

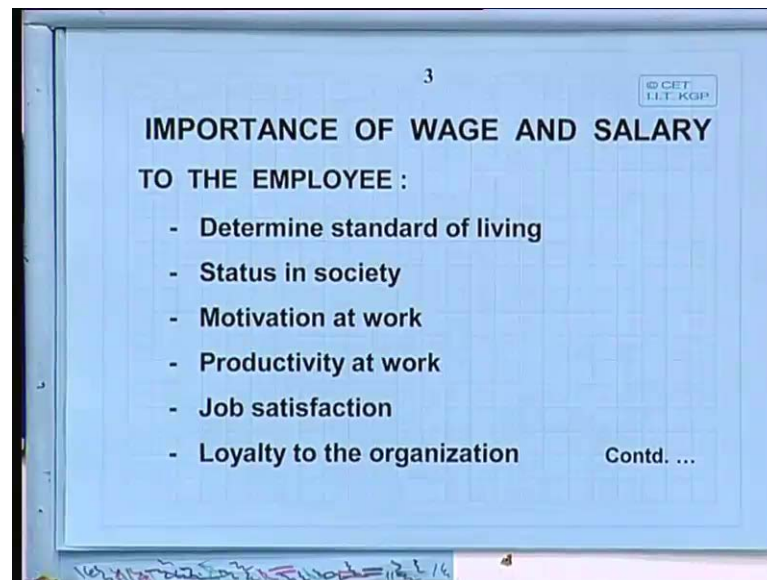
Human Resource Management - I
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Lecture No. # 17
Wage and Salary Administration

Good morning.

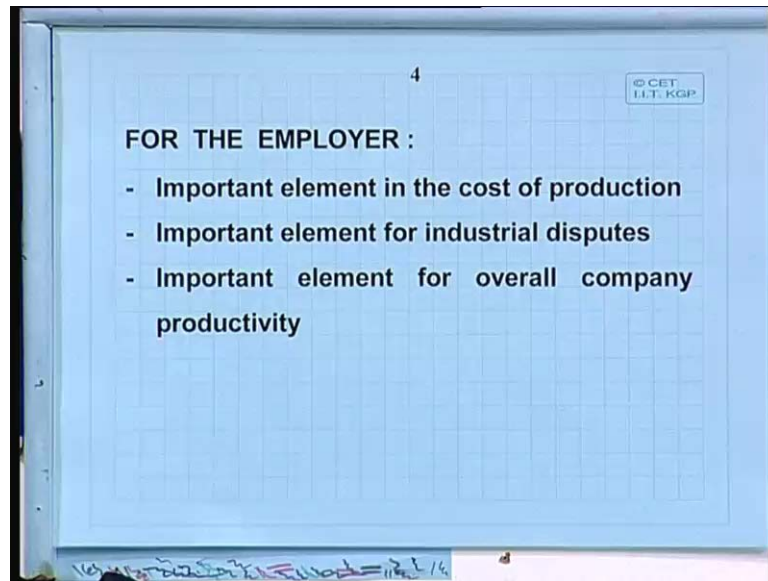
In today's class, we will take the topic of wage and salary administration. Now, to start with, let me tell you the normal meaning of wage and salary. Wage is normally referred to as the remuneration that you pay to lower level of employees. Usually, employees who are paid on daily basis; that is, daily rated workmen. We call them daily rated workmen. So, the wage is referred to as those employees to whom you pay on daily basis. The computation of the monthly earnings is computed on the basis of day. Say if it is 50 rupees a day; out of let us say 26 working days in a month, the computation when it is made at the end of the month, because the payment will be made monthly; but, it will be done on the basis of 26 multiplied by 50. And, if he is absent for one day, that will be deducted; whereas salaries is used for monthly rated and usually higher level of employees. And, there we do the computation on the basis of the month. So, we say that the monthly salary is let us say 1000 rupees. If it is 1000 rupees and is absent for one day, then what will happen? And, the month has 30 days or the month has 31 days; month has 28 days. So, it may vary slightly, because the number of days in the month will change. So, per day of absenteeism may vary. So, this is the fine difference – wages and salaries.

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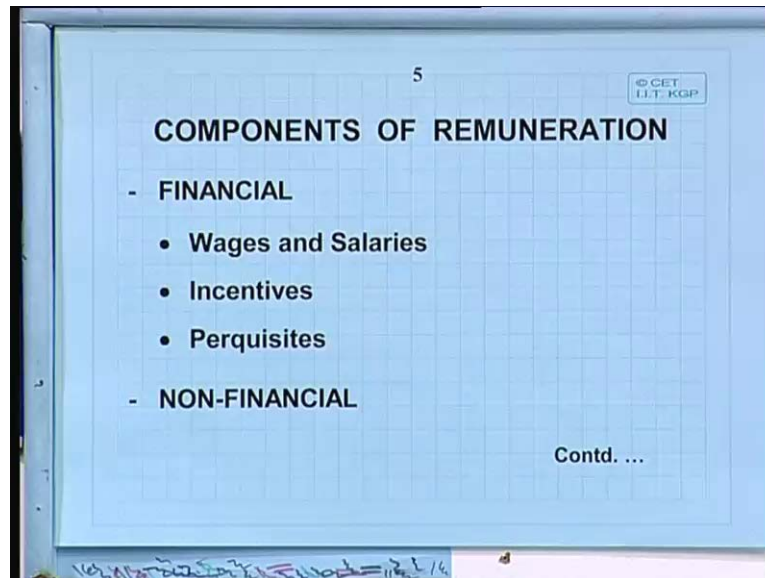
Now, importance of wage and salary to the employee, because it determines standard of living, obviously; it determines his status in society; it determines motivation at work, because if someone feels that he or she is getting a lower salary or a lower wage, then the motivation for working is obviously diminished by that extent. Then, productivity at work – these are interconnected. If you are motivated to work, your productivity is likely to be higher. So, they are interconnected. Productivity at work is also affected. Similarly, job satisfaction and loyalty to the organization. After all, if you feel that you have been treated unfairly, because you are not being paid your wage and salary, which you should be getting – this is your perception, then you are not likely to be loyal to the organization; you would be looking for another change. And, the moment you get a better job, you will leave.

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Therefore, it is very important that in the administration of wage and salary you put a lot of attention. The employer should put a lot of attention, because it affects not only the performance of the company, but also the job satisfaction of the employees. So, that is what I say, for the employer – important element in the cost of production. Why? Because you should pay higher than you should be paying; you are for nothing. Increasing the cost of whatever goods you are making or service that you are providing. It is also an important element for industrial disputes. What does that mean? That means this maybe the ground of a collective dispute of your workmen; the union may take up this issue. So, it is important from that angle. It is important element of overall company productivity naturally. We said it affects the cost of production. It affects the cost; it will also affect the final performance and the productivity, because as we have said in the last slide, the employees perceive something as unfair; they are demotivated. So, if they do not perform as well as they should be performing, the company's productivity will also affect.

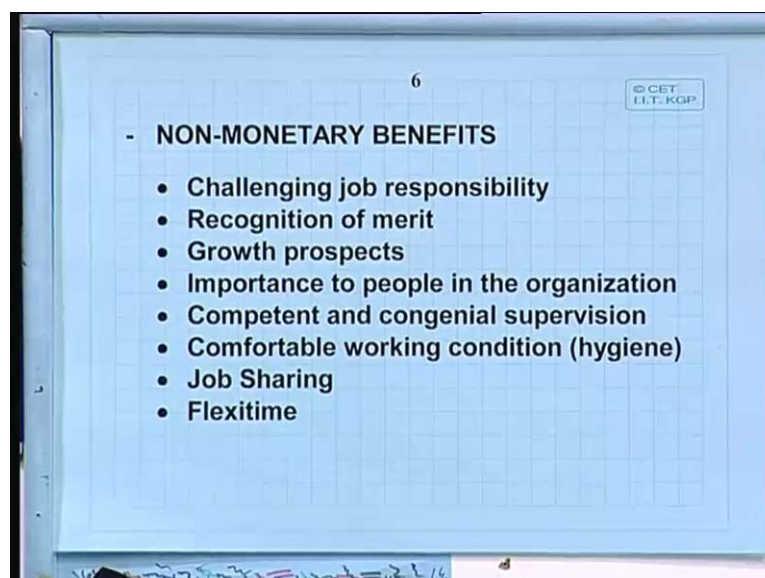
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Now, when we talk of wage or salary, it is not limited to a wage or salary. We talk of package. And, the package we refer to as remuneration package. Sometimes we call it management of remuneration or emoluments. These are also terms which are used – **e m o l u m o – l u m e n t s**. Now, components of remuneration is financial and also non-financial. So, financial has wages and salaries – this is one component. Incentives and perquisites – we often use the term perks – **p e r k s**; perks means the perquisites.

And, the non-financial elements or components of remuneration...

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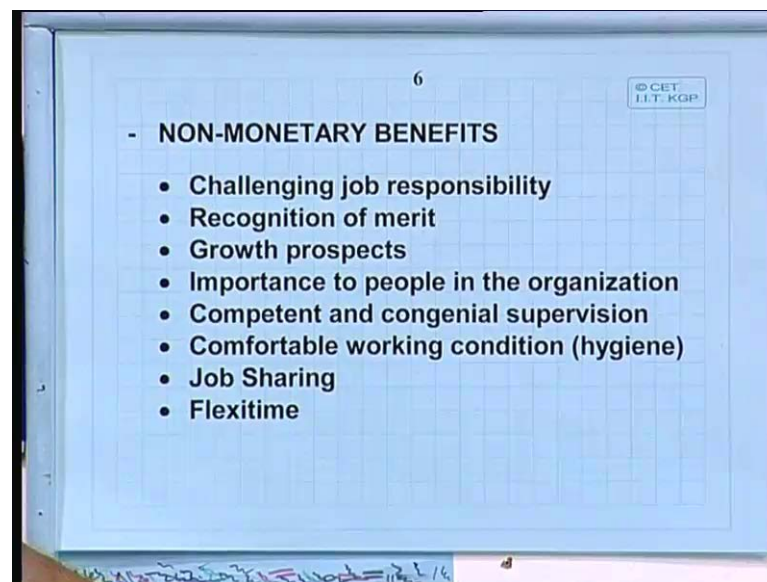


Yes

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We will come to that. There are other benefits, which are non-monetary benefits maybe; I can give you an example. For instance, you get a free and furnished accommodation; that is a perquisite, because they are not paying you money, but they are giving you the free house to live in. But, that is so far as you are concerned. But, it is not fully free to you, because the income tax laws of our land also gives you a tax component on your perquisites. Income tax law says that if you have got it as a free house, then it will be deemed as if you are employer. He is paying you some amount per month; say it is deemed that the house is worth 1000 rupees a month. So, 1000 rupees. Very simplistically, I am giving you an example; 1000 rupees is added to your salary although you are not getting 1000 rupees. And, the income tax – that will add to your total income. And therefore, the income tax will be paid off. So, perquisites are also taxed in your hands as we say.

