

MIR-Unit-3-Wage and Salary Administration

Wage 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. In a sociological sense, wages characterize stratification of occupational categories. In a psychological sense, wages satisfy need directly and indirectly in response to changing employee aspiration.

It constitutes one of several elements of job satisfaction and is instrumental for the satisfaction of some needs more than others. In a legal sense, the term wages or salaries has acquired various connotations, depending on the context and has become a subject of special law in many countries. It is most important to an industrial worker because his standard of living and that of his family depends upon his earnings.

Wages have at least two connotations from the stand points of employers and employees in organisational settings –

- (i) First, the employers perceive wages as a cost of their business efforts and are keen to reduce labour cost per unit of output. Explicitly, wages form an important cost factor for the enterprise. Although the employers are inclined to save this cost, they have also come to realize that it would not be possible for them to attract and maintain an effective workforce without compensating it adequately,
- (ii) Second, employees consider wages as a means for satisfying their needs in terms of an expected standard. They desire to receive at least as much remuneration as other individuals equipped with similar skills for doing similar work.

Traditional theorists define wage and salary administration as the process by which wage and salary levels and structures are determined in organisational settings. Wages are payments for labour services rendered frequency, expressed in hourly rates, while a salary is a similar payment, expressed in weekly, monthly or annual rates. Thus the term ‘wage’ frequently connote payments in terms of the number of hours worked and may fluctuate depending upon hours actually worked.

The determination of wage rates, administration of wage policies and satisfying the employees as regards to wages and rates of wages is an important aspect of wage administration. As a matter of fact wage and salary administration is one of the major responsibilities of modern manpower management.

It is of course a line responsibility but continually increasing complication have demanded the attention of specialized staff members. Hence, the experts in personnel area have to take due care of this important function continuously.

Labour is the most important factors of production. Labour expects fair compensation for its contribution to the process of production. The term ‘wages’ is probably the broadest of all designations applied to workers compensation. In popular usage, it refers to payments for services, whether mutual or maintained whether based on hours of employment, units of output or some other yardstick.

In this usage, the term includes salaries, bonus, premium and commissions, etc., in modern times; the word ‘wage’ is used in some restricted sense. In this sense, it refers to compensation paid for services of hourly-rated or order to non-supervisory and non-clerical employees.

Wage and Salary Administration – Meaning and Definitions

In simple words wages means reward for the labourer for his services rendered to the industry. These can be paid on per unit, per hour, daily, fortnightly, weekly, or monthly basis. Labourers render services of both types i.e. mental and physical.

Some of the definitions of wages are as follows:

According to Prof. Straitoff, “Wages is the reward of that labour which creates utility.”

As per the ILO, “Wages refer to the payment which is made by the employer to the labourer for his services hired on the conditions of payment per hour, per day, per week, or per fortnight.”

In the words of Jaod, “Wages are the income that an employee gets for his services.”

According to Benham, “Wages are a sum of money paid under contract by an employer to a worker for services rendered.”

As per McConell, “Wages are the price paid for the use of labour.”

According to Yoder and Haneman, “Wages are the compensation for the wage earners, the numerous employees.”

Wage and Salary Administration – Basic Concepts

Compensation may be defined as money received in the performance of work, plus the many kinds of benefits and services that organizations provide to their employees. ‘Money’ is included under direct compensation (popularly known as wages, i.e., gross pay); while benefits come under indirect compensation, and may consist of accident and health insurance, the employer’s contribution to retirement, pay for vacation or illness, and employer’s required payments for employee welfare as social security.

A **‘wage’ (or pay)** is the remuneration paid, for the service of labour in production, periodically to an employee/worker. “Wages” usually refer to the hourly rate or daily rate paid to such groups as production and maintenance employees (“blue-collar workers”).

Indian Labour Organisation (ILO) defined the term wage as “the remuneration paid by the employer for the service of hourly, daily, weekly and fortnightly employees”.

‘Salary’ normally refers to the weekly or monthly rates paid to clerical, administrative and professional employees (“white-collar workers”).

Earnings are the total amount of remuneration received by an employee during a given period. This includes salary, dearness allowance, house rent allowance, city compensation allowance, other allowance, overtime payments, etc.

