

Unit 3- Wages and Salary administration

Introduction:

Wages constitute the major factor in the economic and social life of any community in an economic sense; wages represent payment of compensation in return for work done.

Meaning of Wages & Salary:

Wages and salaries are the remuneration paid or payable to employees for work performed on behalf of an employer or services provided.

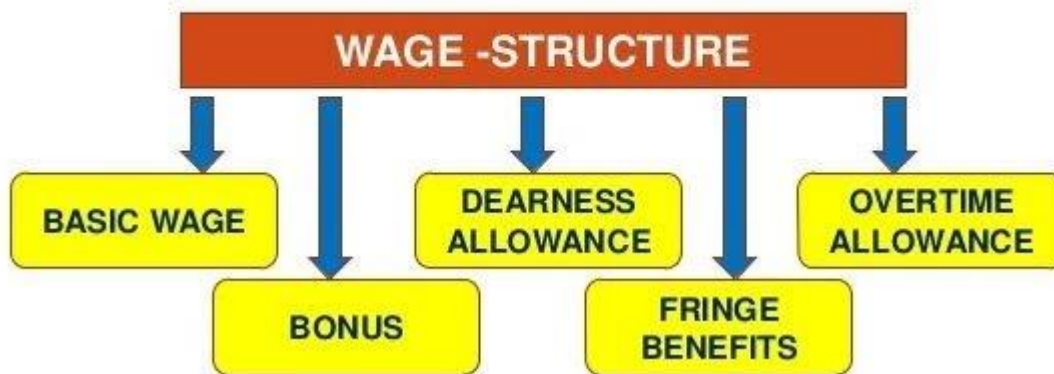
BASIS FOR COMPARISON	SALARY	WAGE
Meaning	A fixed pay that an individual draws for the work done by him on an annual basis.	A variable pay that an individual draws on the basis of hours spent in completing the certain amount of work.
Skills	Skilled personnel	Semi-skilled or unskilled
Type of cost	Fixed	Variable
Rate of payment	Fixed rate	Wage rate
Payment cycle	Monthly	Daily
Basis of payment	Performance basis	Hourly basis
Paid to whom	Employees	Labour
Nature of work	Administrative-office work	Manufacturing-process work
KRA (Key resultant area)	Yes	No
Extra pay for extra hours	No	Yes

Wage structure

The employee benefit package normally contains apart from basic, a dearness allowance, overtime payment, annual, bonus, Fringe benefits.

Wage structure in India

Components of wage structure



Basic wage

Which are earned by an employee while on duty or on leave or on holidays with wages in either case in accordance with the terms of the contract of employment and paid or payable in cash to him, but does not include: DA, Bonus, OT, Fringe benefits.

Dearness allowance

DA is a cost of living adjustment allowance paid to Govt employees, public sector Employees and pensioners in India.

Bonus

A statutory status only with the enactment of the payment of Bonus act, 1965. The Act is applicable to factories and other establishments employing 20 or more employees.

Fringe benefits

Some benefits are offered to salaried employees other than their basic salary. These are called fringe benefits. Benefits include childcare services, retirement planning, free breakfast, gym membership, transportation benefits

Theories of Wages

1. Wages Fund Theory:

This theory was developed by Adam Smith (1723-1790). His theory was based on the basic assumption that workers are paid wages out of a pre-determined fund of wealth. This fund, he called, wages fund created as a result of savings. According to Adam Smith, the demand for labour and rate of wages depend on the size of the wages fund. Accordingly, if the wages fund is large, wages would be high and vice versa.

2. Subsistence Theory:

The theory was formulated by physiocrats. According to them wages would be equal to the amount just sufficient for subsistence. According to this theory, wages are determined by the cost of production of labor or subsistence level. The wages so determined will remain fixed.

If the actual wages are higher than the subsistence level, then it lead to increase in labor supply and lower wages. If on the other hand, if the actual wages fall below the subsistence level results in a decline in labor supply and rise in wages. Since there is a tendency for the wages to remain fixed at the subsistence level, it is called as Iron Law of Wages or Brazen Law of Wages.

