**\*\*\*Answer of Compensation Management- HRM 603**

**Answer of the question 1**

**Theories about wages:**

The marginal productivity theory of wages, formulated in the late 19th century, holds that employers will hire workers of a particular type until the addition to total output made by the last, or marginal, worker to be hired equals the cost of hiring one more worker.

The market theory of wage determination aims to explain the discrepancies in income that a lot of different individuals get through worker's abilities. According to this theory, the pay or salary of a worker is determined by the supply and demand for the worker's abilities and services in the market.

Ricardo maintained that an increase in capital would result in an increase in the demand for labour. Statements such as these foreshadowed the wages-fund theory, which held that a predetermined “fund” of wealth existed for the payment of wages.

Modern theory of wages regards wages as a price of labour. A labour sells his services, which is utilized as a factor in the process of production. As we know, prices of all commodities are determined by their usual supply and demand in the market.

This theory was developed by John Davidson. He believed that the fixation of wages would depend on the bargaining power of workers/trade unions and of employers. If workers are stronger in bargaining process, then wages would be high.

Compensation is the total cash and non-cash payments that you give to an employee in exchange for the work they do for your business. It's typically one of the biggest expenses for businesses with employees. Compensation is more than an employee's regular paid wages.

ompensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction.

Wages and salaries are the payment for work agreed between an employee and his or her employer under the contract of employment in the private sector and for contractual agents in the public service, or employment for civil servants.

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

In economics, the price paid to labour for its contribution to the process of production is called wages.

Labour is an important factor of production. If there is no labour to work, all other factors, be it land or capital, will remain idle.

Thus, Karl Marx termed labour as the “creator of all value”.

However, labour alone cannot produce as most of the production is the result of joint efforts of different factors of production. Therefore, the share of the produce paid to labour for its production activity is called wage.

“A wage may be defined as the sum of money paid under contract by an employer to worker for services rendered.” –Benham

Keeping all other things constant, there exists inverse relation between real wages and price i.e. with the increase in price level real wages tend to decline and vice-versa.

Ceterus paribus, an increase in money wages will lead to an increase in real wages. It is due to the reason that with the increase in money wages, a labourer can purchase more goods and services than before.

Often expressed as a ratio of prices and measured as a ratio of units; for example, pounds of cheese per gallon of wine. (i.e., amount of one good traded for another) were then chosen, both countries could end up with more of both goods after specialization and free trade than they each had before trade.

The three important features of Ricardian theory of rent are the following: i Rent is paid to land only. ii Rent is price paid for the use of original and indestructible powers of the soil. iii Rent is a differential surplus—the difference between the produce of the superior lands and marginal lands.

The Ricardian Model

* There are only 2 countries.
* They produce 2 goods.
* Production requires only 1 input, labor, which is limited in amount in both countries and is perfectly immobile (i.e. strict border control).
* opportunity cost between the goods is constant in each country.

The Ricardian model helps us understand a few basic facts about trade: Trade is defined by comparative advantage. Trade between countries diminishes with distance. Large countries trade less relative to GDP, but trade relatively more in absolute terms.

Ricardo's widely acclaimed comparative advantage theory suggests that nations can gain an international trade advantage when they focus on producing goods that produce the lowest opportunity costs as compared to other nations.

The Ricardian international trade theory makes three assumptions: there is no movement of production factor among countries, the only production factor is labour, and labour productivities are fixed. Among these assumptions, Ricardo himself admits only the first.

lassical economist David Ricardo's labor theory of value holds that the value of a good (how much of another good or service it exchanges for in the market) is proportional to how much labor was required to produce it, including the labor required to produce the raw materials and machinery used in the process.

The Ricardian model explains comparative advantage using the concept of opportunity cost. • The opportunity cost of producing a good measures the cost of stopping production of another good.

We can say that, according to the Ricardian theory, rent is a differential surplus and arises from the fact that land possesses certain peculiarities as a factor of production. It is limited in area and its fertility varies. Besides, its situation is fixed.

Ricardo argued that trade gains could arise if countries first specialized in their comparative advantage good and then traded with the other country. Specialization in the example means that the United States produces only cheese and no wine, while France produces only wine and no cheese.

According to the modern theory of wages, wages are the price of services rendered by a labor to the employer. As products the prices are determined with the help of demand and supply curve. Similarly, the wages (prices of services rendered by labor) is also obtained with the help of demand and supply of labor.