Nominal Wage- It is the wage paid or received in monetary terms. It is also known as money wage.

Real Wage- It is the amount of wage arrived after discounting nominal wage by the living cost. It represents the purchasing power of money wage.

Take Home Salary- It is the amount of salary left to the employee after making authorized deductions like contribution to the provident fund, life insurance premium, income tax and other charges.

Cost to the Company (CTC)- The concept ‘cost to the company’ includes payment made to the employee including pensions, health insurance, death in service, gratuity, company car or own the car scheme, child care provisions, subsidized meals, etc. The CTC includes all the investments made by the employer to the employee including the monetary and non-monetary benefits.

The ‘wage levels’ represent the money an average worker makes in a geographic area or in his organisation.

Wage Rate- It is the amount of remuneration to a unit of time excluding incentives, overtime pay, etc.

The term ‘Wage Structure’ is used to describe wage/salary relationships within a particular grouping. The grouping can be according to occupation, or organisation, such as wage structure of craftsman (carpenters, mechanics, bricklayers, etc.)

The Wage Structure or ‘Grade’ is comprised of jobs of approximately equal difficulty or importance as determined by job evaluation.

Job- A **“job** is a group of positions that are similar as to the kind and level of work”. In some instances, only one position may be involved, simply because no other position exists. For example, in a small organisation,

there will be only one position of personnel manager. But in large organization, there may be ten employees with the same title, yet each may perform slightly different work.

Job Analysis- The US, department of labour defined job analysis as “the process of determining (by observation and study) and reporting pertinent information relating to the nature of a specific job. It is the determination of the task which comprises of the jobs and of the skills, knowledge, abilities and responsibilities required of the worker for a successful performance and which differentiate one job from all others”. Job analysis includes job description and job specification.

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

Job Specification- A job specification is “a statement of minimum acceptable human qualities necessary to perform a job properly.” It is a standard or personnel and designates the qualities required for acceptable performance.

Job Classification- A job classification is “a grouping of jobs on some specified basis such as the kind of work or pay”. For example, a teacher, a doctor, an engineer, etc.

Wage and salary structure consists of the various salary grades and their different levels of single jobs or groups of jobs. The term wage structure is used to describe wage/salary relationships within a particular grouping.

The grouping can be according to occupation, or organization, such as wage structure of craftsman (carpenters, mechanics, bricklayers, etc.). The wage structure or grade is comprised of jobs of approximately equal difficulty or importance as determined by job evaluation.

So, the term wage and salary structure means the pattern or the breakup of the salary paid to the employees in their respective organization.

Actually, wage structure represents wage relationships of all kinds. Analysis of wage differentials of any kind (geographic, industry, community, or occupation) deals with wage structure issues. But because our primary focus is on pay decisions in organizations, our concern is with pay differences between jobs.

Decisions on wage relationships among jobs within an organization are largely within the control of the organization’s decision makers. Wage level decisions are usually influenced more by forces external to the organization that are wage structure decisions.

One way of looking at this is that the wage level decision is primary in attracting employees to the organization. Wage structure decisions, then, are intended to achieve retention of employees through prevention of dissatisfaction and encouragement of employee cooperation. Then the wage system decision is designed to provide employee motivation and performance.

Fringe Benefits: Consideration provided to employees in the form of monetary benefits or facilities, apart from wages, is fringe benefits. It is not out rightly associated with the output, performance, or time worked.

Wage and Salary Administration – Nature and Characteristics

Nature:

1. The basic purpose of wage and salary administration is to establish and maintain an equitable wage and salary structure.
2. It is concerned with the establishment and maintenance of equitable labour cost structure i.e. an optimal balancing of conflicting personnel interest so that the satisfaction of the employees and employers is maximised and conflicts are minimised.
3. The wage and salary administration is concerned with the financial aspects of needs, motivation and rewards.

4. Employees should be paid according to the requirements of their jobs i.e. highly skilled jobs are paid more compensation than low skilled jobs.
5. To minimise the chances of favouritism.
6. To establish the job sequences and lines of production wherever they are applicable.
7. To increase the employees' morale and motivation because a wage programme can be explained and is based upon facts.