3. Standard of living Theory of Wages

This theory is an improved and refined version of subsistence theory. According to this theory, wage is determined by the standard of living of the workers. Standard of living refers to the bare necessities of life and also education, and recreation to which the worker is habituated.

4. The Surplus Value Theory of Wages:

This theory was developed by Karl Marx (1849-1883). This theory is based on the basic assumption that like other article, labor is also an article which could be purchased on payment of its price i e wages. Karl Marx, stated that for capitalists, the workers are a mere instrument in gaining capital, and in case, where a laborer is working for extra productivity, there is a surplus-value that is generated and it adds to the capital of the industry which goes back to the owner.

Marx in his theory has attacked the capitalists and he has drawn the negative aspects of industries which derives the workers to work more than they are paid for. It states a situation where even overtime is not paid to the workers and the extra productivity is used by the owners of such industry to increase their capital.

4. Residual Claimant Theory:

This theory was propounded by Walker. According to this theory, rent and interest are contractual payments. After deducting rent and interest from total product, the employer will deduct his profits. What remains after deducting rent, interest and profits is wages. It is possible to increase wages by increasing the total product by improving the efficiency of the workers.

5. Marginal Productivity Theory:

This theory was propounded by Phillips Henry Wick-steed (England) and John Bates Clark of U.S.A. According to this theory, wages is determined based on the production contributed by the last worker, i.e. marginal worker. His/her production is called 'marginal production'.

6. The Bargaining Theory of Wages:

John Davidson was the propounded of this theory. According to this theory, the fixation of wages depends on the bargaining power of workers/trade unions and of employers. If workers are stronger in bargaining process, then wages tends to be high. In case, employer plays a stronger role, then wages tends to be low.

7. Behavioral Theories of Wages:

Based on research studies and action programmers conducted, some behavioral scientists have also developed theories of wages. Their theories are based on elements like employee's acceptance to a wage level, the prevalent internal wage structure, employee's consideration on money or' wages and salaries as motivators.

Wage Payment

Wage payment is a payment made to an employee for the work they have done, especially one who is paid weekly. It requires most Wisconsin employers to pay all workers all wages earned at Least monthly with no longer than 31 days between pay periods.

Wage and salary administration

Wage and salary administration is the process by which wage and salary levels and structures are determined in organizational settings.

Wages are payments for labor services rendered frequency, expressed in hourly rates, while a salary is a payment, expressed in weekly, monthly or annual rates.

The main objective of wage and salary administration:

1. To enable an organization to have the quantity and quality of staff it requires.
2. To retain the employees in the organization.
3. To Motivate employees for good performance for further improvement in performance.
4. To Maintain equity and fairness in compensation for similar jobs.
5. To achieve flexibility in the system to accommodate organisational changes as and when these take place.
6. To make the system cost-effective.
7. To Ensures a fair compensation.
8. To Provides compensation according to employee's worth.
9. To avoids the chances of favoritism from creeping in when wage rates are assigned.
10. To Enhances employee morale and motivation.
11. To compare or draft company HR policy
12. To minimize labor turnover due to pay disparity

The main principles that govern wage and salary fixation are three:

1. External Equity
2. Internal Equity
3. Individual Worth.

1. External Equity:

This principle acknowledges that factors/variables external to organization influence levels of compensation in an organization. These variables are such as demand and supply of labor, the market rate, etc. If these variables are not kept into consideration while fixing wage and salary levels, these may be insufficient to attract and retain employees in the organization. The principles of external equity ensure that jobs are fairly compensated in comparison to similar jobs in the labor market.

2. Internal Equity:

Organizations have various jobs which are relative in value term. In other words, the values of various jobs in an organization are comparative. Within the own Department, pay levels of the teachers (Professor, Reader, and Lecturer) are different as per the perceived or real differences between the values of jobs they perform.

This relative worth of jobs is ascertained by job evaluation. Thus, an ideal compensation system should establish and maintain appropriate differentials based on relative values of jobs. In other words, the compensation system should ensure that more difficult jobs should be paid more.