Modern theory of wages regards wages as a price of labour. A labour sells his services,  
which is utilized as a factor in the process of production. As we know, prices of all  
commodities are determined by their usual supply and demand in the market.  
According to this approach also wages are determined by the interaction of market  
forces of demand and supply of labour. To further understand this theory we need to  
explain the Demand and Supply of labour and the nature of their curves.  
Demand for Labour:  
The demand for labour comes from the entrepreneurs as it is used for the production of  
goods and services. Thus, the demand for labour depends upon the productivity of  
labour i.e., higher the productivity of labour, the greater will be its demand from  
employers. Thus, demand for labour depends upon the marginal productivity of labour;  
since the marginal productivity curve of labour slopes downwards after a stage, the  
demand curve of labour will also slope downward.

Technological changes influence the marginal productivity of labour. As with better  
tools and technology marginal productivity of labour increases and vice-versa.  
Therefore, technological change will effect marginal productivity of labour.

Demand for labour is a derived demand. It means that demand for labour depends upon  
the demand for goods and services which it produces. If at any given time the demand  
for a particular commodity produced by the labour is high, it is natural that the demand  
for labour shall also be high. Hence, the greater is the consumer demand for the  
product, the higher will be the demand for the labour to produce that commodity.

The demand for labour also depends upon the proportion in which labour is mixed with  
other factors of production. When a small amount of labour is engaged in the  
production of a product, the demand for that type of labour is inelastic. For instance, the  
demand for labour for operating automatic machines or latest machines in large scale  
industries is inelastic.

The demand for labour depends upon the cost of other factors of production which can  
be used as substitute for labour. If substitute factors are costly, the entrepreneur will  
naturally substitute labour in place of costly factor. In such a case the demand for labour  
will be high. If the prices of substitute factors which can be used in place of labour have  
declined, the substitute factor will be used in place of labour. Hence, the demand for  
labour will decline.

Supply of labour tells us that number of labourers who are ready to sell their labour at  
the various wage rates. A labour would sell his services for at least that much of wage in  
which he can maintain himself and his family. Supply of labour in an economy depends  
upon both economic as well as non-economic factors.

Economic factors influencing the  
supply of labour comprises of existing employment, desire to increase monetary income,

bargaining power of the labourers, size of population, income distribution etc. while the  
non-economic factors consist of family affection, social conditions, domestic  
environment etc.

Psychological factors also affect the supply of labour. It is only due to the psychological  
factors that a worker decides how much time he should devote to work and how much to  
leisure. Moreover, the supply of labour also depends on the elasticity.

The supply of labour for a firm is perfectly elastic, so, the firm at current wages can  
employ as many workers as it wishes. On the contrary the nature of supply of labour for  
an industry is not infinitely elastic.

Thus, it cannot employ more and more labourers at the current wage rate. The industry can do so by attracting labourers from other industries by offering them higher wages. Following diagram clears this point more vividly.

Companies with incentive plans pay the base rate only for a normal amount of  
production as determined by time study. If a workman produces more than the normal  
level, he receives all extra incentive in the form of bonus. Having the right people in  
the right jobs at the right time is only one part of the management's responsibility to  
develop and maintain personnel policies. Employees and managers alike are vitally  
interested in the terms and conditions of employment. Employees expect payment for the  
services they render. The problem arises when the organization has to determine how  
much money each employee is to receive for the work he performs.

A man may be immensely capable of work but it is of no use to his employer if he is not  
psychologically disposed to apply it to his work. It is our common knowledge that  
workers do not always exert themselves in full. It is rightly said that can buy a  
man's time, can buy a man's physical presence at a given place but cannot buy  
his enthusiasm, initiative and loyalty. It has to win these things.

Motivation aims at transforming the ability to do into the will to do. Motivated employees are in a state of tension. To relieve this tension, they engage in activity. Hence when we see  
someone working hard at some activity, we can conclude that the individual is driven by  
a desire to achieve some goal which he perceives as having value to himself.

Wage growth (or real wage growth) is a rise of wage adjusted for inflations, often expressed in percentage. In macroeconomics, wage growth is one of the main indications to measure economic growth for a long-term since it reflects the consumer's purchasing power in the economy as well as the level of living standards.

The U.S. Department of Labor requires documentation of the "actual wage." The actual wage is the wage rate paid by the appointing unit to all other individuals with experience and qualifications similar to those of the H-1B beneficiary for the specific employment in question; this rate can be expressed as a range.