Characteristics:

1. Payment of wages is in accordance with the terms of contract between the employer and the worker.
2. The wages are determined on the basis of time-rate system or piece-rate system.
3. Wages change with the change in the time spent by the labourer.
4. Wages create utility.
5. Wages may be paid weekly, fortnightly, hourly, or on monthly basis.
6. Wage is the reward paid to the workers for the services rendered by them.
7. Wages can be paid in cash or in kind.
8. All kinds of allowances are included in wages.

Wage and Salary Administration – Important Objectives

Its objectives are:

1. To compare or draft company HR policy
2. Find out the income level and return ratio of similar industries
3. To understand wage differentiations
4. To examine the competitiveness of entry level employees
5. To establish hiring rates favorable to the community
6. To keep abreast wage and salary rates with production cost
7. To minimize labour turnover due to pay disparity
8. To increase employee's satisfaction and morale
9. To learn about the trend of perks and benefits in the market
10. To resolve existing labour problems concerning compensation.

Wage and Salary Administration – Main Principles

Development and administration of sound wages and salary policies are not only important but also complex managerial functions. The complexities stem from the fact that on the one hand, a majority of union management problems and disputes relate to the question of wage payment and on the other, remuneration is often one of the largest components of the cost of production. Thus, it influences the survival and growth of an organisation to the greatest extent.

The influence of remuneration over distribution of income, consumption, savings, employment and prices is also significant. This aspect assumes all the greater importance in an undeveloped economy like India where it becomes necessary to take measures for a progressive reduction of the concentration of income and/or to combat inflationary trends. Thus, the wage policy of an organisation should not become an evil to the economy.

1. 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.
2. The plans must be flexible enough to modify as per the internal and external changes in the environment.
3. Differences in the salary scale for jobs depend on the difference in the job requirements like skills, responsibility, efforts and mental and physical requirements.
4. Wage and salary plans must be in line with the ultimate goals of the organisation

5. It must comply with the socio-economic objectives of the country, i.e. equality in income distribution, etc.
6. It should speed up and simplify the administrative process
7. Workers must also participate in wage policy formulation and implementation.
8. The basic level of wages must be in accordance with the prevailing rates in the market.
9. A sufficient database and proper organisational set-up should be there for ascertaining and administering the compensation.
10. Properly established procedure for hearing and adjusting wage complaints. It must be incorporated into the **employee grievance** procedures.
11. Ensuring a guaranteed minimum wage for all workers to safeguard their interests.

Wage and Salary Administration – Elements of Wage and Salary System

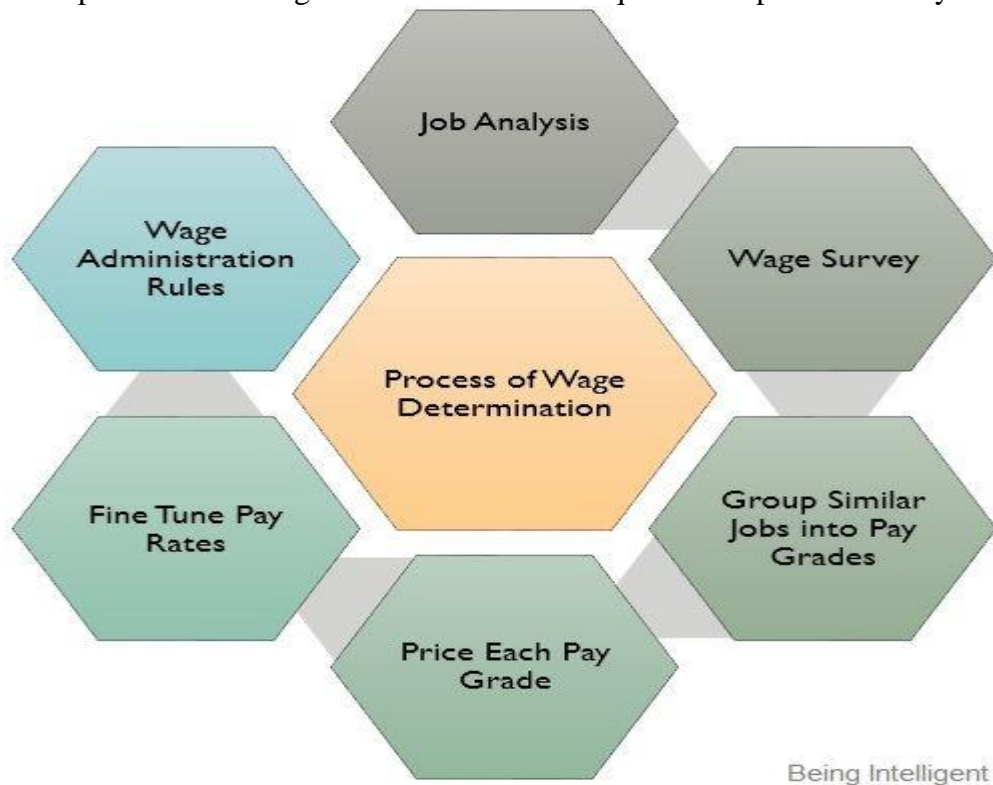
Wage and salary system should have relationship with the performance, satisfaction and attainment of goals of an individual.

