of the compensation package is payment for a specified output. For hundreds of years, workers in certain kinds of jobs have received a specific amount of money for a prescribed output. Payment for output reached its zenith in the manufacturing world at the end of the nineteenth and into the twentieth century. Many kinds of factory and mill work fitted neatly into pay-for-output systems. Individual activities could be defined precisely, daily output could be measured, and pay could be tied directly to the measured output.

With the rising dominance of service jobs in the second half of the twentieth century, including the work of clerks, secretaries, repair and service technicians, administrators, professionals, scientists, and managers, activities and output vary so much from day to day and from person to person that Pay-for-output systems are frequently neither feasible nor practical. However, in certain kinds of service jobs, output can be measured accurately, such as for data entry operators or processing clerks in large banks or insurance companies.

Benefits and Services : This part of the compensation package includes time off with pay, pay when employment has been suspended or terminated, pay when unable to work because of accident or sickness, payment for medical protection and attention, retirement pay, pay to dependents upon the death of the employee, and provision of a wide of desirable goods and services ranging from a company car, to cafeteria services, to tuition reimbursement, to child and elderly dependent care, to recreation activities. Although base pay

critically influences current lifestyle activities, benefits and services affect current and future standards of living.

Benefits and services are of rather recent vintage. Following World War 2, many compensation enhancements focused on the area of benefits and services. After rather startling increases during the 1970's and into the early 1980s, the costs of benefits and services briefly leveled off at between 36 and 37 percent of base wage or salary, but by 2001 had risen to 38.6 percent. The benefits offered by organizations vary widely in kind and amount. Although 39 percent of payroll is an average cost for a benefits package, the amount can vary from less than 20 percent to more than 60 percent, depending on the organization.

During the 1980s and 1990s, many organizations made strong efforts to limit the rising cost of the benefits package. Health care and retirement costs, in particular, have increased much more rapidly than practically any other part of the total compensation began to accelerate in the late 1990s and into the twenty-first century. In 2000. The \$3.9 billion, or 2.1 percent of its net sales, on health coverage.

4.3 - JOBS AND PAY IN THE UNITED STATES

The 1960s witnessed the rise of the drug culture, an antiwar movement, and the birth of a New Frontier and a Great Society. A do-your-own-thing attitude prevailed. Then came the 1970s. With the Arab oil embargo and Watergate, Americans began to take a good look at themselves, their lifestyle, and the economy. By the late 1970s, two major businesses, Eastern Airlines and the Chrysler Corporation, were having server financial problems. For the first time since the Great Depression, employees of major corporations who were also members of powerful unions were asked to make concessions to management.

The givebacks requested included reductions in wages and benefits and granting management more freedom in assigning work duties.

By 1991, contracts negotiated with unions provided unionized workers with wage gains that exceeded the rise in the cost of living for the first time since 1982. No 1991 contract settlement called for pay cuts. However, unemployment increased with continued reductions in force as organizations in the United States worked to improve their competitive opportunities. From 1991 to 1995, many negotiated pay increases for unionized workers ranged from 3 to 5 percent, closely approximating annual increases in the consumer price index.

The recession of 2000 to 2002 and the terrorist attacks of September 11, 2001, resulted in additional actions by employers to reduce employee wages and benefits. Possibly no industry was more greatly affected by the terrorist attacks than the airline industry. All of the major airlines had their worst financial performance ever. By 2002, these major airlines were asking their unionized employees to approve pay cuts.

Foreign Competition – The Global Economy

The 1980s started with double-digit inflation. A wide variety of foreign-made products from automobiles, to VCRs, to apparel –began to dominate their respective markets. Steel mills, automobile assembly plants, and textile mills began laying off employees as they felt the pinch of imports produced by workers receiving significantly lower wages.

Korean automobile workers cost their employers from \$4 to \$5 per hour, but their counterpart American workers cost GM, Ford, and Chrysler more than \$27 per hour. Similar variations existed between steelworkers in the United States and those in South Korea and Brazil. American workers and their

employers must compete with differences between local and foreign labor markets are fast disappearing. In the 1980s, it became more evident with every passing month that U.S. businesses must compete in world markets and that their labor costs cannot continue to be five or ten times greater than those of foreign competitors.