**Answer of the question 2**

Grades of labour:

Grade pay and preset salary charts have long been in use in the public sector. Because of the social, financial and operational benefits of using these systems, many companies in the private sector now use this type of compensation method too. If an [operations consultant](https://www.indeed.com/q-Operations-Consultant-jobs.html?from=careerguide-autohyperlink-en-US), a compensation consultant or business owner, it's important for anyone to know about how pay grade works. In this article, we define what grade pay is, explain the benefits of preset compensation methods and offer tips and examples for creating your own pay grade charts.

Grade pay is the exact monetary compensation a person earns at a job that uses a pay grade system. This type of payment system is structured and preset, and it does not involve salary negotiation. Pay grade systems have multiple steps or levels, each of which has transparent requirements. Information about these predetermined salaries, levels and steps are available to all employees and are often accessible to the public as well.

Pay grades work by using preset factors to determine the amount of money someone earns at their job. These factors inform the structure of steps and levels within company compensation charts. The charts show job titles and the exact salary or salary range for each position. If the charts reflect a range, then the exact compensation a person earns within that range is typically determined using a specific point system.

Here are benefits of having preset pay grades and salary guides:

Promotes transparency: Pay grade systems and salary step guides divulge a lot of information to employees upfront. This helps set expectations and shows people that the organization they work for trusts and values them.

Eliminates wage gaps: Wage gaps represent disparity in pay among different groups. Preset salary step guides use the same factors to determine compensation for all people. This promotes equality and helps closes wage gaps.

Priorities education: Most pay grade charts outline increases in salary for people with advanced degrees or degree credits. This system places value on education and encourages people to attend school.

Provides personal budget clarity: Preset salary step guides give people information about the financial prospects of a long-term career. This helps people prepare and budget for their future.

Improves organizational budget forecasting: Organizational budget forecasting estimates a company's profits and overhead. In the same way that preset salary step guides help employees prepare, they can also aid companies in budget forecasting.

ERI Economic Research Institute was founded over 30 years ago to provide compensation applications for private and public organizations. ERI Economic Research Institute compiles the most robust salary, cost of living, and executive compensation survey data available, with updated market data for more than 1,100 industry sectors. ERI collects salary survey data from internal surveys, third-party salary surveys, and public sources to calculate geographic salary differentials and assist with compensation planning.

The main categories of labour are as under: (1) Physical and mental labour. (2) Skilled, semi-skilled and unskilled labour. (3) Professional and administrative labour. (4) Productive and unproductive labour.

Within economics, labor is a force of production that refers to the work people do to produce goods and services. It includes all the physical and mental efforts that go into the production of goods and services.

Labour grade is one of a series of wage groupings of the jobs within a plant or company that are considered of approximately equal worth on the basis of job evaluation.

A business employs two grades of labour in its production department. Grade A workers are considered direct labour employees, and are paid $10 per hour. Grade B workers are considered indirect labour employees, and are paid $6 per hour.

In the week just ended, Grade A labour worked 30 hours of overtime, 10 hours on a specific customer order at the customer’s request, and the other 20 hours as general overtime. Grade B labour worked 45 hours of overtime, as general overtime. Overtime is paid at time-and-one-half.

Grade B labourers overtime will not be considered to be a direct cost since they are indirect labour employees AND I believe that only the 10 hours of specific overtime by Grade A labour employees will be considered as direct cost, right? Hence, the answer should be A because 10hrs x $10 x .50 But the answers at the back of the book say D and the method they have shown includes the 30 hours of general overtime.

A grade structure consists of a sequence or hierarchy of grades, bands or levels into which groups of jobs that are broadly comparable in size are placed.

We can divide our total pay system into three categories: pay, incentives, and other types of compensation. Pay is the hourly, weekly, or monthly salary an employee earns. An incentive, often called a pay-for-performance incentive, is given for meeting certain performance standards, such as meeting sales targets.

The range of amounts that someone can be paid when they are at a particular level in an organization or job: He now works in another regional office at a pay grade several notches below his former pay grade.

Series and grade is the Federal Government's system for categorizing and defining jobs. The series is a numbered system for grouping similar occupations. For example, a Nurse is part of the 0610 series. A 'grade' refers to the General Schedule (GS) pay scale – it's the pay level for the job.

Grading in construction/excavation is the work/act of ensuring a level base or specific slope. Grade generally refers to the ground level, or the elevation at any given point. Common uses of grading in construction work include: Foundations. Base course for roads or a railways.