Henderson identified the following elements of wage and salary system:

1. Identifying the available salary opportunities, their costs, estimating the worth of its members of these salary opportunities and communicating them to employees.
2. Relating salary to needs and goals.
3. Developing quality, quantity and time standards relating to work and goals.
4. Determining the effort necessary to achieve standards.
5. Measuring the actual performance.
6. Comparing the performance with the salary received.
7. Measuring the job satisfaction gained by the employees.
8. Evaluating the unsatisfied wants and unreached goals of the employees.
9. Finding out the dissatisfaction arising from unfulfilled needs and unattained goals.
10. Adjusting the salary levels accordingly with a view to enabling the employees to reach unreached goals and fulfill the unfulfilled needs.

Process of Wage Determination

The process of wage determination is quite complex. It may include the following steps:



Job Analysis

Job Analysis tends to report the duties, responsibilities, rights and authorities, working conditions and inter-relationship amidst the jobs. It seeks to track and study the particulars related to the training, skills, competencies, efforts, qualifications, capabilities, experience and responsibilities expected from the incumbent.

Thereafter, once the job specification is complete, the process of grading, rating and job evaluation takes place. In this, the job is rated so as to ascertain the value of the job in relation to other jobs in the organization. Thereafter, the job is associated with the price, which encompasses the translation of the relative job values into terms of money.

Wage Survey

This step involves a survey of the wages which other organizations pay to their employees, for the same job, in a particular industry. Depending upon the utility, if the wages for the concerned job are lower in comparison to the wages for the same job in another firm, then the following disadvantages will occur:

1. *Qualified and skilled personnel will not be available.*
2. *If competent employees are available, then they will shift to another enterprise after some time.*

Hence, the wage survey takes place, considering the following factors:

- Term of the survey
- Wage-payment knowledge of daily working hours and monthly payments.
- Job Definition
- Proper technique and tools for gathering information.

Group Similar Jobs into Pay Grades

On the receipt of the necessary data relating to job analysis and wage surveys, it is now the time to assign pay rates to each and every job. However, there is a precondition to group the jobs into pay grades. In a pay grade system, the determination of a job of almost equal strain or importance takes place through job evaluation.

Moreover, it states the amount of pay received by an employee, often on the basis of the responsibilities undertaken.

Price Each Pay Grade

The assignment of pay rate to each pay grade is attained with the help of the wage curve. A wage curve reflects on a graph the existing pay rate, which is paid for jobs in various pay grades in relation to the ranks assigned to each job. The wage curve shows:

1. *Value of the job*
2. *Current average pay rate for the grades or job.*

Fine Tune Pay Rates

As the name suggests, it involves:

1. **Making corrections to out-of-line rates:** The average existing pay for a job may not be equitable, i.e. too high or low, in relation to other jobs. Further, if the pay is below the line, then there is a need for raise. Whereas if the pay is above the wage line, then the management can go for a pay cut or a pay.
2. **Establishing Rate Ranges:** In general, employer organizations do not prefer a single rate for all the jobs in a specific pay grade. Rather, they establish rate ranges for different grades so that there exist different levels and equivalent pay rates within each pay grade.