3. Individual Worth:

According to this principle, an individual should be paid as per his/her performance. Thus, the compensation system, as far as possible, enables the individual to be rewarded according to his contribution to organisation.

Alternatively speaking, this principle ensures that each individual's pay is fair in comparison to others doing the same/similar jobs, i.e., 'equal pay for equal work'. In sum and substance, a sound compensation system should encompass factors like adequacy of wages, social balance, supply and demand, fair comparison, equal pay for equal work and work measurement.

Methods of Wage Payment

1. Time Rate System:

Under this system, the wages are paid according to the time spent by workers irrespective of his output of work done. The wage rates are fixed for an hour, a day, week, a month or even a year

Merits of Time Rate System:

Advantages of Time Rate System:

1. Simplicity:

The method of wage payments is very simple. The workers will not find any difficulty in calculating the wages. The time spent by a person multiplied by the rate will determine his wages.

2. Security:

Workers are guaranteed minimum wages for the time spent by them. There is no link between wages and output, wages are paid irrespective of output. They are sure to set certain wages at the end of a specified period of time spent in working.

3. Better Quality of Products:

When workers are assured of wages on time basis, they will improve the quality of products. In this method, workers will concentrate on producing better quality of goods. In certain situations, only time wage system will be suitable.

4. Support of Unions:

This method is acceptable to trade unions because it does not distinguish between workers on the basis of their performance. Any method which gives different wage rates or wages based on output is generally opposed by trade unions.

5. Beneficial for Beginners:

Wage rate system is good for the beginners because they may not be able to reach particular level of production on entering employment.

6. Less, Wastages:

The workers will not be in a hurry to push through production. The materials and equipment's will be properly handled leading to less wastage.

Disadvantages Time Rate System:

Time wage system suffers from the following drawbacks:

1. No Incentive for efficiency:

This method does not distinguish between efficient and inefficient workers. The payment of wages is related to time and not output. Thus, the method gives no incentive for more production.

Efficient workers may start to follow inefficient persons because rates of pay are same. Rates of wages fixed in this method are also low because these are fixed by taken into account the output of dullest workers. Thus, this method does not provide incentive for efficiency.

2. Wastage of time:

Workers may waste their time because they will not be following a target of production. Efficient workers may also follow slow workers because there is no distinction between them. This may lead to wastage of time.

3. Low production:

Since wages are not related to output, production rate shall be low. The responsibility for increasing production may mostly lie on supervisors. Because of low production, overhead expenses per unit will go up, leading to higher production cost.

4. Difficulty to determine labor cost:

Because wages are not related to output, employees find it difficult to calculate labor cost per unit. The output will go on varying from time to time while wages will remain almost same. Production planning and control will be

difficult in the absence of a relationship between wages and output wages and output.

5. Difficult supervision work:

Under this system, workers are not offered incentives for production. To get more worker from them, there will be need for greater supervision. More supervision may be required to maintain proper quality of goods also. In wage system supervision cost goes up to a great extent.

6. Employer-employee trouble:

When all employees, irrespective of their merit are treated equally, there is likely to be a trouble between management and workers. Those employees, who are not satisfied with this method, may start disobeying order from their superiors.

2. Piece Rate System:

Under piece system of payment, wages are based on output and not on time. There is no consideration for time taken in completing a task. A fixed rate is paid for each unit produced, job completed or an operation performed. Workers are not guaranteed minimum wages under this system of wage payment.

Advantages of Piece Rate System:

The piece rate system has the following advantages:

1. Wages linked to efforts:

Under piece wage system, wages are linked to the output of a worker. The higher the output, higher will be the wages. Workers will try to put in more and more effort for increasing output because their wages will go up.

2. Increase in production:

Production goes up when wages are paid according to piece rate system. Workers will feel encouraged to increase output because their wages will also increase. This system is fair to both employees and employers. Efficient workers will try to exert maximum in order to raise their production and hence wages.