Grading is used to evaluate and provide feedback on student work. In this way, instructors communicate to students how they are performing in the course and where they need more help to achieve the course's goals.

Grading Percentage– from 0 to 100 percent. Letter Grading and Variations – from A grade to F grade. Standard-referenced Grading– typically comparing students to each other with letter grades. Mastery Grading – Students are rated as 'masters' or 'passers' until their accomplishment reaches a defined level.

The four major types of labor are professional, semi-skilled, skilled, and unskilled labor.

Within economics, labor is a force of production that refers to the work people do to produce goods and services. It includes all the physical and mental efforts that go into the production of goods and services.

The four types of labor in economics are skilled, unskilled, semi-skilled, and professional. Together, these four types of labor make up the active labor force.

The term labor market refers to employers buying labor services from workers in exchange for wages or other forms of compensation. The labor market is determined by the supply of labor and the demand for labor.

**Answer of the question 3**

**Types of wage plans:**

There are two major kinds of wage and salary payment plans. These are time plan and incentive plans. These two types also take many forms. According to time plan remuneration does not vary with output or quality of output.

Wage plan codes are letter indicators used by Employment Development Department (EDD) automated data systems to determine whether the Total Subject Wages reported for an employee can be used for Unemployment Insurance (UI) and Disability Insurance (DI) benefit claims, including Paid Family Leave (PFL).

There are two major kinds of wage and salary payment plans. These are time plan and incentive plans. These two types also take many forms. Wages are also known as the price of labor. Wages can be based on an hourly, daily, or weekly basis. In its simplest form, wages are the hourly cost to employ a certain worker. Wages are the payments that assign a monetary value to labor services, also known as the price of labor.

According to time plan remuneration does not vary with output or quality of output. Instead they are computed in terms of some time unit. The payment is not conditional to the output.  Wages are not linked to productivity. The time unit may be hour, day, week or month.

This system is very popular among white-collar employees. Year-end annual increment, merit increments, bonus and promotion chances are means of motivation in this system.

Time plans are non-incentive in the sense that earnings during a given time period do not vary with the productivity of an employee during the time period.

The second category is composed of incentive plans or those in which remuneration depends on output or some other measure of productivity during a given time period.   To earn more, an employee must expend effort to produce more, to sell more or to reduce cost, or to utilize various resources more effectively, as the case may be.

It is easy to compute and to understand. Most unions also prefer it because the plan does not stimulate speedups or penalize the average worker.  And under it, quality is not sacrificed because it does not stimulate workers to concentrate on production alone. Its main disadvantage is its lack of motivation. Pay is not related to effort or output but merely to the time spent at work. By prolonging the work, the employees can obtain overtime pay.

Time plans may take two forms: day work and measured day work. Day work refers to all time – payment plans used in paying workers, although the hour is the time unit most commonly employed. Wages are computed under it by multiplying the numbers of hours worked by the rate per hour. .

Measured day work overcomes the demerits of day work and gains its advantages. Under this system, employees are paid under the day work system, but hourly rates are revised periodically in accordance with measures of their overall qualifications. The advantage of this plan is that wages may be easily computed; yet employees are provided with a motive for improving their performance. Moreover, earnings are not dependent upon one factor, such as output, but are affected by quality of output, dependability, and versatility.

The major types of incentive plans are piecework, timesaving plan, efficiency bonus plans, and profit sharing plans. Let us now briefly describe each of them.

Piecework

The most widely used incentive plan is piecework. Under this plan, the number of pieces or units of work that are completed determine wages. Each piece is given a prescribed value, which is known as piece rate. Rates are set by time study and past experience on similar jobs. It is designed to provide workers with an incentive to increase output. Needless to say, they will only succeed in this aim if workers are convinced and motivated by the prospect of increase pay.  It is only appropriate when:

The output is standardized,

The output is measurable,

There is a link between effort and output,

Output can be attributed to an individual worker or a group so that each receives a reward commensurate with effort.

Merits

Easy to understand

Improve productivity

Good incentives for workers to increased their output.

Demerits

Workers focus is on quantity and not quality.

Causes high wastage.

Greater disparities of earning between slow and fast workers.

Worker sinter personal relationship suffers.

No guaranteed minimum and this make workers insecure.

Workers may suffer from stress and tension.

**Time rate**

Less harmful to quality

Less harmful to health of employees

Simple, easy to understand

Does not provide incentive for increased effort.

Required supervision of workforce

Employers vulnerable to work to rule

Sanctions by union

**Piece rates**

Stimulates effort

Encourage workers to devise improved methods

Simplifies costing.