Wage Administration Rules

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.

Wage and Salary Administration – Steps Involved in Wage and Salary Survey

Wage and salary survey is conducted in varied forms depending upon the purpose, time constraints and scope.

The method, however, follows the following steps:

Step # 1. Planning: Decide – What? Why? Where? Who? and When?

First of all, which jobs of which nature are to be compared, what class of workers' compensation is to be surveyed, which company and area are to be surveyed and the employee's cadre are to be determined.

This means that at the planning stage, the management has to do a SWOT analysis to determine the appropriate human resources and their job worth in the market to meet the challenges of possible threats and opportunities.

Then decide who and when will conduct the survey and plan the method, sample, time and tools of collecting the data to be planned. However, these decisions may vary according to the class of survey, size of organizations, cost and money involved, and the accuracy desired.

Step # 2. Source and Sample Selection: Source and the sample size will again depend on the class or the type of survey, and the survey method adopted. If it is a commissioned or packaged survey, we need to decide the institution, agency or the management consultancy to collect the data.

In case of an external or participative survey, we need to decide the names of member industries as a sample. In an internal survey, we need to identify which jobs details are required, and what records or information are required. We can then decide the source and the samples.

Step # 3. Conducting Survey: Again depending upon the type of survey, the questionnaire, the points for discussions and the format for recording the data should be first determined. Using the predetermined tools and the formats, the required data to be collected is disseminated and recorded.

Step # 4. Analyzing and Interpreting: Data is then analyzed and interpreted in line with the purpose of the survey such as:

- (a) Entry-level job rates,
- (b) Position of the company on the market,
- (c) Company pay structure in line with competitors, and
- (d) Factors to be considered for designing pay structures.

In the booming business opportunity and competitive environment, every organization is striving hard to recruit talent at all levels of employment but they are forced to compete with the market rates also. Wage and salary surveys are, therefore, scrutinized for the above purposes to design their compensation packages to attract employees at all levels.

Step # 5. Concluding: The observations or findings are then summarized to have comprehensive data to design the appropriate compensation structures.

Wage and Salary Administration – 8 Main Factors Affecting Wage and Salary Levels

- 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 within 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-organised 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 labour** – 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.

Wage and Salary Administration – Types of Wage and Salary Surveys: Commissioned/Packaged Survey, External or Participative Survey and Internal Survey

Wage surveys are conducted in different ways depending upon the company's objectives or purpose, the size of the company and the time and cost constraints.

The types of survey are mostly of following types:

1. Commissioned or Packaged
2. External or Participative
3. Internal or Mutual.

These can be categorized as:

- i. Generally published surveys
- ii. Compensation club survey
- iii. Customized surveys.

1. Commissioned /Packaged Survey: These are also termed as generally published surveys as the data are collected from a research body or agency that keeps on conducting such surveys and provides the data on request. However, they charge for it. These data should, however, be scrutinized as they may be for the same industry but may not match the size or the numbers of employees and the numbers of jobs necessary for any particular industry.

2. External or Participative Survey: This is also referred to as a compensation club survey as in this survey member industries share the data with the member who wishes to do the survey through questionnaires or personal meetings or phone calls.

3. Internal Survey: This type of survey is done within the organization and involves dissemination of the internal records or questioning personnel or employees.

In this type of survey, the surveyors extrapolate the existing secondary data of the company to work out wage differentials.

Wage and Salary Administration – Classification of Wages:

1. Living Wages: This has been defined in different ways in different countries. The most suitable definition is given by Justice Higgs, “Living wages should be sufficient to ensure the workman’s food, shelter and clothing; frugal comfort provision, evil days, etc., as the skill of an artisan, if he is one.”

According to the fair wages committee report, the living wages must be a level to make the male earner to provide himself and his family not only basic necessities, viz.- food, clothing and shelter but also education for the children and protection against ill-health and essential social needs. The living wages means provision for the bare necessities with certain amenities considered necessary for the well-being of a worker in terms of his social status.

This provision has the reference to Article 43 of Indian Constitution.