From 1985 to 1988, the U.S. dollar was devalued against the currencies of its major economic competitors. Consequently, industrial workers by 1986 in Germany, the Netherlands, Norway, and Switzerland had become more highly paid than their American counterparts. However, developing industrial nations such as South Korea, Taiwan, Singapore, Mexico, and Brazil did not revalue their currencies upward and continue to be in strong competition with U.S. manufacturers.

4.4 - COMPENSATION AND GLOBAL ECONOMY

As U.S. organizations become more competitive, moving production and marketing operations into foreign countries, they must recognize labor costs from a total compensation package vary significantly among different regions of the world and even country by country. Two major factors that influence the design of compensation packages are (1) major differences in tax rates and tax deductions from country to country, and (2) government provided or directed Social Security and welfare systems.

Taxation : Employers and employees must comply with tax systems that vary significantly from country to country. Low or no taxes on certain organization - provided benefits and perquisites will result in these tax - favored components being widely used by businesses and highly desirable to the employee. The company car, housing allowances, and company - paid tuition for employee dependents are examples of perquisites that have advantages

that relate closely to tax laws. Not only are there differences in the taxation of benefits and perquisites, but income tax rates and deductions vary greatly for employers and employees from country to country.

Social Security: Although national Social Security systems have a direct linkage to tax programs, they are such an important part of an employee's benefit program that an analysis of compensation must recognize the costs and features of the Social Security system of each country. For example, most Western European countries provide significantly larger retirement payment equal to 70 to 90 percent of their former job salary. This, in turn, places significantly less pressure on employers to found a pension plan.

Many Western European countries and Canada provide free or low - cost universal health coverage to all workers, retirees, and their families. This can reduce employer compensation costs by thousands of dollars per employee. Social Security systems also provide a broad package of maternity and child care services that include (1) payment of the majority of prenatal, delivery, and postpartum expenses; (2) four months or longer of paid maternity leave; (3) subsidized day care; and (4) generous annual tax deductions for each child. Employees who lose their jobs because the employer terminates operations or implements a reduction in force might be eligible for severance payments that extend for up to 5 years.

As global competitions become important to more and more U.S. businesses awareness and understanding of the differences in compensation packages will increase. Not only do base pay, benefits, and perquisites vary by region and country, but the use of short - and long - term incentive plans also differs significantly. The amounts paid to members of organizations at various levels also differ. In many foreign countries, the base pay of a top executive will have

a ratio from 10:1, or at the most 25:1, from the pay of the average worker. For top executives in large organizations in the United States, it is not unusual for these ratios to exceed 50:1 and at times be greater than 100:1

Table 4.1 : Hourly compensation costs in U.S Dollars for the production workers in manufacturing.