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So, non-monetary – these are some examples. Challenging job responsibility – is not it a non-monetary benefit if you have a good responsibility? Recognition of merit – even if you are not given a bonus or money for it; but you are recognized by giving you a certificate, a function, where it is announced that you have done a very good job for the previous year. So, these are considered as part of remuneration, because human beings –

we are not only motivated by money as we have said earlier when we did the topic of motivation; there are non-monetary recognition elements; is it not? Then, growth prospects – is not that also a part, broad part of a remuneration package? Because if he hire you at a job, which is a dead-end job as we call it – the terminal job; that means beyond it, there are no prospects for growth; then, obviously, that is worse than if I offer you a package where you have got a promotion opportunity. So, in that sense, the remuneration, which you are offering today with a potential and a chance of growing in the future, is better in the second case.

Then, importance to people in the organization – how Important are you; that also is the feeling of recognition that one gets. Competent and congenial supervision – these are all important to you as an employee and you may say that it is a non-monetary kind of benefit that you are getting as part of your overall remuneration. Comfortable working condition – the very fact that you get air conditioned office let us say; is not that a benefit that you are getting in non-monetary terms? Because you are more comfortable, you can work for longer hours without fatigue and so on. Then, job sharing – what do you mean by job sharing? How is it a non-monetary benefit? Yes?

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Job Sharing

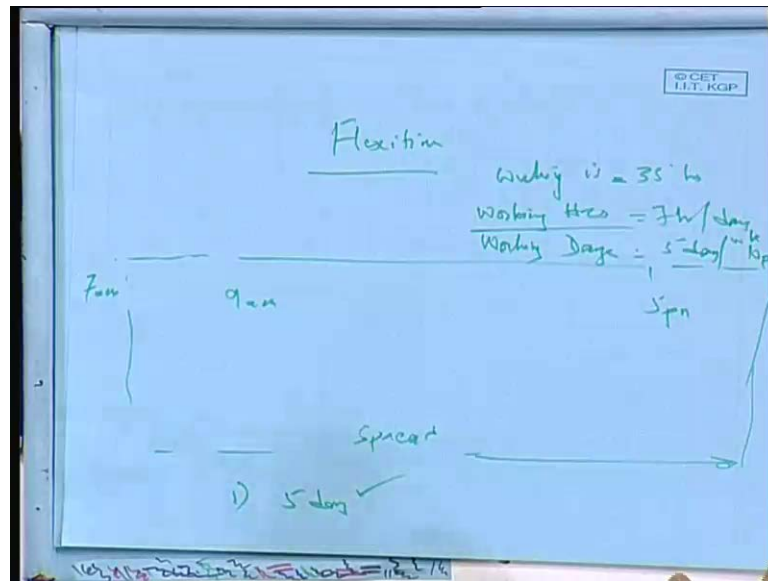
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Yes, this is one explanation. What do you think?

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Yeah, is to do a motivation; that means, you are told that you have the versatility; you may be trained for it that you are doing one job, but in the absence of a colleague, who is not exactly doing your job, you are trained to do that job. That means you feel as if you are competent to do a number of job; not only one. So, that job sharing also is built in as a part of non-monetary benefit. Not everyone is selected for that; someone will be selected that he has the capability of doing beyond his present job. And, flexitime – you all know what is flexitime. Flexible timings – that is you say that the normal office time is between 9 to 5, but you have a leeway.

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So, Flexitime is Flexitime. Let us say you have 9 a.m. to 5 p.m. But, they say that we are giving you a bigger spread and this bigger spread is from 7 a. m. if you come, you are allowed into the office; and, here we say that this is 10 p m. And, your working hour let us say is 7 hours a day – working hours equal to 7 hours per day. And, working days is equal to say 5 days per week. That means your total working week is 35 hours. Now, you have to put in 35 hours, but you get flexibility. And, flexibility is let us say you come on a Monday and you punch time; Monday you come at 7 and you work right up to 10. So, how many hours have you worked? You have worked 2 hours more here and you have worked 15 hours. You take one day off; do not come; or, the company may say you have to come on Fridays. So, you come, but you work less hours. As long as you do, let us say, they make a stipulation – all 5 days you have to come; that is one.

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7 hours per day **that be little**. For instance, 9 O'clock to 1 O'clock; that is 4 hours. Then, lunch time is one hour; that is nonworking time up to 2 O'clock. Then, 2 to 5 – another 3 hours. So, forenoon is 4 hours; afternoon is 3 hours. So, total 7 hours; not counting the lunch time.

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And, when you join any organization, they will certainly tell you two things in your appointment letter; apart from other term, they will say two things. Venue of work – they will tell you 4 or 5 important things – one is venue of work; whom you report to; what are the timings of work; and, how many days of working. These are four things, which will be told to you on your appointment unless the company has flexitime. If it has flexitime, then you have the flexibility.

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No, but you have the flexibility. What I as an employer,

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I may make it a condition; I may not. I mean as an employer, say you are a manager, HR manager, when you are designing the flexitime, you have these – you can play with these elements. Depending on the type of job, if you feel that someone need not come for 5 days a week, even if he comes for 4 days, the work is not going to suffer. Then, you may stipulate a condition that for you, the flexitime is up to minimum 3 days you may come or minimum 4 days; one day you need not come, but you have to put in that work of 35 hours. There may be some kind of work, where that is not possible; every day, everyone has to come, but everyone need not put in 7 hours every day. If everyone puts in up to 5 hours every day, that is **OK**; the work does not suffer. So, then you say this is the condition. Then, the limits, that is, instead of the slot between 7 and 5, you can come earlier; go later. All these adds cost to the company; that means you have to keep the security; the lights will be on for a longer time.

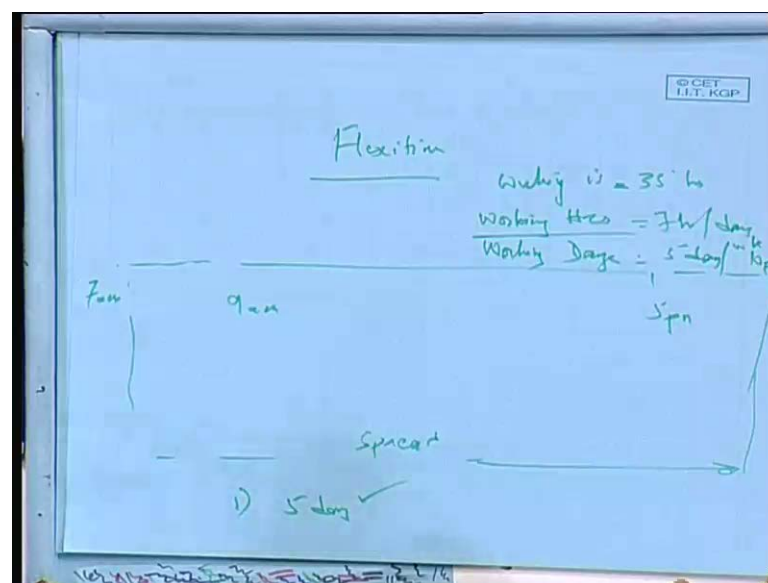
Other associated cost will be there; is not it? Say people – you are giving flexitime; there will be some people who will be here from 7; some people who may stay back up to 10. So, air conditioning may be running; lights would be running. You have to adjust the time of the cleaning staff. So, if they are in office, they cannot come and clean; they may charge more for that. So, there are associated cost, but you trade it off against the benefit you are giving to the employee, because someone is let us say doing a part time program, which starts at 5 O'clock in the evening or 5:30 in the evening. So, he prefers to come in the morning and knock off at 4 O'clock. So, that he can attend those classes; he is doing it to **...** Say executive MBA program he is attending; or, you have got some people, whose children have to be reached to school and the school starts at 8.30. So, if you reach the

children to school, you will not be able to come by 9 O'clock. So, they may prefer to come in by 10 O'clock and go later – 6. So, this is a big advantage and you can play around, because it is flexitime; means there are lot of flexibility. Essentially, you have to ensure how many hours they are working according me, because you are designing your wages and your salary based on also how much time is they are working; is it not? That they have to do.

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It may; that is why I am saying – you as a HR manager, you have to decide. When flexitime is decided, you cannot do it alone; you have to call a meeting of all operating managers and say we want to give a flexitime. First thing, how does it actually happen? A committee will be set up; cross functional. Maybe the convener of the committee is manager-HR. But, you have got other operating managers in the committee and the committee will have terms of reference. Please examine, the committee's reference is whether flexitime can be given in our company in these offices without affecting 1, 2, 3, 4, 5; having done that, committee will deliberate; they will collect data; they will discuss; they will meet other people; then, they will make a report with a recommendation to the management. Managers will be examining; maybe they will talk to employees also.

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So, this is the process that will happen actually in real life. And then, if the management feels that up to certain flexibility can be given and no more, they may announce such a

scheme. Normally, the scheme of flexitime is you can come little late, in which case, you go late; or, come little early, in which case, you can go early. This is the simplest time – type of flexitime, which is used in offices and industry.

Yeah; that is right.