2. Minimum Wages: This is the lowest wage. With this wage a worker and his family can just pull on the life; in other words, it can provide a minimum level of subsistence. This includes food, shelter and clothing. Minimum Wage in a country is fixed by the Government in consultation with business organisations and Trade Unions. When minimum wages are fixed, it is the duty of the government that employers are not exploiting the work force.

The law for minimum wages is fixed from time to time by Administrative Commission of the Government with variation in the wage rates. The very purpose of fixation of wages from time to time has become necessary due to variation in the price level as a sequel to varying economic conditions.

Government of India passed the Minimum Wage Act in 1948. According to the Act, wage should include such factors as local economic conditions, transportation cost and the size of units in the industry in fixing Minimum Wages.

Minimum wage act is supposed to have the following benefits:

- i. This law prevents exploitation of employees, undue advantage of employing individuals who possess very little bargaining power.
- ii. The law abolishes the competition in lower strata of workers with the upper grades and tend to prevent depressing the wages.
- iii. The productivity of industry is increased by foreign employees to use the most efficient production methods and ultramodern equipment in order to enable employees earn their living /wages and at the same time the worker is stimulated to increase his efficiency so as to help him hold his position.

Wage and Salary Administration – Structure of Wage/Salary Structure in India

In simple language, a salary and wage structure is a series of wage rates/grades that obtain in an organization for compensating labor. According to Prof. Dunlop, a wage structure ‘is the complex of rates within firms differentiated by occupation and employees and the complex of inter-firm rate structure’.

A wage structure of a plant or an office or more broadly, of a national economy, can be viewed as a series of wage rates designed to compensate workers for varying skills and abilities required in the production process. The most significant aspect of a wage structure is not only the number of workers or staff at each rate in the scale of pay, but also the relative importance of each rate.

Each rate/grade is designed to pay the workers/staff for his/her skilled performance on the respective job. The rate is for the given job/designation-wise. In PSUs, there is a well-defined wage structure for artisans, supervisors and managers. The wage structure is designed and reviewed every five years or so, as per the terms of the wage agreement/contract in vogue/decided through the process of collective bargaining.

Progressive employers like the Tatas, the Aditya Birla Group, Wipro and others have well designed wage structure as per their wage policy.

In the Indian context, a wage/salary structure may be divided into four components:

- (a) Basic wage,
- (b) Dearness allowance,
- (c) Allowances, and
- (d) Fringe benefits.

(a) Basic Wage: A basic wage is the base rate in the respective grade/scale of the wage structure developed as a result of the agreement reached after the collective bargaining process, or on the basis of the recommendations made by the Fair Wages Committee, 1948 as also the 15th Indian Labour Conference, 1957 and the various rulings of tribunals and courts in the post-independence period.

The basic wage is fixed reviewed and bargained in the wage negotiation or awards, Wage Boards or Pay Commissions. In the industry, especially in large manufacturing organizations there are normally eight to ten wage grades applicable to workers/artisans and supervisors, with each grade having its base rate. Likewise, there are Executive grades/scales of pay ranging between E 1 to E 8, each scale applicable to given designations or hierarchy of executives. In fact, each organization has its own scale of pay.

In PSUs usually, there are systematically defined grades and scales of pay, ranging between E 1 to E 8 for executives and similarly some eight or nine grades for artisans, etc. In non-executive scale, the first scale is applicable to the lowest level of wage earner, e.g., attendant, peon or an auxiliary worker/helper (unskilled categories). In executive grades, E 1 refers to an Executive entrance grade and E 8 refers to General Manager's grade.

Each scale has a different basic rate, so the question is, what is the basis of the differential in the wage structure?

To summarize, the following factors are taken into consideration in working out the wage differential:

- i. Level of skill required on the job
- ii. Level of training required on the job
- iii. Physical and mental effort needed
- iv. Level of experience needed on the job
- v. Fatigue arising out of stress/strain on the job
- vi. Level of responsibility the job demands.

Likewise, there are different wage grades of pay for workers/artisans operating at different levels, as say unskilled, or semi-skilled or skilled or highly skilled categories. As of now, in PSUs, there are around ten grades. Workers/artisans are placed in the respective grades as per the job specification/their merits.