Country or Area	1975	1980	1985	1990	1993	1994	1995	1996	1997	1998	1999
United States	6.36	9.87	13.01	14.91	16.51	16.87	17.19	17.70	18.27	18.59	19.11
Canada	5.96	8.67	10.94	15.84	16.43	15.85	16.04	16.66	16.47	15.60	15.65
Mexico	1.47	2.21	1.59	1.58	2.40	2.47	1.51	1.54	1.78	1.84	2.09
Australia	5.62	8.47	8.20	13.07	12.49	14.12	15.27	16.88	16.58	14.92	15.66
Hong Kong	0.76	1.51	1.73	3.20	4.29	4.61	4.82	5.14	5.42	5.47	5.44
Israel	2.25	3.79	4.06	8.55	8.82	9.19	10.54	11.32	12.04	12.02	11.91
Japan	3.00	5.52	6.34	12.80	19.21	21.35	23.82	21.00	19.54	18.29	20.89
Korea	0.32	0.96	1.23	3.71	5.64	6.40	7.29	8.20	7.86	5.67	7.05
New Zealand	3.21	5.33	4.47	8.33	7.85	8.75	9.91	10.81	10.80	9.01	9.14
Singapore	0.84	1.49	2.47	3.78	5.25	6.29	7.33	8.32	8.24	7.77	7.13
Sri Lanka	0.28	0.22	0.28	0.35	0.42	0.45	0.48	0.48	0.46	0.48	0.46
Taiwan	0.40	1.00	1.50	3.93	5.24	5.56	5.94	5.95	5.91	0.53	5.62
Austria	4.51	8.88	7.58	17.75	20.16	21.55	25.32	24.80	21.97	22.21	21.85
Belgium	6.41	13.11	8.97	19.17	21.70	23.62	27.62	27.22	23.78	24.31	23.92
Denmark	6.28	10.83	8.13	18.04	19.11	20.30	24.07	24.11	22.03	22.69	22.96
Finland	4.61	8.24	8.16	21.03	16.63	19.06	24.10	23.46	21.33	21.66	21.33
France	4.52	8.94	7.52	15.49	16.79	17.63	20.01	19.93	17.99	18.28	17.98
Germany	6.31	12.25	9.53	21.88	25.15	26.66	31.58	31.10	27.54	27.43	26.76
Greece	1.69	3.73	3.66	6.76	7.23	7.73	9.17	9.59	9.20	8.91
Ireland	3.03	5.95	5.92	11.66	12.58	12.58	13.78	14.13	13.83	13.58	13.61
Italy	4.67	8.15	7.63	17.45	15.89	15.89	16.22	17.75	17.57	17.11	16.69
Luxembourg	6.50	12.03	7.81	16.74	20.33	20.33	22.62	21.36	18.74	18.70	15.65
Netherlands	6.58	12.06	8.75	18.06	20.80	20.80	24.02	23.08	20.61	21.40	21.30
Norway	6.77	11.59	10.37	21.47	20.97	20.97	24.38	25.05	23.72	23.50	23.91
Portugal	1.58	2.06	1.53	3.77	4.60	4.60	5.37	5.58	5.38	5.48	5.35
Spain	2.53	5.89	4.66	11.38	11.54	11.54	12.88	13.51	12.24	12.14	12.11
Sweden	7.18	12.51	9.66	20.93	18.62	18.62	21.44	24.37	22.22	22.02	21.60
Switzerland	6.09	11.09	9.66	20.86	24.91	24.91	29.30	28.34	24.19	24.38	23.56
United Kingdom	3.37	7.56	6.27	12.70	12.80	12.80	13.67	14.09	15.42	16.39	16.48

Trade-Weighted measures											
All 28 Foreign Economies	3.83	6.60	6.74	12.33	15.00	15.00	16.38	16.10	15.30	14.75	15.27
OECD	4.25	7.30	7.39	13.46	16.26	16.26	17.74	17.38	16.40	15.88	16.48
Less Mexico, Korea	4.82	8.30	8.48	15.51	18.56	18.56	20.39	19.90	18.77	18.23	18.83
Europe	5.10	9.90	7.96	17.31	19.27	19.27	22.03	22.12	20.46	20.67	20.36
European Union	5.03	9.83	7.85	17.09	19.00	19.00	21.67	21.80	20.24	20.47	20.17
Asian NIEs	0.52	1.17	1.65	3.72	5.78	5.78	6.41	6.92	6.83	5.91	6.29

4.5 - DEREGULATIONS AND TAKEOVERS:

Many American firms protected from the foreign import onslaught began to feel a different form of competition. In the late 1970s, Congress approved deregulation legislation that opened the banking and transportation industries to the pressures of competition. Many heavily unionized airlines became alarmed at the success of non-unionized, low-labor-cost competitors. The same problems faced old line trucking companies. With the mergers of major banks, management and staff officers found their jobs eliminated.

In the case of the mightiest of all American Business, American Telephone and Telegraph (AT&T), federal court-imposed divestiture opened many segments of the business to competition. In the meatpacking industry, nonunion businesses operating extremely modern packing plants under priced the heavily unionized (high-paying) old line firms.

During the 1980s and through the 1990s, many companies faced not only problems caused by product competition but also pressure exerted by financial raiders seeking to buy these companies and than profit by revamping, reorganizing, and selling all or parts of them. With these changes, top

management gave more of its attention to actions necessary and foreign product competitors.