3. Better utilization of equipment/machines:

The machines and other equipment's are put to maximum utilization. Workers may not like to keep the machines idle. The use of machines will also be systematic because any breakdown in these may affect the workers adversely. Thus, better machine utilization will give better output.

4. Distinction between Efficient and Inefficient:

As in time wages system, efficient and in efficient workers are not given equal treatment in the piece wage system. Efficient workers will get more because of their better results. Inefficient workers on the other hand will get less because

of low production. This method provides sufficient encouragement to efficient workers or showing better results.

5. Less supervision required:

Since payments are on the basis of output, workers will not waste time. They will continue to work irrespective of supervision. There may be more and more voluntary efforts on the part of workers and need for supervision is reduced to a minimum.

6. Effective cost control:

The increase in output will result in reduction of overhead expenses per unit. Some of the overhead expenses being fixed, increase in production will reduce expenses per unit. Reduction in cost may benefit consumers in the form of decrease in product price.

7. Better planning and control:

The certainty in achieving production targets will improve planning and control. When management is sure of certain quantity of production, then it can plan other things with more confidence, it will also ensure better control over production because targets may be regularly reviewed from time to time. Thus, better planning and control is possible.

Disadvantages of Piece Rate System:

1. No guarantee or minimum wage:

There is a direct relationship between output and wages. If a worker does not ensure certain productions, then wages may also be uncertain. Any type of interruption in work may reduce earnings of workers. So workers are not sure about getting minimum wages. So this system does not provide guarantee of minimum wages.

2. Poor quality of goods/products:

The workers will bother more about the number of units otherwise more supervisors are appointed to keep watch on quality of products being produced.

3. Not suitable for beginners:

The beginners will not be able to produce more goods because of less experience. They will earn much low wages as compared to experienced workers because their rate of production will be low. Thus, this system is not suitable for beginners.

4. Deterioration in health:

Workers may try to work more than their capacity. This may adversely affect their health. They may try to work even when they are not keeping good health, since wages are linked with production.

5. Cause of dissatisfaction:

There may be difference in earning of various workers. Some may earn less and others may earn more. Those who get low wages feel so jealous of others who earn more and this becomes a cause of dissatisfaction among slow workers. Thus, this system can see dissatisfaction among workers.

6. Opposition from unions:

Piece-rate system of paying wages is opposed by trade unions. There is an unhealthy competition among workers for increasing their wages. It encourages rivalry among workers and it may become a cause of disunity.

7. Difficulty in fixing piece-rates:

The fixation of piece rates is not an easy job. If a low rate is fixed then workers may not feel encouraged to increase their production. When a high piece-rate is fixed then it will increase the cost of production of goods. The fixation of piece rate may become a cause of an industrial dispute. It may be very difficult to fix a rate acceptable to workers as well as management.

3. Incentive Wage System:

There are two basic systems of wage payment—time rate system and piece rate system. Both the systems have their merits and demerits. No system can be considered suitable for all times and under all circumstances. To maintain the merits of both the systems and to overcome the demerits of these systems, some experts have developed the systems of incentives wage.

These systems are also known as incentive wage systems, progressive wage system and bonus schemes etc. Under these systems, both the time and speed are considered as the basis of wage payment.

These systems provide incentives to the workers to produce more and more maintaining the quality as well. The workers are paid bonus or premium for the additional work. It is important to note that almost all the systems incentive wages provide for minimum guaranteed wages to the workers.

Merits of Incentives

- **Higher output:**

By providing incentives to his employees, the employer is able to induce them to work better. This leads to higher output.
- **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.
- **No problem of idle time:**

In an organization 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.
- **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.
- **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.
- **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.
- **Rate of labor 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 organization. The rate of labor turnover, as a result, is bound to be low.
- **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.

Demerits of Incentives

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

- **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.

- **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.

- **Wear and tear of machines may be more:**

As the employees are kept on increasing the output all the time, they may handle the machines carelessly. This increases the wear and tear of machines.

- **Health of the workers may get affected:**

Some workers tend to overwork in order to earn more and this may affect their health.

- **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.