Sometimes what happens, there are many offices, which are working 5 and half days, that is, Saturday – half day – say 9 O'clock to 1 O'clock. Then, there is a request or a demand, which comes to management that we would like the Saturday is off, because then, two days we can have; but, we will work extra time; in which case, people are told – all right; then, in extra time, instead of one hour of lunch, say we give you 45 minutes for lunch. Then, we can straight away save one and half hours in the 5 days of extra time. So, how many hours? 4 hours you are working on a Saturday – from 9 O'clock to 1 O'clock; you have to make up that 4 hours. So, reduced lunch time – you can make up one and a half hours. So, balanced two and a half hours, where will you make up? Will you come half an hour early everyday and leave half an hour later? Then, they say you can come early; but, we do not want to leave later. Why? Because the bus queues are there; the crowd in the public transport system; but, we do not mind coming one and half hours earlier. Then, management say that is not **true**, because no other office will open; your's is a sales office. When you come one and a half hours early, you cannot telephone; you cannot visit anyone. So, these are practical problems, which will come. Then, they may say all right. So, **via media is** you come one hour earlier or 45 minutes earlier and go later by half an hour, so that you make up the total time, which you are losing.

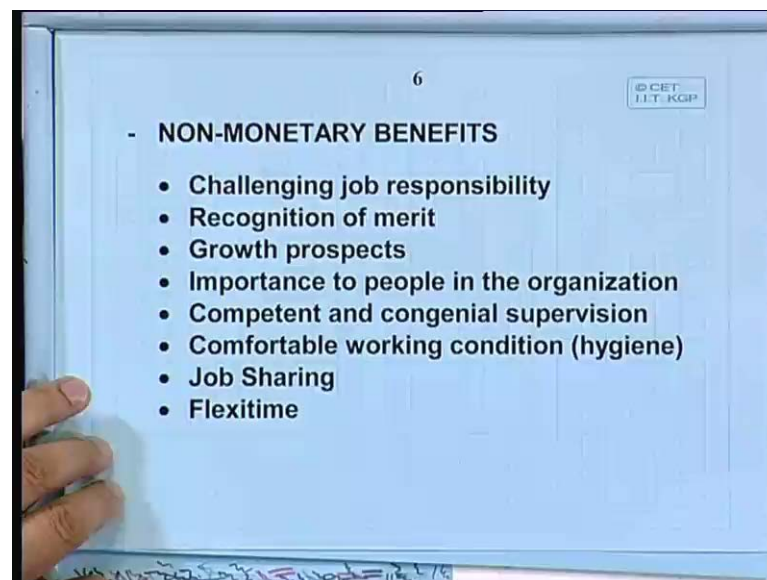
Time is very important. When you negotiate as HR manager with unions or employees, remember, what is important is how much time are you putting in per year annually. Then, holidays come; when you get a **chart or demand**, what comes? One is reduction of working hours; then, reduction of working days. Union may say we will work the same 37 hours, but Saturday we do not want to work. Then, number of holidays to be increased; total days. So, average in Indian industry, you work about in the western India; depending on which part of India and depending on how many holidays are there in that region, it varies. Out of 365 days, you take out one weekly off, that is, 52 days gone; how much are you left with? Take away national holidays – three national holidays

and a few festival holidays depending on the region; you are left with about 300 working days for a factory.

For offices, the holidays are more. Usually, offices, the holidays will be anything depending on the state you are in of India – anything between 14 days to about 20 days. Factory – the typical number of holidays is roughly about 8 days to 12 days. This is typical in Indian industry. Factory – hours of working are longer. As per factories act, 48 hours; but, due to union negotiation over the years, some of the older factories work 45 hours or 46 hours per week; and, that also varies shift to shift. There are statutes also. First shift and general shift – you work longer hours; second shift – slightly shorter; third shift – a little bit shorter. Why? Because the biological clock of the body; it is more difficult to work. The third shift will normally start around 11 O'clock at night and go on till 4, 5 in the morning; more difficult. So, these are the various details, which we cannot go into now, but flexitime is certainly a very important non-financial component for wage and salary administration.

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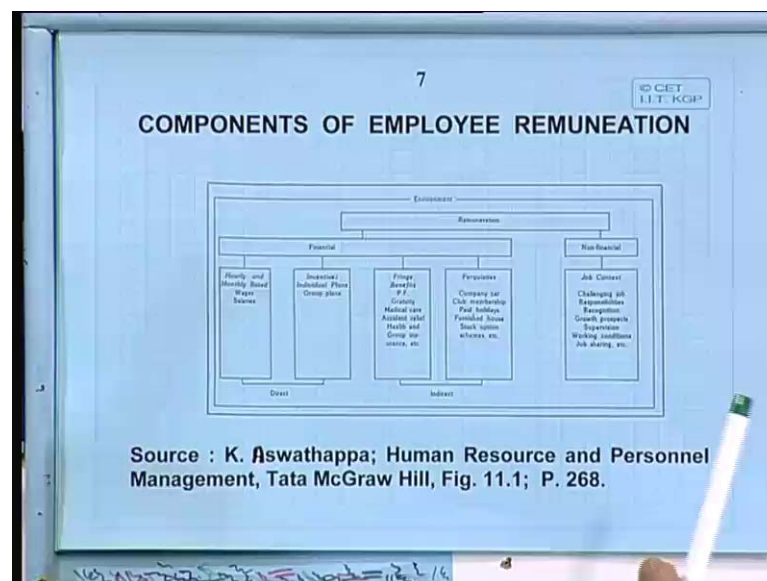


Importance to people in the organization – it means say you have predominantly a lady work force in a factory, because you are in electronic industry. And, there are lot of assembly to be done; manual dexterity. So, girls are suited for it. For girls – many are married; so, if you can give them a flexitime, is very important to those people in your

organization. So, flexitime can be a very important thing to some of the people in your organization. That is what is meant by that. Because finally, what you give as remuneration, you have to think how important it is to your employees; otherwise, they do not count it as a remuneration element at all.

Say your work force average age is 25. And, you say we are giving you medical benefit; if you have a heart attack, we will give you up to 5 lakhs of rupees as a non-monetary. Who will have a heart attack at 25? It is not important; or, if the work force is there – say we give you allowance – old age pension, many of the work force say we are 25; when are we going to be old. We do not want that element. Say you give a salary; convert that into salary into a monetary thing; we do not want it. So, depending on your work force profile, importance to the people in the organization of this non monetary is there, because you say you give a choice then. You say those who are married can get this allowance; those who are not married you get some other allowance. So, non-monetary – you are giving them a choice. Those who are in this age bracket let us say 45 to say 58, which is retiring age. For them, we are giving certain benefits like house loan, etcetera, because they are thinking of retiring, making a house. So, you have so many of these elements, which assume more importance to some of the employees than to other employees. That is why it is important.

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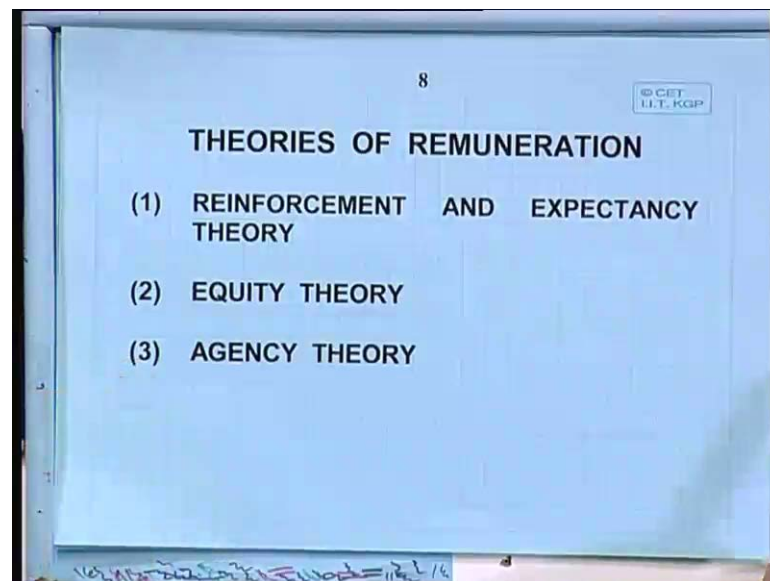
Then, here you have just a conceptual sketch. Components of employee remuneration – we just tie it up into a conceptual. You have the environment here; envelope here; environment; and, you have remuneration; you have financial and non financial. Financial – hourly and monthly rated wages and salaries; then, incentives – individual plans, group plans. What is incentive? That is, depending on the volume that you produce, you get some extra money. So, it is financial. Then, fringe benefits, provident fund; we call it a fringe benefit. What is provident fund? Saving for your future; that is, when you retire. So, normally, what happens? Say 8 percent is deducted from your basic wage and you have to also contribute something there like amount; you give 8 percent or 10 percent. So, that is contributing provident fund. You do not get it in your hand, but when you retire or you leave the company, then it is given to you. If you leave before retirement, often you have the facility of transferring it from your current employer to your future employer. You would not see that money; it is not in your hand. After certain number of years, you may be able to take some loan; say up to 50 percent loan from your contribution; not company's for making a house or buying a plot or land. So, this is a fringe benefit.

Medical car; accident relief; health and group insurance – group insurance is what? The company takes for the whole category of employees and insurance for the whole group. If you take for the group, then the per individual premium rates are reduced. It is like a discount with the insurance companies. So, if there are hundred people and if you are insured each individual separately, say the monthly premium, the annual premium would have been 50 rupees. The insurance company may tell you, if you do all hundred together, then we will give you 5 rupees less per individual. So, 45 rupees company gains. Now, what happens? Company tells the employer – look every year we are giving you 45 rupees – we are giving to the company. And, that is a benefit we are giving you, because god forbid; if suddenly you die, say that 3 lakhs or 4 lakhs for which you are insuring, will go to your nominee, your family. So, you are not paying; we are paying that premium. So, it is a fringe benefit.

Then, perquisites, which you asked – company car, admission flat, free flat or free house, company car; that means, company will maintain the car; company will pay for the petrol or the diesel of the car, but it is for your use. But, as I said, the tax man, that is, the income tax also will take another view. They will say may not be that you are not getting

money in hand as income, but there is a perquisite. So, if you had to use that car and pay for the maintenance and petrol from your pocket, where from you would have got that money; it would be income no and we would tax that income. So, we consider this as an income up to an extent. And then, they have various rules, which say how big is the car. If it is a big car, Mercedes, then they say it is a more perquisite value; if it is a Maruti 800, less. So, they say on horse power of the engine and so on. There are all detailed specification and rules and regulation. So, we have got a lot of loss. That is why you have lot of consultants; you cannot do it yourself; you have to hire consultant, who knows the nifty-gritties of everything. Then, here non-financial job context; in the job context, as we said, challenging job, responsibilities, recognition, growth prospect, congenial supervision, working conditions, job sharing, etcetera. So, we are just putting it in one conceptual chart here, so that it becomes clear.