Must be adjusted for local circumstances.

Must be adjusted to take account of changes in method.

Encourages workers to cut corners, endangering safety and quality.

Timesaving plan

It is one of the oldest incentive plans. Under it, an employee is paid for the time actually spent on a task plus a bonus based on a percentage of the time saved under the time set for the tasks worked on. Under this plan, the following formula is used:

Thus if a worker whose rate was $5 an hour took 8 hours on a job on which the standard allowance was12 hours, and the percentage was 75, earning would be:

The bonus percentage is usually set between 75% and 100.

Efficiency bonus plan

An employee is paid for the time actually spent on assigned tasks plus a bonus based on personal efficiency on those tasks. This plan calls for establishing a table of values for increasing degree of efficiency. For each job a standard time allowance is established. At the end of each week, each worker’s efficiency is derived by dividing the time allowed on various jobs by the time taken. To the base wage is then added a percentage for relative efficiency.  For example, a worker who took 40 hours to complete jobs on which the allowance was 36 hours, and whose hourly rate was $ 5, would be paid $115, computed as follows:

**Profit-and –revenue sharing plans**

A final group of plans related to compensation is characterized by some form of sharing in profits or revenues the primary objectives of profit sharing plan are to improve productivity, recruit or retain employees, improve product or service quality, and improve employee morale. The plans ` include:

Sharing directly in profits

As the name suggests, profit sharing involves the employee receiving a share of the company’s profits. Employees receive a bonus that is normally based on some percentage (e.g., 10 to 30 percent) of the company’s profit. The employee’s basic pay is unaffected. Sharing profits with employees has been used as a means of incentive compensation. Firms use it for one or more of the following reasons: to build a group incentive for increased productivity and better employee relations, to institute a flexible reward structure that reflects a company’s actual economic position, to enhance employees’ security and identification with the company, to attract and retain workers more easily, and to educate individuals about the factors that underlie business success.  This plan will not work when there are no profits to divide.

Stock Ownership Plans

Employee stock ownership plans (ESOPs) have become popular in business firms of USA and Japan (Miller and Christopher, 1987). About 10,000 U.S. firms now share ownership with more than 11 million employees.  The same is pursued by the few Bangladeshi business organizations, (i.e., Beximco Group and Singer Bangladesh Ltd). ESOPs enable employees to become owners or part owners of a company. Managers and workers see themselves as one group and the result is that everyone is highly committed and motivated (Klein, 1988). Employees tend to be most satisfied with stock ownership when the company established its ESOP for employee-centered reasons rather than for strategic reasons.

Almost everyone loves the concept of employee ownership as a kind of people’s capitalism. It brings management and workers as partners.

As a way of borrowing money relatively inexpensively. A firm borrows money from a bank using its stock as collateral, places the stock in an employee stock ownership trust, and as the loan is repaid, distributes the stock at no cost to employees.

As an additional employee benefit.

As a part owner, workers have a lot to say about their areas of expertise. They come up with ways to save money and improve productivity. In one survey of over 1100 ESOP companies, about 60% said productivity had increased, and 68% said financial performance was higher since converting to an ESOP (Gates, 1998).

However, the sharing also can be a disadvantage because employees may feel forced to join, thus placing their financial future a greater risk. Both their wages and financial benefits depend on the performance of the organization. ESOPs are not insured, and if a company goes bankrupt, its stock may be worthless.

Gain Sharing

It is necessary to have an adequate compensation program, which will attract and retain key people of superior caliber in the organization.  In addition, non-traditional compensation system can be used to motivate employee to improve their performance. Gain sharing, a non traditional system of compensation, in which employees throughout an organization are encouraged to become involved in solving problems and are then given bonuses tied to organisationwide performance improvements (Lawler, 1984). It is the sharing with employers of greater than expected gains in profits or productivity. It is important to distinguish gain sharing from profit sharing. Gain sharing is based on a measure of productivity. Profit sharing is based on profitability measure. Gain sharing, productivity measurement, and bonus payments are frequent events, distributed monthly or quarterly, in contrast to the annual measures and rewards of profit sharing plans.

The same can be applied in the business firms of Bangladesh. The primary objectives of gain sharing plans are to: improve productivity, recruit and retain qualified employees, improve product or service quality, and improve employee morale. Management must be willing to disclose financial and profit information to employees if they want to successfully implement this plan (Masternak, 1997).  Tyler and Fisher (1997) identify the following reasons for failure of gain sharing plan:

Gain sharing does not work well in piecework operations.