- **Increase in paper work:**

Proper administration of any incentive scheme involves lot of paper work. It necessitates the maintenance of proper records and books.

Individual Bonus Schemes

An individual bonus scheme will set out targets or objectives over a period of 12 months.

Bonus scheme Options

Cash Bonus, Gift Vouchers, Share scheme, corporate gift

Group Bonus Schemes

A group bonus scheme is when a group of workers that are working together are rewarded completed.

Advantages

It create co-operation and develops a team spirit among the workers.

It reduces supervising work

Absenteeism is reduced.

Disadvantages

1. The share of inefficient workers may be the same as that received by more efficient workers of the group.
2. Efficient workers are penalized for the inefficiency for the other members of the group.

Steps involved in Wage Determination Process:

1. Job Analysis:

Job analysis describes the duties, responsibilities, working conditions and inter-relationships between the job as it is and the other jobs with which it is associated. It attempts to record and analyses details concerning the training, skills, required efforts, qualifications, abilities, experience, and responsibilities expected of an employee.

After determining the job specifications, the actual process of grading, rating or evaluating the job occurs.

2. Wage Survey:

In determining the wages for a specific job it is very necessary to work as to what wages are being given for the same job in other enterprises.

3. Group Similar Jobs into Pay Grades:

After the results of job analysis and salary surveys have been received, the committee can turn to the task of assigning pay rates to each job, but it will usually want to first group jobs into pay grades.

Pay grading is essential for pay purposes because instead of having to deal with hundreds of pay rates, the committee might only have to focus on a few.

4. Price Each Pay Grade:

The next step is to assign pay rates to pay grades. Assigning pay rates to each pay grade is usually accomplished with a wage curve. The wage curve depicts graphically the pay rates currently being paid for jobs in each pay grade, relative to the points or ranking assigned to each job or grade by the job evaluation.

5. Fine-Tune Pay Rates:

Fine tuning involves correcting out of line rates and developing rate ranges.

(i) Correcting Out of Line Rates:

The average current pay for a job may be too high or too low, relative to other jobs in the firm. If a rate falls well below the line, a pay rise for that job may be required. If the rate falls well above the wage line, pay cuts or a pay freeze may be required.

(ii) Developing Rate Ranges:

Most employers do not pay just one rate for all jobs in a particular pay grade. Instead, they develop rate ranges for each grade so that there might be different levels and corresponding pay rates within each pay grade. The rate is usually built around the wage line or curve.

Factors influencing wage or salary levels

The main factors influencing wage or salary levels are:

- 1. Job Needs** – Different types of jobs require different levels of both physical and mental skills. Some require high skills so pay is high on the other hand simple, routine jobs where skill requirement is low are paid low.
- 2. Ability to pay** – Ability to pay depends upon the profit earning capacity of the organization MNCs pay relatively higher salaries due to their higher paying capacity.
- 3. Cost of living** – Due to inflation, the real wages decline affecting the purchasing power of workers. Therefore, dearness allowance is given according to change in consumer price index.
- 4. Prevailing wage rates** – Prevailing wage rates in competing firms with in an industry are taken into account while fixing wages & company that does not pay comparable wages may find it difficult to attract and retain talent.
- 5. Union** – Highly unionized sectors generally have higher wages because well-organized unions can exert pressure on management and obtain all sorts of benefits and concession to workers.
- 6. Productivity** – In many organizations, pay is linked to productivity or performance of workers.
- 7. Demand and supply of labor** – The demand for and the supply of certain skills determine prevailing wage rates. E.g. – High demand for IT Professionals ensure higher pay for them.
- 8. State Regulations** – Wage policy and laws of the government exercise a significant influence on wage levels. Government has enacted laws to protect the interests of the working class. No organization can violate laws relating to minimum wages, payment of bonus, dearness allowance and other allowance etc.
- 9. Demand and Supply:**

Demand for and supply of labor and its availability will have great influence on the determination of wage rates. If there is a shortage of labor, the wages demanded will be high. If, on the other hand, labor is plentiful, workers will be too willing to work at low rates of wages.