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Now, as in most topics, you have some theories also of remuneration. These are some of the theories. Reinforcement and expectancy theory – we have learnt about reinforcement in some topic earlier; do you remember? Learning, reinforcement. So, we said operant conditioning, that is, the theory; operant conditioning says what? That a behavior is determined by the outcome that may come; if you behave in a certain way, you get a reward; then, you will be motivated to bear with that. So, this is from that the theory of reinforcement. See now this is the application in human resource management that human behavior theory is applied here; and, expectancy theory.

You can have a principal-to-principal relationship and a principal-to-agent relationship. If you have a principal-to-principal, that means he is buying from you and he is at liberty to sell it at whatever price he wants. He can sell it at lower price, higher price; maybe he is a big client; he gives little discount also. But, principal – what is he doing? Since he buys from you, he has to pay you. So, he is bearing the financing cost; that is what he is doing. He is not risking; you are not risking for it. He will pay you; straight away he lift and he will pay. Principal-to-agent relationship is he gets a commission. So, every refrigerator that he sells or air condition that he sells at 20,000 say; you say 10 percent commission. So, really he gets a commission of 2000; return the money.

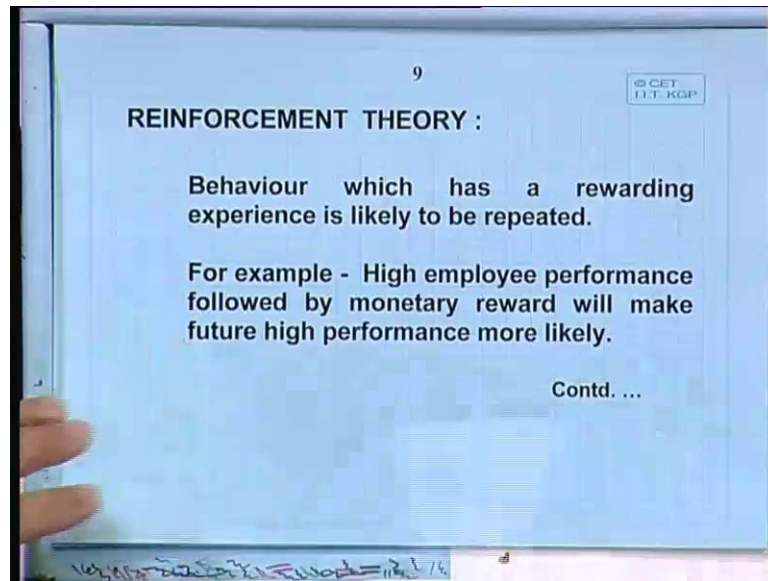
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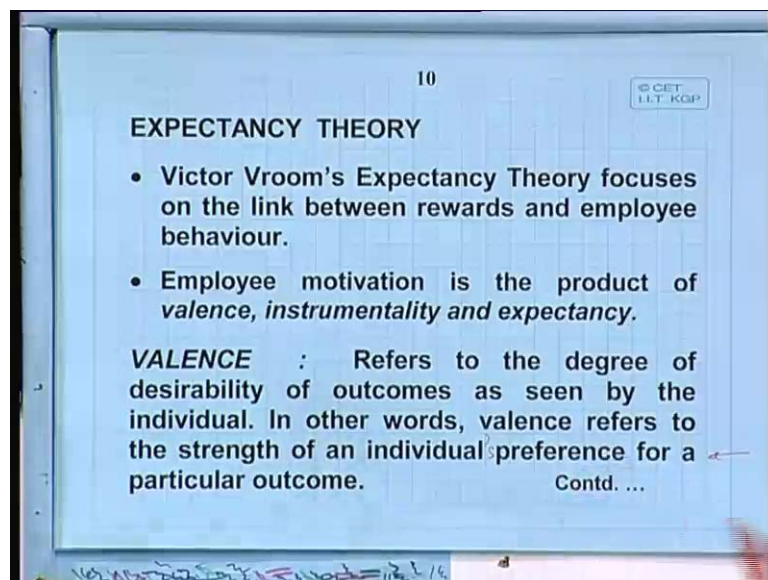
They will get a credit; that depends on the terms if you are a dominant player in the market. That means, the agent does not have to spend much effort in selling; we call it a product pull. People will come and ask for your product. Then, you may tell the agent that cash on delivery; when you lift it give money. But, if **he is not correct**, he has to sell against competition. Then, you may tell him I am giving you 30 days of credit; that means, you take it from me today; do not pay me immediately; after 30 days, you pay me. The rational being, within 30 days if you sell it and you get your money within 30 days, you do not have to finance it; then, after you get your money you give me. He may say 30 days is not enough; my customer to whom I sell, he gives me 30 days. So, I want 60 days from you. So, you may have to give sixty days. These are all decisions, which the marketing department **has to take**. These are policies – pricing policy, credit policy and so on, but this theory as we said is used.

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Reinforcement theory **we come** – behavior which has a rewarding experience as we said; for example, high employee performance followed by monetary reward will make future high performance more likely.

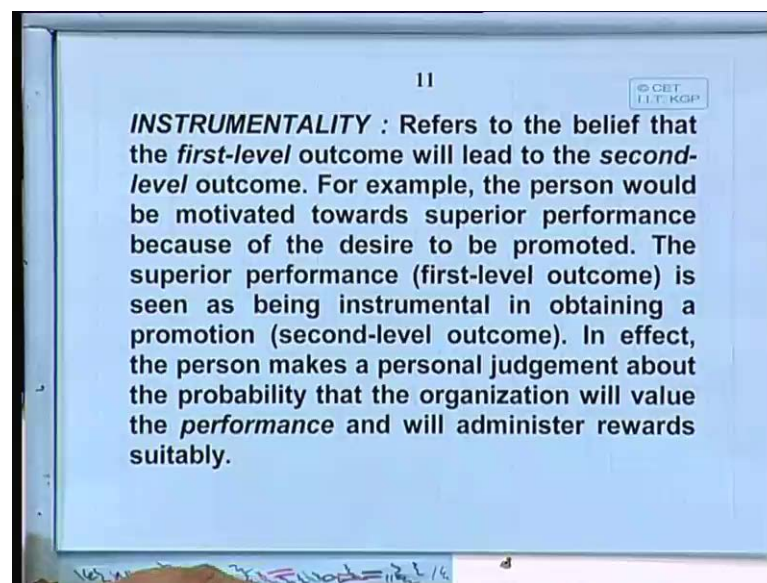
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Expectancy theory – Victor Vroom's Expectancy Theory focuses on link between rewards and employee behavior. Employee motivation is the product of valence, instrumentality and expectancy. Valence refers to the degree of desirability of outcome as seen by the individual. What is his intensity of desire for that outcome? Say some

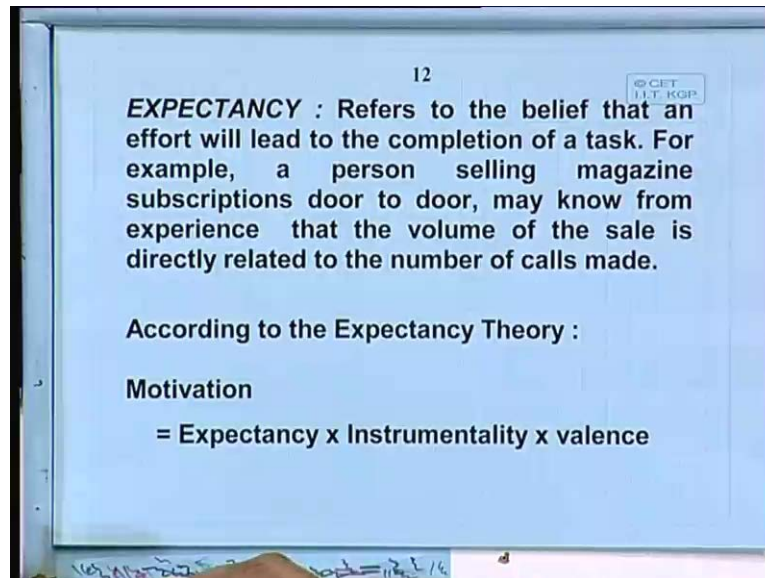
employees getting married and he very badly wants a promotion, because he feels he will have more responsibility, he wants more money, and the promotion is going to give him much more money in his hand, because it is a higher scale; then, because its intensity is more, the degree of desirability of the outcomes seen by the individual, that is, valence. He is likely to work harder, but the same promotion. If he was not going to get married, he gets a promotion; he feels good; he has over taken some of his colleagues. The intensity of the desire for that outcome may not be so. That is the meaning of valence – strength of the individual preference for a particular outcome.

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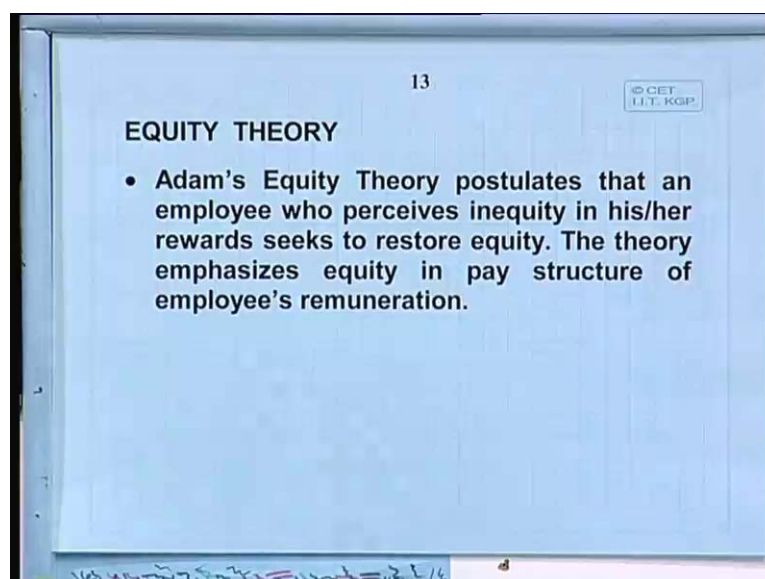
And, instrumentality – refers to the belief that the first-level of outcome will lead to the second-level outcome. For example, the person would be motivated towards superior performance because of the desire to be promoted. The superior performance is the first-level outcome. So, to the employer, you find this employee is doing better performance – first-level outcome. And, the first-level outcome is seen as being instrumental in obtaining a promotion. So, first is first-level – harder working, better effort, better performance. Second-level is the promotion. In effect, the person makes a personal judgment about the probability that the organization will value the performance and will administer the rewards suitably. Say he feels that even if I work very hard, first-level outcome I do; second-level outcome may not come, because boss does not like me. Even if I work hard, he would not promote me although. Then, that motivation level is going to be lower.