Some firms are uncomfortable about bringing unions into business planning.

Some managers may feel they are giving up their prerogatives.

It is true of all incentive plans that, though, that none will work well except in a climate of trustworthy labor-management relations and sound human resources management practices. These issues are discussed next.

Pay for skill

Skill-based pay is an alternative to job-based pay. Skill-bases pay can be introduced to encourage employee to acquire a variety of skills. Without proper incentive systems, few workers are willing to acquire necessary skills.  Employees will receive a pay increase for each new skill that they master. In such a learning environment, the more workers learn, the more they earn.  Under such a system, workers are paid not on the basis of the job they currently are doing but rather on the basis of the number of jobs they are capable of doing, or on their depth of knowledge. As Peters and Rudolf (1998) points out, “slowly but surely we are becoming a skilled based society where your market value is tied to what you can do and what your skill set is…

In this new world, where skills and knowledge are what really count. It does not make sense to treat people as jobholders. It makes sense to treat them as people with specific skills and to pay them for those skills”.

It is not easy to introduce skilled-based pay system. Part of the problem is that skills are not easy to measure in managerial jobs. Fair assessment and fair compensation, however, are essential to developing workers with a variety of intellectual skills.  It is of much importance to develop and introduce accurate performance appraisal systems. Focus on job-specific, results oriented criteria. Supervisors often resist performance appraisal (Casio, 1996). Few supervisors are trained in the art of giving feedback accurately, comfortably and with a minimum likelihood of creating other problems.  As a result many are afraid to make distinctions among workers- and they do not.

A number of studies have investigated the use and effectiveness of skilled-based pay. Employee with a variety of skills can easily handle any changes as mentioned earlier. Advocates of skill-based pay say that it can reduce staffing requirement, increase flexibility (because a single employee may have the skills to perform a variety of jobs), decrease overall labor cost and increase job satisfaction (Ingram, 1996). Downsizing requires more generalists and fewer specialists. A recent survey of 27 companies with such programs revealed that 70 to 88 percent reported higher job satisfaction, product quality, or productivity. Some 70 to 75 percent reported lower operating costs or reduced turnover (Rowland, 1998). Mastering several jobs will increase understanding and broaden perspectives. It facilitates communication across the organization because people gain a better understanding of other’s jobs. It lessens dysfunctional protection of territory behavior.  Such program also motivates flat-line employees who have little opportunity for promotions.   Multiskilling can be the key to developing a competitive edge and fight global competition.

Skills can become obsolete. When this happens, what should managers do? There is also the problem created by paying people for acquiring skills for which there may be no immediate need.  Tosi (1998) offers the following suggestions to make skilled-based pay system a success:

A supportive HRM philosophy underpins all employment activities. Such a philosophy is characterized by mutual trust and the conviction those employees have the ability and motivation to perform well.

HRM programs such as profit sharing, participative management, empowerment and job enrichment complement the skilled- based pay system.

**Answer of the question 4**

**Criteria for wage fixation:**

Under Section 5 of Minimum Wages Act, 1948 there are basically two method of fixation/revision of Minimum Wages (1) Committee Method (2) Notification Method. Revision of Minimum Wages should not exceed an interval of 5 years.

Under this system, the workers and employees are paid wages on the basis of the time they have worked rather than the volume of output they have produced. The wage rate is fixed on hourly, daily weekly, fortnightly or monthly on the basis of the nature of work. The time is the prevalent rate of the industry or area.

A wage determination (WD) is a set of wages, fringe benefits, and work rules that the U.S. Department of Labor has ruled to be prevailing for a given labor category in a given locality.

In India, there are two methods for the fixation and revision of the minimum wage rate – the Committee Method and the Notification Method. The appropriate government sets up committees and sub-committees. These committees hold enquiries and make recommendations for the fixation and revision of minimum wages.

CRITERIA FOR WAGE FIXATION

The organization's ability to pay.

Supply and demand of labour.

The prevailing market rate.

The cost of living.

Living wage.

Productivity.

Trade union's bargaining power.

Job requirements.