(b) Dearness Allowance: Dearness allowance (DA) is a part of the negotiated wage/pay agreement in an organization. The objective for paying dearness allowance is to neutralize the rise in prices of essential commodities. Dearness allowance is linked to the All-India Consumer Price/index AICPI. Every point rise or fall in the index is linked to money value. And, so the dearness allowance varies according to the index.

During the course of wage negotiations, following the process of collective bargaining, the management on behalf of the employer, and the union on behalf of the workers agree to merge a part of the existing DA to the basic rate, thus upgrading the wage scales/grades level which provides for incremental retirement and other benefits related to the rate/basic pay, e.g., entitlement for company housing, travel, PF contribution, etc.

DA reduces the impact of inflation in the economy on the wage earner. As per the formula, the cost of living index takes the given year as a base year, which relates to the ongoing fluctuations in prices, in terms of essentials to a series of numbers and index. The numbers are translated to monetary wage terms to by the HR experts. DA is, thus, paid to neutralize the rise in prices.

(c) Allowances: Allowances are another form of compensation to a wage earner, which are negotiated as a part of wage revision in the collective bargaining process.

Today there are a large number of allowances paid in the variety of organizations:

- i. Car allowance/conveyance reimbursement
- ii. City compensatory allowance
- iii. Transport allowance/subsidy for outstation workers
- iv. Deputation allowance for staff on deputation
- v. Education, servant, mail and cook allowance
- vi. Cash allowance for staff of accounts dept. on cash disbursement
- vii. Book allowance
- viii. Milk allowance
- ix. Hazard allowance for working in a hazardous workplace
- x. Acting allowance to executives
- xi. Family allowance to non-family stations
- xii. Site working allowance.

(d) Fringe Benefits: A fringe benefit is an indirect benefit and constitutes a major part of the wage and the benefit is not merely fringe or peripheral. Some define fringe benefits as a wage cost, not directly linked to employees' productive efforts, sacrifice, service /performance. Fringe benefits no doubt, are non-wage benefits offered to staff/employees in an organization.

These benefits are effective methods of attracting and retaining talent in the company. This is a supplementary compensation to employees. It boosts the real earnings and provides extra spending money to employees. It is also termed as an economic security to the workers/staff.

Fringe benefits also known as perks or perquisites include:

- i. Providing status to an executive by giving entitlement to use company's car with/without chauffeur, allowing entertainment facilities, holidays, foreign travel, telephone facility at home, mobile phone, etc.,
- ii. Providing security through insurance coverage and the employee medical facilities for himself, family and his dependants, children's education facilities/subsidies; and work benefits like air conditioner in office and residence, secretarial services, training for development in India/abroad, company scholarship for higher education, and
- iii. Key benefits are provided which includes share scheme, profit sharing, retirement counseling and loan for housing at nominal rates of interest.

The extent of benefits under (a), (b) and (c), provided to the employees, depend upon the company's ability to spend on fringe benefits. Attendance bonus, service bonus are the other fringe benefits. Most of these benefits are non-statutory but in the case of statutory benefits, the same have to be provided by the employer.

Such benefits are under the Employees' Provident Fund Act for all employees and ESI are good examples. Profit sharing bonus is another statutory benefit in vogue, and the Gratuity payment scheme under the Gratuity Payment Act are all statutory benefits for the employees. Fringe benefits are also bargainable in the collective bargaining process.

Wage Fixation Institutions in India

Wages are fixed by the following institutions in India. They are- (i) Collective Bargaining and Adjudication; (ii) Wage Boards; and (iii) Pay Commissions.

(i) Collective Bargaining and Adjudication: Collective bargaining is a procedure in which compromise is reached through balancing of opposed strengths. It is a means through which employee problems relating to various issues including wages are settled. If these problems are not settled through collective bargaining, they may be settled through voluntary arbitration or adjudication. The awards given or reached by or through the arbitrator or adjudicator or collective bargaining agreements form the basis for fixing wages in various organisations.

(ii) Wage Boards: This is one of the important institutions set-up by the Government of India for fixation and revision of wages. Separate wage boards are set-up for separate industries. Government of India started instituting Wage Boards in accordance with the recommendations of Second Five Year Plan, which were reiterated by the Third Five Year Plan. Wage Boards are not governed by any legislation but are appointed on ad-hoc basis by the Government.