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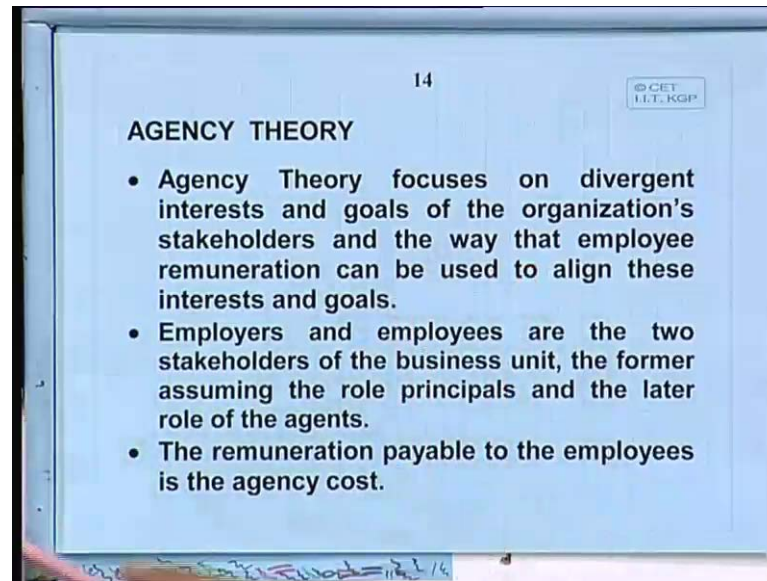
And, expectancy – refers to the belief that an effort will lead to the completion of a task. For example, a person selling say magazine subscriptions door to door, may know from experience that the volume of the sale is directly related to the number of calls that he makes. He does not visit 20 houses; he is unlikely that he will get more. So, according to expectancy theory, motivation is equal to expectancy multiplied by instrumentality multiplied by valence. So, victor vroom tried to make a kind of quantification into the outcome on the one hand and the motivation. And, what is the reason for that between the outcome and motivation. What are the elements, which go into the motivation?

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Equity – Adam’s Equity Theory postulates that an employee who perceives inequity in his/her rewards seeks to restore the equity. The theory emphasizes equity in pay structure of employee’s remuneration. How will he restore? He may fight by going to union; he may quit by resigning and getting a job, which he feels is more equitable. But, the whole idea is he tries to restore what he considers is an imbalance.

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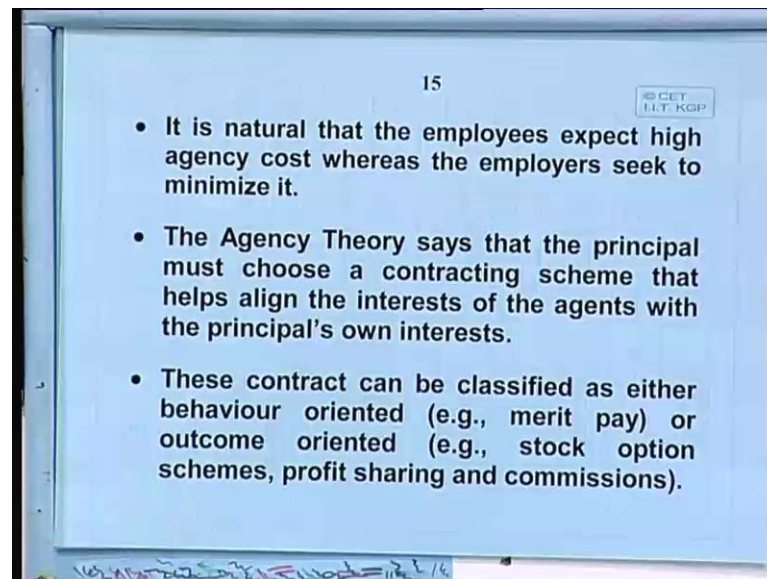


And, agency theory focuses on divergent interests and goals of the organization’s stakeholders and the way that employee remuneration can be used to align these interests and goals. Employers and employees are the two stakeholders of the business unit – they are two important stakeholders, the former assuming the role of principal, that is, employer – as we said manufacturer; and, the latter employing the role of agent. The Remuneration payable to the employees is agency cost. So, it is an analogous thing, which we say. Here the employee is considered agent. Why? What is the analogy? Because he is doing that work; if he did not produce those air conditioners, you could not sell it and get the money as an employer. Just like in our example, he was doing the sale in your employee, may be doing the manufacture. And, there you gave a commission; here what are you giving? You are giving a salary or a wage.

And, just like the amount of commission that you gave in the first case, where you gave to the dealer, that will depend on what? Number of factors – how competitive the market is; how much dominance you have; you may give only 5 percent. If you know that his

volume of **sale** is going to be very high, because the competitor is not getting the **sell**. But, if he has to fight and his volume of **sales** is lower, you may like to give him 10 percent as an incentive. Similarly, between an employee and an employer, when you look at an agent, a principal agent relationship, the employee will demand more when he knows that he is more indispensable; is it not? Employer on the other hand – if he knows he has got options, he can substitute your effort; he will pay you less. So, that is the theory. Clear or not?

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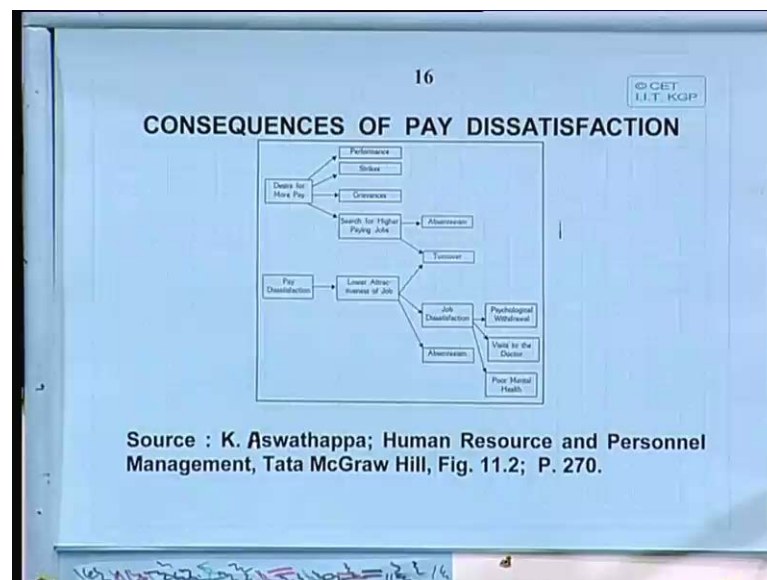


It is natural that the employees expect high agency cost; whereas, the employers seek to minimize it – that analogy. The Agency Theory says that the principal must choose a contracting scheme that helps align the interests of the agents with the principal's own interests. For instance, going to the dealer and the manufacturer, if the dealer ask for too higher discount, which is given by the manufacturer, is going to reduce the manufacturer's profit to such an extent that the manufacture is demotivated. Will the manufacturer sign the contract? No, because it is not aligning with the manufacturer's interest. The interest of the dealer is becoming predominant to the detriment of the interest of the principal. And, the reverse is also true.

If the employer wants to squeeze, the dealer, the manufacturer wants to squeeze the dealer and give him hardly anything for the effort. Is the dealer going to sign? No, he will not. So, the same thing is between the employer and the employee. You must have a

scheme – contracting scheme that helps align both the interests; align and not diverge. These contracts can be classified either behavior oriented; example, merit, pay, etcetera. That means you work harder, is behavior oriented or outcome oriented; that is, stock option schemes. Here it is not oriented towards you. Company says look, if the company does well, if the profits are more, net profit of the company is more than 20 percent, then we will give stock option; that means you can buy our share; we will give you the share of the company at a lower price than the market price or at the face value of the share. That means, they are doing you a favor in that sense. But, it is dependent on what? Not on your effort; outcome for the company. So, these are the two ways: profit sharing and commissions. Company says we will share profit, but you have to have profit first. If there is no profit; you do not share. So, that is on the outcome. Any questions?

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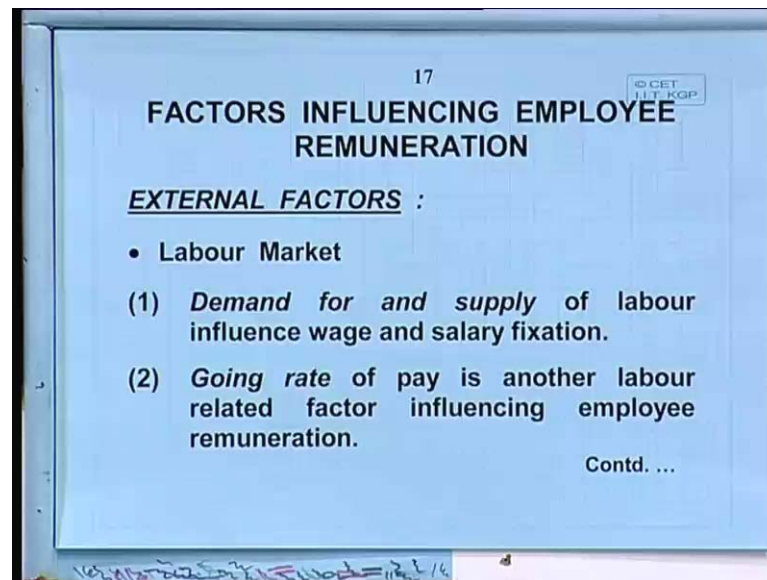
Here is another conceptual representation – consequences of pay dissatisfaction. Consequences are bad; is not it? Bad for whom? Bad for both; bad for employees and bad for employer. Therefore, the importance of having a wage and salary scheme and administering in such a way that there is a good balance between what competitors are paying, what the employees expect and what the employer capacity to pay. You have to have a balance between all three. So, here it says desire for more pay; performance – it affects performance; if the desire is fulfilled or not; strikes – it may go to strikes if there is a collective action by union. Grievances of individual employees may come, which affects work such for higher paying job; people leave; they are not happy. Absenteeism –

searching means you go and appear for interview; you are absent. So, leads to absenteeism. Turn over – that means when they get a job, they leave – employee turnover.