Steps involved in determining wage and salary rates are as follows :

1. Job Analysis:

A [job analysis](https://www.mbaknol.com/human-resource-management/uses-of-job-analysis-in-human-resource-management-hrm/) describes the duties, responsibilities, working conditions and interrelationships between the job as it is and the other jobs with which it is associated. Job descriptions are crucial in designing pay systems, for they help to identify important job characteristics. They also help determine, define and weigh compensate factors (factors for which an organization is willing to pay-skill, experience, effort and working environment). After determining the job specifications, [the actual process of grading, rating or evaluating the job occurs](https://www.mbaknol.com/human-resource-management/job-evaluation-process/). A job is rated in order to determine its value in relation to all the other jobs in the organization which are subject to evaluation. The next step is that of providing the job with a price. This involves converting the relative job values into specific monetary values or translating the job classes into rate ranges.

2. Conduct the Salary Survey:

[Compensation or salary surveys](https://www.mbaknol.com/human-resource-management/what-is-a-salary-survey/) play a central role in pricing jobs. Virtually every employer, therefore, conduct at least an informal survey. Employers use salary surveys in three ways (i) Survey data are used to price bench mark jobs that anchor the employer’s pay scale and around which the other jobs are slotted, based on their relative worth to the firm (ii) Some Jobs (generally 20% or more) of an employer’s position are usually priced directly in the market place (rather than relative to the firm’s benchmark jobs), based on a formal or informal survey of what competitive firms are paying for comparable jobs (iii) Surveys also collect data on benefits like insurance, sick leave and vacations to provide a basis for decisions regarding employee benefits.

[Salary surveys](https://www.mbaknol.com/human-resource-management/what-is-a-salary-survey/) can be formal or informal. Informal telephone surveys are good for quickly checking on a relatively small number of easily identified and quickly recognized jobs. Such as when a company’s HR manager wants to confirm the salary at which to advertise a newly open cashier’s job. In formal surveys, most firms either use the results of packaged surveys available from the research bodies, employer’s associations, government labor bureaus etc. or they participate in wage surveys and receive copies of results or else they conduct their own. These surveys may be carried out by mailed questionnaire, telephone, or personal interviews with other managers and personnel agencies. Wage and salary surveys provide many kinds of useful information about differences in wage levels for particular kinds of occupations. This can have a great influence on an [organizations compensation policy](https://www.mbaknol.com/human-resource-management/factors-influencing-wage-and-salary-administration/).

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. A pay grade is comprised of jobs of approximately equal difficulty or importance as determined by job evaluation. 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 say 8 or 12.

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 rankings assigned to each job or grade by the job evaluation. The purpose of wage curve is to show the relationship between (i) the value of the job as determined by one of the job evaluation methods and (ii) the current average pay rates for the grades. If there is reason to believe that the present pay rates are substantially out of step with the prevailing market pay rates for those jobs, bench mark jobs within each grade are chosen and priced via a salary survey. The new market based pay rates are then plotted on the wage curve. The steps involved in pricing jobs with a wage curve are:

Find the average pay for each pay grade, since each of the pay grades consists of several jobs.

Plot the pay rates for each pay grade. Then fit a line, called a wage line through the points just plotted. This can be done either free hand or by using a statistical method.

Price the jobs. Wages along the wage line are the target wages or salary rates for the jobs in each pay grade.

5. Fine-Tune Pay Rates :

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

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 range is usually built around the wage line or curve. One alternative is to arbitrarily decide on a maximum and minimum rate for each grade. As an alternative, some employers allow the rate range for each grade to become wider for the higher pay ranges reflecting the greater demands and performance variability inherent in these more complex jobs. There are several benefits of using rate ranges for each pay grade. Firstly, the employer can take a more flexible stance with respect to the labor market. It becomes easier to attract experienced, higher paid employees into a pay grade where the starting salary for the lowest step may be too low to attract such experienced personnel. Secondly, Rate ranges can also allow the employer to provide for performance differences among employees within the same grade or between those with different seniorities.

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. Underpaid employees should have their wages raided to the minimum of the rate range for their pay grade, assuming the organization wants to retain those employees and has the funds to do so. This can be done immediately or in one or two steps.

There are several ways to cope with the over paid employees :

To freeze the rate paid to employees in this grade unless general salary increases bring the other jobs into line with it.

To transfer or promote some or all of the employees involved to jobs for which they can legitimately be paid their current pay rates.

To freeze the rate for some time, during which time the overpaid employees should be transferred or promoted. If it cannot be done, then the rate at which these employees are paid is cut to the maximum in the pay range for their pay grade.