10. State of Competition:

The wage level is also affected by the degree of competition in the market for the products of an industry. In a state of perfect competition (which is hardly ever present), the level of wages may be at par with the value of the net addition made by the workers to the total output. If there is imperfect competition in the product market, the wages are not likely to reach this level.

Concepts of Wages:

1. Minimum wage,
2. Living wage, and
3. Fair Wage.

1. Minimum Wage:

A minimum wage is said to be a wage which is sufficient to satisfy at least the minimum needs, of at least a frugal and steady workers. According to the Committee on the minimum wage is an irreducible or minimum amount regarded necessary for the bare sustenance of the worker and his family and for the preservation of his efficiency at work.

In most countries, like ours, Minimum Wages Legislation has fixed minimum wages for specified occupations, especially where sweating and exploitation of labor had been prevalent. In fixing a minimum wage both the need of the workers and the capacity of the industry to pay are taken into account. From the social point of view, an industry which cannot even afford to pay a basic minimum wage has no justification for existence in the long-run.

2. Living Wages:

It is a wage which should offer an employee incentive to work and produce enough in quantity, without sacrificing quality, so that the payment of such a wage is justifiable by the industry. The living wage for a worker should be such as to include not merely the cost of maintenance for himself but also for supporting his family.

As such, living wage should include provision for the following:

- I. Bare necessities such as food, clothing and shelter;
- ii. A measure of frugal comfort includes – (a) education for children, (b) protection against ill-health, (c) requirements of essential social needs, and (d) a measure of insurance against the more important misfortunes including old age.
- iii. Some margin for self-development and recreation.

3. Fair wage:

“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 labor 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 organizations.

General guidelines for preparation of payroll

1. **Collect Employee Information:**

- Ensure that you have up-to-date and accurate employee information, including personal details, tax information, and benefit elections.

2. **Time and Attendance Tracking:**

- Collect and verify employee work hours. This can involve using time-tracking systems, attendance records, or other methods to accurately capture hours worked.

3. **Calculate Gross Pay:**

- Determine each employee's gross pay, which includes regular salary or wages, overtime pay, bonuses, and any other additional earnings.

4. **Deduct Taxes:**

- Calculate and withhold applicable taxes from each employee's gross pay, including income tax, Social Security, and Medicare contributions. Use the information provided by employees on their W-4 forms.

5. Deduct Other Withholdings:

- Deduct other withholdings, such as contributions to retirement plans, health insurance premiums, and any other voluntary deductions.

6. Net Pay Calculation:

- Subtract all deductions from the gross pay to determine the net pay – the amount employees will actually receive.

7. Check for Compliance:

- Ensure compliance with federal, state, and local labor laws and tax regulations. Stay updated on any changes in regulations that may affect payroll.

8. Direct Deposits or Paper Checks:

- Decide whether employees will be paid via direct deposit or paper checks. Ensure that the chosen method is in compliance with labor laws.

9. Generate Payroll Reports:

- Create payroll reports summarizing gross pay, deductions, and net pay for each employee. These reports can be useful for record-keeping and auditing purposes.

10. Record Keeping:

- Keep detailed records of payroll transactions, including pay stubs, tax withholdings, and any other relevant documents.

11. Submit Payroll Taxes:

- Remit payroll taxes withheld from employees' paychecks to the appropriate tax authorities on time.

12. Employee Communication:

- Provide employees with pay stubs detailing their earnings, deductions, and net pay. Communicate any changes in benefits, taxes, or other relevant information.

13. Continuous Compliance Monitoring:

- Regularly monitor and update payroll processes to ensure ongoing compliance with changing laws and regulations.

14. Integration with HR Software:

- Consider using HR software that integrates with payroll functions to streamline the process and minimize errors.

15. Periodic Audits:

- Conduct periodic audits of payroll records to identify and rectify any errors or discrepancies.

Remember that payroll preparation requires strict adherence to legal and ethical standards, as well as a commitment to accuracy. Many organizations use specialized payroll software or outsourcing services to help streamline the payroll process and ensure compliance.

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