Pay dissatisfaction – this is desire for more; that is a negative dissatisfaction. You may be ambitious; you want more. You are not dissatisfied per se, but indirectly, you are dissatisfied. Why? Because you feel you are worth more. This says you are dissatisfied. So, dissatisfied means lower attractiveness of your current job. Therefore, turnover; you may leave. Job dissatisfaction, because you do not like; attractiveness – the job is not attractive. Again, absenteeism – you get bored; you do not feel like going and doing that work. So, you see how many days casual leave; I have got 10 days; take all 10 days. If you are interested in your work; may not be; you may not take all those 10 days; you want to go and finish the job.

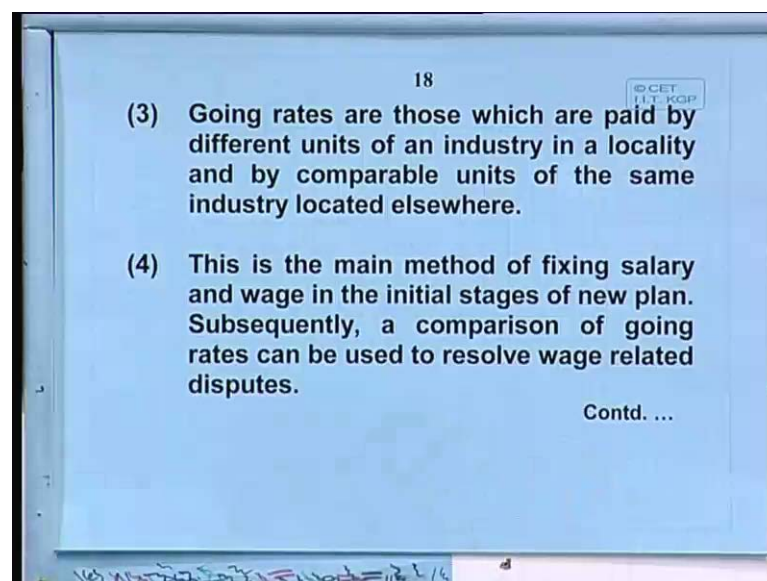
Psychological withdrawal – what we call tuning off. Like I am talking now; if you are getting bored, you will tune off – means what? you are there physically, but if I ask you something, you would not be able to say what I spoke, because you have tuned off. It happens with employees also in the work place. And, very frequently, it happens with students in the class room particularly afternoon after lunch sessions, late evening sessions. Then, visits to the doctor – see big companies have dispensaries; there may be 5000 employees; doctor is there. Get bored; seeks permission from foremen and just time pass as we call it. Just goes to doctor; nothing is wrong; he malingering; doctor – [FT] I have a headache; doctor cannot. So, he prescribes some pill. In the process, he passes half an hour or 45 minutes time. He wonders around, meets people, chit chats with them. So, all these things happen. Poor mental health – sometime people get depressed; [FT] I cannot even get another job – he get depressed; it affects his work.

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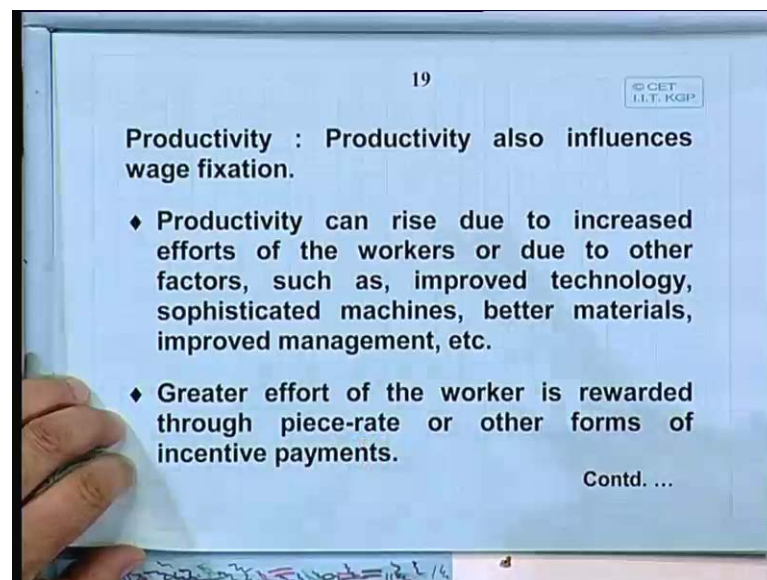
Then, factors influencing employee remuneration – external factors is labour market – demand for and supply of labour influences wage and salary fixation obviously. If you have supply, which is more than the demand, you can get away by paying lower wages as an employer and vice-versa. Going rate of pay is another labour related factor influencing employee. What does going rate mean? Means other doing the same work in the same industry. If they are paying some amount, can you pay less? You will not get people; so, that is called going rate.

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What is the industry or the trade rate? Going rates are those which are paid by different units of an industry in a locality and by comparable units of the same industry located elsewhere. We call it region cum industry principle or principle of for this job in this location, region, what is being paid. And also, for this job, not only this region; but, other regions of the country let us say, how much is being paid. So, that influences. We call it the region cum industry principle or the location cum industry principle. This is the main method of fixing salary; particularly, set up a new factory. Say you are a Bombay-based company; you are setting a factory in Aurangabad. You have to do a wage survey and the salary survey; that means, in Aurangabad area, in your industry, say in electrical goods manufacturing industry, how much is being paid. So, accordingly, you have to fix your wage and salary.

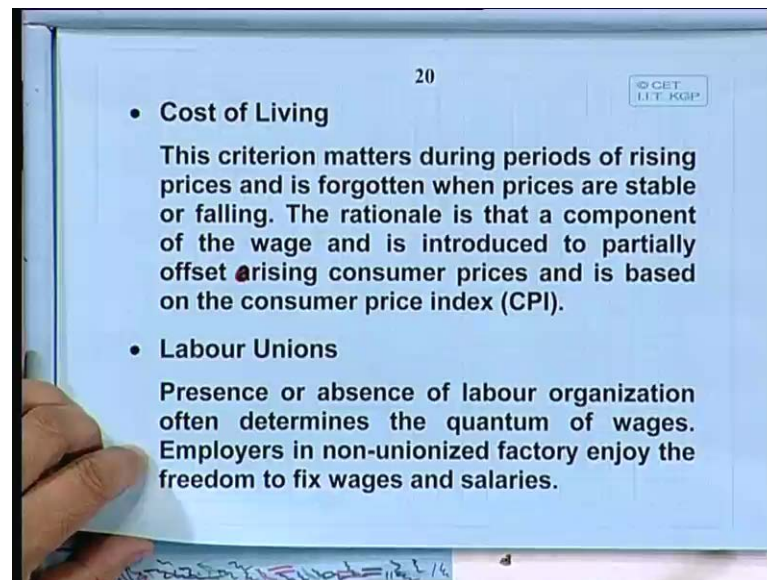
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We have to cover few points; we will go a little faster.

Productivity also influences wage **fixation**. Productivity can rise due to increased efforts of the workers or due to other factors, such as, improved technology, sophisticated machines, better materials, better management. Greater effort of the worker is rewarded through piece-rate; that is, the more volume you produce; after a certain number, you get per piece extra money or other forms of incentive **payment**.

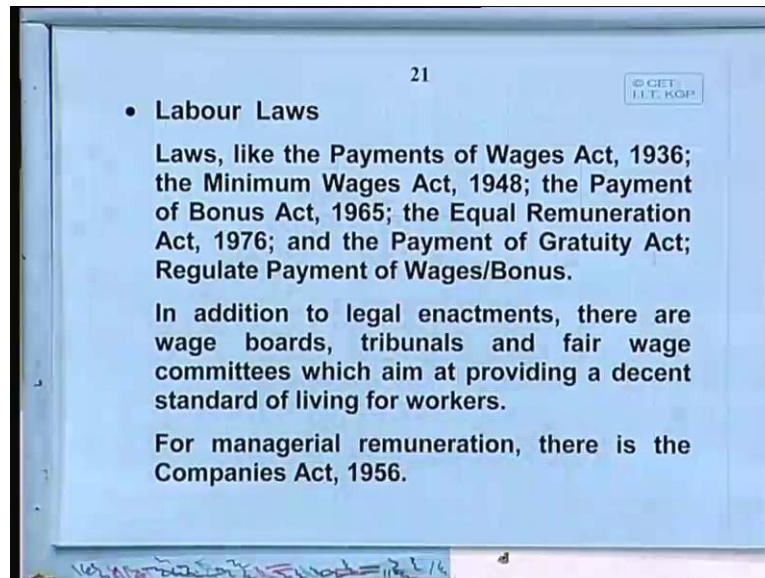
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There may be group also. If the group of workers every month produces so much percent more than what is agreed to, they get amount, which is shared. Cost of living – this criterion matters during periods of rising prices and is forgotten when prices are stable or falling. The rationale is that a component of the wage and is introduced to partially offset rising consumer prices and is based on CPI, consumer price index. So, in every wage or salary, you normally have a component called dearness allowance. Dearness allowance is based on the consumer price. If it is higher, you get little higher; if it is lower, you get lower. And, the principle is to some extent, it gives you relief from the rising prices. If the prices are fallen, the (()) is adjusted down.