Problems related to deregulation, takeovers, and foreign competition continued into the 1990s. Pan American, Eastern, and Midway Airlines disappeared. In 1991, General Motors had its worst financial year ever. Many leaders blamed Japan for the severe economic problems encountered in 1991. However, by the mid-1990s, American firms had improved their competitive posture significantly and were regaining their dominance in world wide business operations. Much of this improvement could be traced directly to tight controls over their pay and benefits programs. Then the recession of 2000 to 2002 resulted in severe economic problems for U.S. businesses. Ford Motor Company reported the biggest losses it had ever incurred.

Becoming More Competitive

As organizations throughout the country analyze their operations in an effort to survive and ensure profitability, it is apparent that a number of issues require resolution. Above all, it is evident that all kinds of businesses producing a wide variety of goods and services must become more competitive. It is equally apparent that labor costs must be brought more in line with those of the rest of the world. In analyzing competitive posture and the opportunities available to American businesses, the following issues dominate:

1. Computer - based technology will drive the production of goods and services.
2. Highly skilled workers will operate these computers - driven technologies.
3. Errors made at any level in the organization can severely damage its profitability and even its survival.

4. Quality products demanded by customers require the effort and attention of a committed, trained, and well - educated workforce.
5. Top management must become more skilled in integrating short - term activities with the long - term directions their businesses must take and be willing to take the risks in moving toward the unknown. Strategic considerations will continue to be an ever - increasing part of the work of top management.

In company after company, dramatic changes are occurring in ways of doing business. Robots in the factories and computer - based workstations in the offices are changing and will continue to change jobs and the tasks people perform while doing their jobs.

Technology, more than ever before, is driving the production of goods and services. Surviving companies must focus on product and customer. Manufacturing companies can no longer afford the luxury of inventories large enough to take care of any contingency. At the same time, they cannot afford to tell a customer they cannot provide the product at the desired time. Quality also is becoming a more important issue as consumers throughout the world seek high quality.

Major disasters of the past decade make it painfully clear that human error at any level in an organization can severely affect its survival. Although Boeing admitted that faulty repair work on the tail area of a Japan Airlines 747 resulted in a crash that killed 520 passengers, it continued to prosper. Union Carbide still has financial liability problems because of the mistakes made at Bhopal, India. No one died in the nuclear power accident at Three Mile Island, but possibly hundreds, if not thousands, have died or will, as a result of the nuclear disaster at Chernobyl in the Ukraine. These two accidents, which were

caused by human error, will continue to have a devastating impact tember 11, 2001, had a devastating impact on economic conditions. now, the United States and the rest of the world must be concerned with a small number of terrorists affecting world economics and commerce.

No accident in history until the Twin Towers disaster was witnessed by more people than the explosion of the space shuttle challenger in January 1986. a special committee established by the president of the United states with the charge of investigating the accident identified the fatal flaw as a seal that did not work under low-temperature operating conditions. This problem had been recognized as a potential for disaster for many years. Although changes were initiated to overcome the problem, past successes hid the immediate need to correct it.

4.6 - INTERNATIONAL COMPENSATION

Compensation managers of many organizations face an entirely different set of issues in designing and managing the compensation of employees who work for the company in a foreign nation. The unique compensation issues are in these areas.

1. Incentives provided to stimulate movement or expatriation to a foreign location or host country.
2. Allowances for repatriation to home country.
3. Additional tax burdens placed one employees working in a foreign location.
4. Labor regulations in host country and home country
5. Cost of living allowances in the host country.
6. Home country and host country currency fluctuation.

7. Formal and informal compensation practices unique to the host country.
8. Determining home country for setting base pay of third - country nationals (TCNs).

A number of reasons exist for sending employees to a foreign work site. Among the most common and critical are the following.

1. Existing or potential employees who already live at the foreign work site do not have the necessary knowledge, skills and related work experience.
2. Existing or potential employees who already live at the foreign location do not have the knowledge of the business, its operations, plans, policies and strategies.
3. The organization wants to develop a global perspective among employees and make it part of career development program.

Home Country of Employees

An organization operating in one or more foreign nations may draw employees from three different places of residence : (1) The specific nation or host country where the operation is located. (2) the home nation of parent operation and (3) foreign countries other than the site of the operation.