6. Wage Administration Rules :

The development of rules of [wage administration](https://www.mbaknol.com/human-resource-management/wage-and-salary-administration/) has to be done in the next step. It is considered advisable in the interests of the concern and the employees that the information about average salaries and ranges in the salaries of group should be made known to the employees concerned; for secrecy in this matter may create dissatisfaction and it may also vitiate the potential motivating effects of disclosure. Finally, the employee is appraised and the wage fixed for the grade he is found fit.

**Answer of the question 5**

**Principles of salary formation:**

There are three general principles that govern wage and salary fixation namely External Equity; Internal Equity and Individual Worth.

Salary administration implies setting up and enacting sound policies and practices concerning employee compensation. It aims at defining and maintaining a just and fair wage and salary structure.

### Objectives of Salary Administration:

* Acquiring qualified and competent personnel.
* Retaining present employees.
* Securing internal and external equity.
* Ensuring desired behavior.
* Keeping the costs in the pocket, i.e. as per the organisation’s ability to pay.
* Projecting a positive image of the company.
* Complying with wage legislation.
* Paying as per the responsibilities and difficulty of the job and the pay has to be according to the effort and merit of the employee.
* Simplifying the process of collective bargaining and negotiations.

## Principles:

At the time of the creation of the wage policy, the management must consider the interest of all the concerned parties, like employer, employees, consumers and society.

The plans must be flexible enough to modify as per the internal and external changes in the environment.

Differences in the salary scale for jobs depend on the difference in the job requirements like skills, responsibility, efforts and mental and physical requirements.

Wage and salary plans must be in line with the ultimate goals of the organisation

It must comply with the socio-economic objectives of the country, i.e. equality in income distribution, etc.

It should speed up and simplify the administrative process

Workers must also participate in wage policy formulation and implementation.

The basic level of wages must be in accordance with the prevailing rates in the market.

A sufficient database and proper organisational set-up should be there for ascertaining and administering the compensation.

Properly established procedure for hearing and adjusting wage complaints. It must be incorporated into the [employee grievance](https://beingintelligent.com/employee-grievance.html) procedures.

Ensuring a guaranteed minimum wage for all workers to safeguard their interests.

The information with respect to average salaries and ranges in the salaries of the group must be clear to the staff concerned. This is because secrecy in this matter may lead to dissatisfaction. Also, it may impair the probable motivating impact of disclosure. Hence, the appraisal of employees takes place. Along with that, the wage is determined by the grade in which he/she is perfectly fit.

he bases of salary setting are performance and skill in relation to business objectives, and responsibilities and severity. Supply and demand on the labor market for various professions may affect the salary as well as significantly change of job assignments according to responsibility and severity.

Here's how the basic salary gets calculated from parameters like gross pay and allowances: Basic salary = Gross pay- total allowances (medical insurance, HRA, DA, conveyance, etc.)

Salary processing consists of the steps needed to pay employees each period. It involves tracking hours worked, calculating allowances, deducting money for employee benefits, and remitting payroll taxes.

It is a system that defines what each person is paid, or what a particular job role attracts, based upon the value of that job or individual to the business and their effectiveness within that role.

Traditionally, cash, debit cards, credit cards, and checks were the main types of payments. Now, more advanced forms of digital payments are becoming more popular. This includes online payment services, digital currencies, and electronic transfers.

his includes debit cards, credit cards, electronic funds transfers, direct credits, direct debits, internet banking and e-commerce payment systems. Payment systems may be physical or electronic and each has its own procedures and protocols.

A payment plan can refer to paying off any outstanding debt, or sometimes more than one debt by means of consolidation into an organized payment schedule. Alternatively, different types of consumer financing involve a payment plan, such as car loans and point of sale retail loans.

A payment mechanism can be broadly described as any machinery facilitating the transmission of money in the payment of a debt,8 which enables the debtor to avoid the transportation of money and its physical delivery to the creditor in the discharge of the debt.

One of the most important factors in Human Resource Management is Compensation Management. The soundness of compensation management depends upon the amount of wage or salary is paid to an employee for a fair days work. Wage and Salary administration refers to the established and implementation of sound  policies and practices employee compensation.

Wage and salary administration is one of the vital areas of the personnel administration. For sound wage and salary policies and programs are essential. To procure, maintain, develop, promote and transfer employees and to get effective results from them.

Over all salary range for all the jobs in an organization is arranged. Each job grade will  be assigned salary range. These individual salary ranges will be filled into an overall range.

Overall salary grades of the organization may be adjusted on the data information collected about the salary levels of similar organizations. Individual salary may also be adjusted based on the  performance of the individual employees.