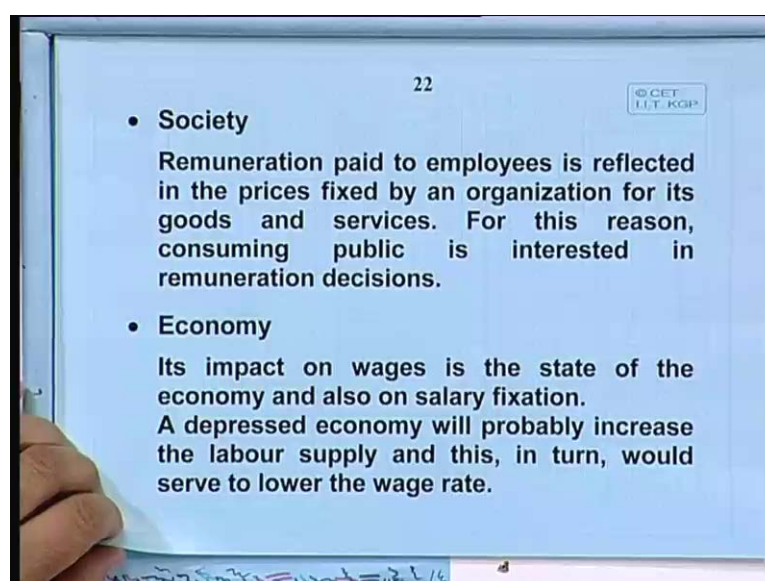
Labour Unions – presence or absence of labour organization often determines quantum of pay. Sometime, employer will exploit the situation if there no labour union. They may try to give lower wages than the industry cum region. So, that is one factor – whether you unionized or not, which will affect.

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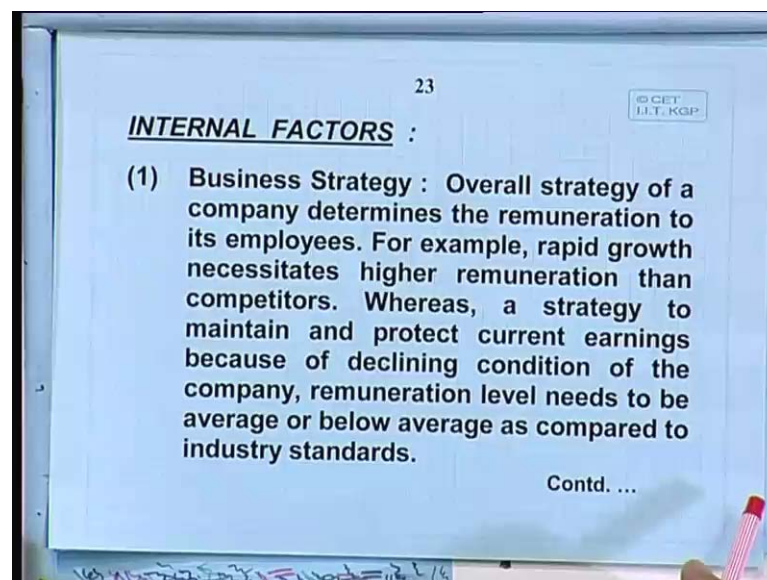
Labour Laws – Sometime laws will specify like Minimum Wages Act. So, there are many – Payment of Wages; Minimum Wages; Payment of Bonus; Equal Remuneration Act; Payment of Gratuity. And, all these regulate. When you make your design for wage and salary, you have to take this into cognitions and accounts. In addition to legal enactments, there are wage boards, tribunals fair wage committees, which aim at providing a decent standard of living for workers. And, for managerial remuneration, there is the Companies Act. This has been amended also now; lot of changes have been done.

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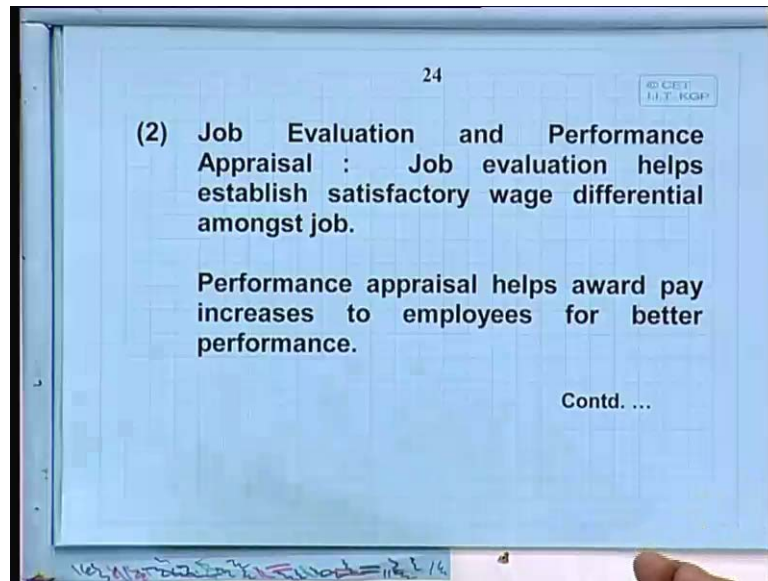
Society also is involved in what you do as a wage and salary scheme. Remuneration paid to employees is reflected in the prices reflect fixed by an organization for its goods and services. For this reason, consuming public is interested. Say you pay huge amount to airline pilots and the cost of air travel is too high; consumers will reject this. So, they also have interest in what you do as a company to fix prices particularly if you are in a monopoly or duopoly. Economy – its impact on wages is state of the economy. And also, obviously, economy is bad. It encourages suppliers or encourages employers to give lower wages, because what happens, jobs are fewer; people want jobs; you have more supply than demand.

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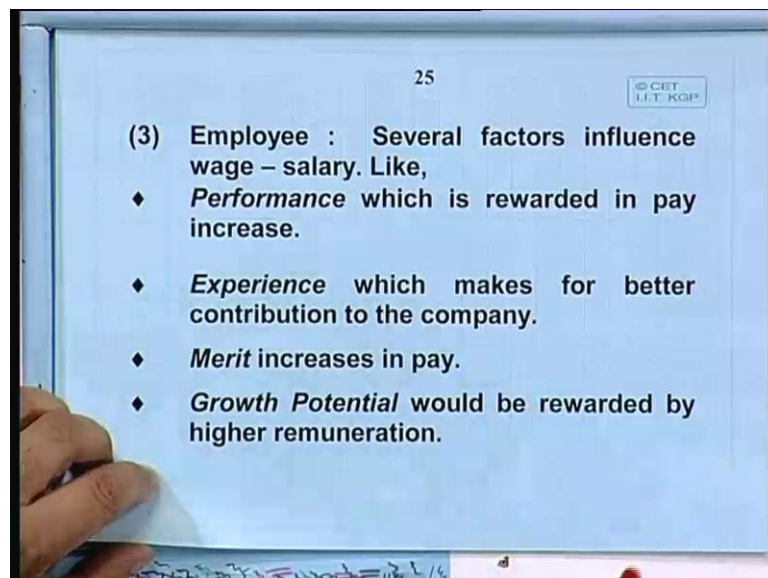
Then, internal factors – those who are outside like Business Strategy – overall strategy of a company determines the remuneration to its employees. For example, rapid growth necessitates higher remuneration; you want more people like software. If they get jobs – the company, they desperately want software engineers; they are willing to pay higher and so on. And, the reverse is also true.

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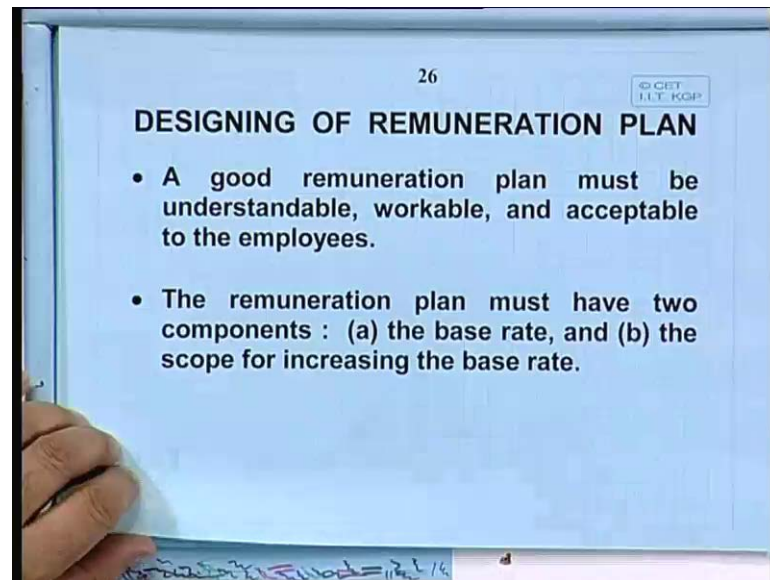
Job Evaluation – in your own company, you have to evaluate which is more important job for you and what is less important. Accordingly, you have to fix the scales. So, that is an internal factor. Performance appraisal helps to pay increases to employees – when you have annual increases to be paid, you have the performance management system, which will tell you who has performed better; who has more potential; and, accordingly, you pay.

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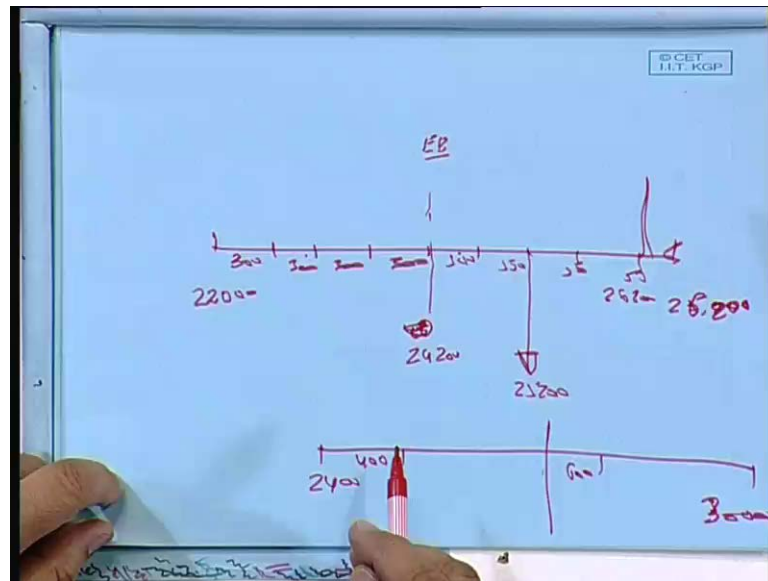
Employee – several factors influence wage – salary like performance; experience; growth potential – that is, how much potential the employee has. These are the internal factors, which led to your employee, which affect design of your wage and salary administration.