The title given to those employees whose basic residence or home is the host national is nationals or locals. Those who come from the home country of the operation are expatriates and those whose nation of residence is neither the host country nor the home country are third country nationals (TCNs).

The compensation provided to locals, expatriates and TCNs can vary considerably. Normally, the total compensation package provided to locals is the least costly whereas that provided to expatriates is most costly. From strictly a cost point of view the more on invested capital is. (In some cases, however, TCN personnel are far less costly than foreign site, the payment of relocation costs (to the new site and return to the home base at the end of the foreign assignment) and finally the additional tax burden incurred by having expatriates and at times, TCNs in foreign operations are substantial. These expenses often result in an excessive drain on the profitability of the foreign operation.

Attracting Individuals to a Foreign Work Site

Recruiting new employees with the requisite knowledge and skills, or influencing current employees to move to a foreign site, requires a wide array of compensation-related incentives. The kind of compensation components offered and the amount or quality of components available vary according to the desirability of the location.

Site Desirability: Each site has its unique strengths and weaknesses, and these vary according to the way each individual perceives them. Some of these strengths or weaknesses relate to geographical location and climate. Others relate to social and political condition.

Transfer Incentives: Usually, the first compensation issue that confronts the compensation manager is the amount of additional pay required to induce an employee to move from the present job site to the new one in the foreign country. In some cases, the site may be so desirable that the individual would be as financially well-off in the host country as at home. In most cases,

however, the person asked to move to a foreign site will demand some premium over that earned in the present assignment.

The next set of compensation issues revolves around present assignment. The employee owns a house and looks to the employer to cover some or all of the expenses involved in selling it. These sale-of-residence expenses may include sufficient money to profit. Because a house, in many cases, is currently one of the best investments a person can make, organizations now provide home owner who rents rather than sells while on foreign assignment.

In most cases, the organization again takes care of all moving expenses to the new site. In those cases in which it is impractical to move the family, special consideration spouses or families do not make the move, the transfer probably will be for a limited period a 2year contract, with at least one extended, completely paid holidays with the family in addition to the leave.

4.7 - DEVELOPING A COMPENSATION PROGRAM FOR EXPATRIATES

Establishing a compensation plan for a job in a foreign location begins with the determination of base pay. The market or going rate of pay for a comparable job in the home country at the time of expatriation is normally used for setting this rate.

After setting base pay comes the determination of a Foreign Service Premium (FSP), which is an incentive bonus for performing the assignment in the host country. The FSP usually is expressed as a percentage of base pay and is part of the total pay received by the employee. Each pay period some organizations are now granting expatriates lump-sum bonuses in lieu of FSPs. These lump - sum payments are made at the time of expatriation and repatriation.

To maintain the employees present standard of living in the foreign location, organizations provide a number of allowances to keep them whole. A major one provides money for additional living costs (food, housing, transportation and other consumables in the host country). Compensation managers obtain ballpark figures from various sources on additional living costs to be incurred in moving an employee to a foreign location. These include (1) U.S. Department of State Indexes of Living Costs Abroad and Quarters Allowances, published on a quarterly basis by the Bureau of Labor Statistics and (2) Reports available from other organizations. Other major providers of international compensation data and information are Associates for International Research, Incorporated; The Conference Board, Incorporated; Organization Resources Counselors, Incorporated; Runzheimer International and Towers, Perrin. Living costs can include special allowances for utility expenses, servants, operation of the living quarters and educational allowances for the children.

In host areas where conditions (Climatic, Political or Social) are undesirable, a hardship or location allowance is added to base pay. Most pay plans include a cost equalization allowance that includes cost-of-living and housing allowances. The equalization allowance consists of the difference between the costs of food, other consumable items, services and housing in the home country and the costs of those items in the host country. In some cases, the cost-of-living allowance (COLA) - not to be confused with previously discussed COLA, cost of living adjustment - is tied to a change in the currency exchange rate between home country and host country. It must be remembered that compensation computations are made in home country currency, whereas actual payments are made in host country currency. This requires the use of some equivalency formula between home and host country currency.