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And, designing of remuneration plan – a good remuneration plan must be understandable, workable and acceptable to the employees. The remuneration plan must have two components – the base rate, which is usually called the basic pay; and, the scope for increasing the basic pay – that means, a scale.

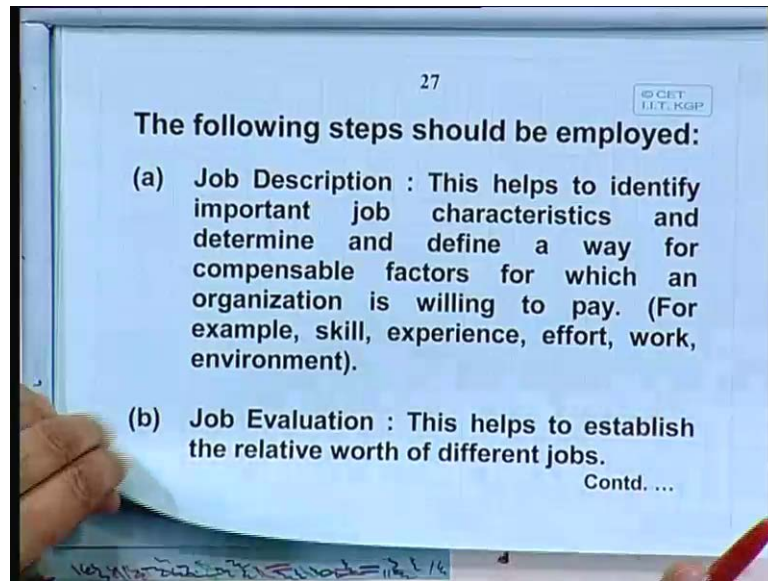
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You may have a scale; let us say this scale is 22000 to 25000. You must say that they are increment steps; that means, every year you can get 300 rupees increment for 1, 2, 3, 4; that means, at this level of 24200 – up to this, if you get one increment of 300 or if you get two increments in one year, here we say sometime there is EB. What is EB? Efficiency bar – at this stage, you may have to appear for an interview to a committee to see how good you are; otherwise, you are stuck here; you cannot go further. If you cross this bar, you may say 500 – your increment rate per year and so on. So, if you come here 500, for 24200, if you get one increment, you get 26200. And then, you come to the stop here 26200.

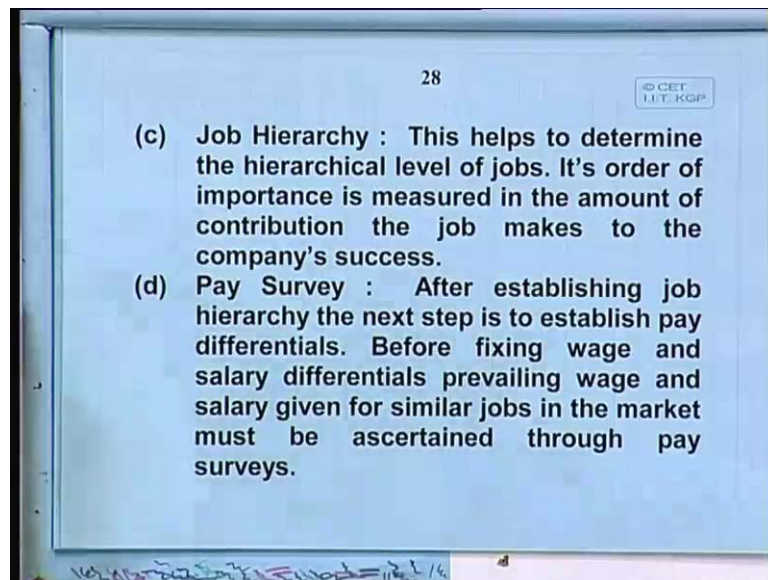
Then, you have another scale, where you can get a promotion. And, this starts from let us say 24000 and it goes to 30000 (Refer Slide Time: 56:33). So, if you get a promotion and you are at this step, let us say, this is where you get the promotion; that means, you are at 25200. You have to be fitted in here. Say this scale has got starting of 400; and then, you have efficiency bar, after which it is 600. Accordingly, you have to be fitted here. So, this is the way you design when it actually come (()) When you are appointed, appointment letter will say we are pleased to offer you – in the pay scale, so much to so much with this increment and you are fixed at this point in the scale at Rs. so and so.

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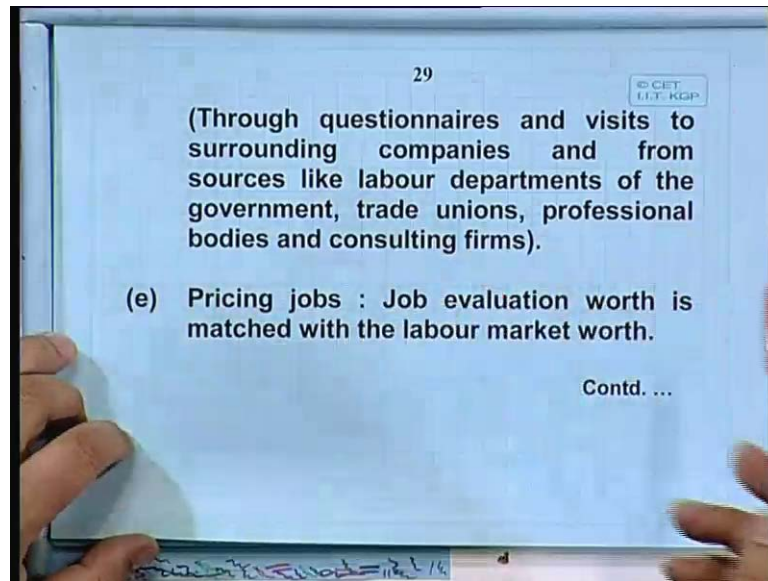
Following steps should be employed – Job Description – this helps; Job Evaluation – we have covered all these.

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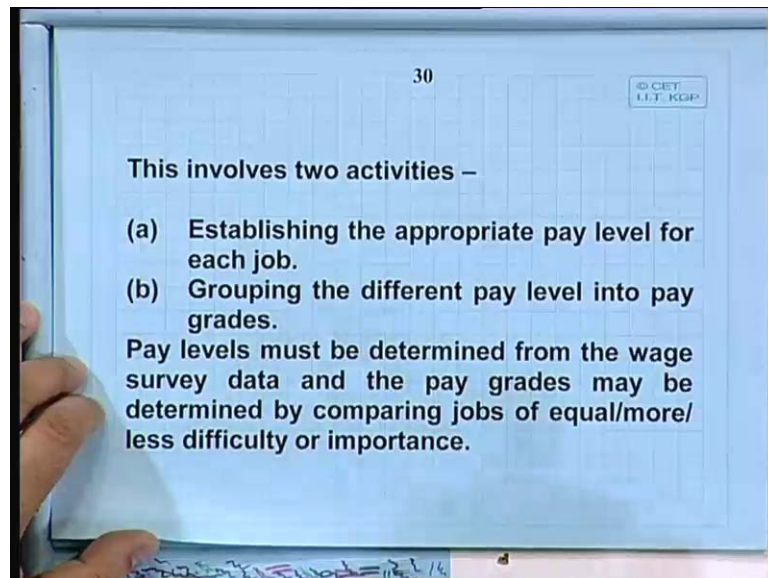
Job Hierarchy means which job in your company is more important to the company; and accordingly, priority wise, you have to make your design depending on the priority also.

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Then, through questionnaire and visits to surrounding companies, this is the survey you do. As we have said earlier, after you survey the industry cum region, that is when you design. Pricing jobs – job will have evaluation; worth is matched with the labour market worth.

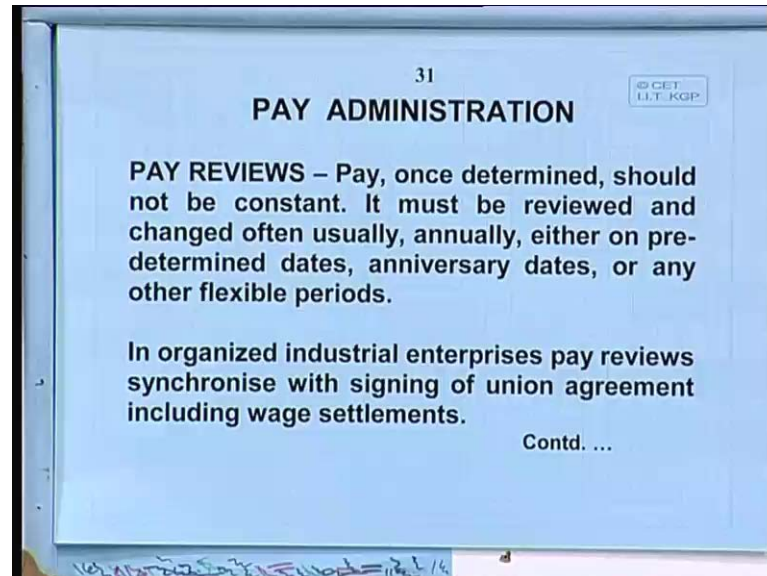
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Establishing the appropriate pay level for each job; grouping the different pay levels into pay grades. Pay levels must be determined from the wage survey data, which you do and

the pay grades may be determined by comparing jobs of equal/more/less difficulty of importance.

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And, once you fix the pay, you have to review it. So, you have different types of pay reviews. Usually, in a company, it is done. If you sign a union agreement, in government, you have pay commission, which are set up and so on. And, the reason is that once you design a pay, you have not set it in concrete; is not it? You have to update it and review it according to the change in the market. Change in your company strategy; the product that you enter into in future. So, you have to do the updating by reviewing it. So, we come to the conclusion of this topic.

Thank you very much.