Many organizations also provide a tax equalization allowance. In computing such an allowance, the first step is to determine the hypothetical tax liabilities incurred by the employee. This is done by assuming that the employee still is working in the home country and receiving the established base pay (excluding all allowances and premiums for working in the foreign assignment) for a comparable job. Using the base pay and appropriate home base income tax rates, a hypothetical tax liability is established. Then the organization computes all tax liabilities (those of the home and host countries) of the expatriate for all income earned on the job (base pay plus premiums plus all living cost adjustments). From these total tax liabilities, the hypothetical tax the expatriate would normally have paid on a comparable job in the home country is subtracted. This is the amount of tax burden assumed by the employer on the tax equalization allowance. Next to base pay and premiums, the tax equalization allowance until 1982 had been the highest cost incurred in sending an American to a foreign location. The tax burden for Americans employed abroad was considerably lightened by the Economic Recovery Tax Act of 1981, which allowed the first \$75000 of their income to be excluded from taxation. TRA 86 reduced this exclusion to \$70000 per year.

To minimize problems related to exchange of currency and to protect the employee, many organizations now split an expatriate's compensation between home country and host country compensation packages. A split pay plan is one in which a certain amount of the total pay received by the expatriate is paid in home country currency and credited to a designated account in the home country. The expatriate receives the remaining pay in the host country in host country currency.

A procedure often used for determining the amount of the split that goes into the home country or domestic account and the amount that goes in to the host country or foreign account takes this approach. First, a spendable income for the employee in the home country must be established. Spendable income is

that amount of pay spent on goods, services and housing. It represents total pay minus taxes (income and FICA), savings, investments, health and life insurance premiums and any contributions made by the employee to benefit components.

Supplementing the spendable income are housing and cost of living allowances to ensure the expatriate the same standard of living in the host country as that enjoyed in the home country at the time of expatriation. These disposable income and living adjustment allowances are further supplemented during the period the expatriate is in the host country by the spendable portion of any pay increase granted and by any cost of living changes that occur (in the host country, using host country cost of living adjustment figures).

The domestic account consists of pay plus premiums minus spendable income and an amount set aside for hypothetical income tax. It also includes that part of any pay adjustments (merit and general increases) granted to the individual or all employees of the organization not set aside for spendable income or additional tax liabilities.

In addition to the aforementioned compensation items, the following payments and services are provided to employees willing to accept a foreign assignment. These payments and services can be included within the following two groups.

1. Life style enhancement services
2. Service allowances and premiums

Lifestyle enhancement services include a wide variety of programs that make living more acceptable and enjoyable at the foreign site. Some of these services include the following.

1. Provision for employee and family to learn the local language.
2. Education and training of employee and family on local culture, customs and social expectations.
3. Counseling services for employee and family.
4. Assistance in finding a home at the foreign work site.
5. Assistance in finding schools and suitable education program for children and dependents.
6. Company car, driver, domestic staff, and child care.
7. Use of fitness facilities
8. Subsidized health care services
9. Assistance in joining local civic, social and professional organizations.
10. Assistance to spouse in finding suitable and acceptable employment.

Allowances and premiums beyond the Foreign Service Premium and Tax Equalization Allowance could include the following.

1. Temporary living allowance
2. Hardship premium.
3. Currency protection
4. Mobility premium
5. Home leave allowance
6. Stopover allowance
7. Completion of assignment bonus
8. Assignment extension bonus
9. Emergency loan
10. Extended work week payment.

4.8 – SELF ASSESSMENT QUESTIONS

1. What changes are occurring in the workforce relative to the kinds of work employees are performing?

2. When is a tax equalization program important to an employee accepting a job at a foreign work site?
 3. Differentiate among home country, host country, and TCN employees.

4.9 - FURTHER READINGS

1. GARY DESSLER, Human Resource Management , PEARSON EDUCATION PVT. LTD., DELHI.
2. H.JOHN BENARDIN, Human Resource Management, TATA McGRAW HILL, DELHI.
3. RICHARD.I. HENDERSON, Compensation Management in a Knowledge based World - PEARSON EDUCATION PVT. LTD., DELHI.