Each Wage Board consists of one neutral Chairman, two independent members and two or three representatives of workers and management each. The Wage Boards have to study various factors before making its recommendations. The recommendations of the Wage Board are first referred to the Government for its acceptance. The Government may accept with or without modification or reject the recommendations of the Wage Board. The recommendations accepted by the Government are enforceable by the parties concerned.

The Wage Boards take the following factors into consideration for fixing or revising the wages in various industries:

- (a) Job evaluation.
- (b) Wage rates for similar jobs in comparable industries.
- (c) Employees' productivity.
- (d) Firm's ability to pay.
- (e) Various wage legislations.
- (f) Existing level of wage differentials and their desirability.
- (g) Government's objectives regarding social justice, social equality, economic justice and economic quality.
- (h) Place of industry in the economy and society of the country and the region.
- (i) Need for incentives, improvement in productivity etc.

The Wage Boards fix and revise various components of wages like basic pay, dearness allowance, incentive earnings, overtime pay, house rent allowance and all other allowances.

(iii) Pay Commissions: This is another institution which fixes and revises the wages and allowances to the employees working in government and government departments. Pay Commissions are separately constituted by Central and State Governments. Central Government so far has appointed four Pay Commissions.

Wage and Salary Administration – Problems

Wage and salary administration involves consideration of various interests such as those of employers, employees, government and society at large. The employer is interested in securing a satisfactory level of output in tune with the remuneration paid to his employees, establishing standard wages for standard occupations, adjusting wages to changes in the market, maintaining equity in wage relativities, rewarding efficient employees through incentives or performance-based remuneration and providing effective arrangements for dealing with compensation issues.

A sound compensation policy may also contribute to achieving certain social objectives by ensuring more equitable compensation, reduction of wage exploitation and satisfying employees' ambitions. The interests of the employer may not be in conformity with those of the employees and their union. Difficulties may also have to be encountered in ensuring compliance with governmental policy in the field.

In balancing the many conflicting considerations, organisational goals may appear controlling, but over any significant period they probably cannot be allowed to conflict with socially prescribed objectives. These problems of establishing a balance between employer's interests and those of others are manifested in various areas of compensation; the more notable of these are described below.

1. Wage and Salary Level: An important field of compensation is the wage and salary level. Problems in this area are directly related to the conditions of labour market. If the level of wages and salaries is too low, there will be the problem of attracting and maintaining a competent workforce.

There may also be difficulties in complying with statutory rates of wages or those awarded by tribunals and courts, and also the rates arrived at as a result of bargaining. On the contrary, if the level of wages and salaries is too high, the competitive position of the undertaking in the product market will deteriorate.

The setting of an appropriate level of wages and salaries calls for a careful consideration of several factors such as – (i) market conditions, (ii) governmental policy and regulation, (iii) prevailing level of wages in comparable employments, (iv) collective bargaining and union wage policy and (v) management's approach towards proper wage and salary level.

2. Wage and Salary Structure: Wages and salaries paid to employees on different jobs within an organisation constitute an important field of compensation. Many organisations work out the wage structure on the basis of "job evaluation." The main concern of the management is to prevent wage inequities and correct anomalies wherever necessary.

During more recent years, especially after the advent of globalisation and emergence of highly competitive product markets, managements have to give serious attention to remunerating different categories of employees on the basis of their performance and productivity. Setting of wage and salary structure by the management also involves the problem of strategic decisions regarding various components of wages.

In many organisations, the wage structure is based on collective agreements, industrial awards, court decisions or wage board recommendations. In these cases, the freedom of management to work out the wage structure for its organisation is severely curtailed.

3. Wage Fixation for Individual Employees: The setting of wage structure and determination of the level of wages involve pricing of various jobs. Very often, problem arises as to whether all the employees employed on the same job should be paid the same wage. Payment of the same wages to all employees employed on the same job may lead to dissatisfaction among efficient and senior employees. The problem is generally sought to be solved in two ways.

The first is the adoption of incentive system or performance-based remuneration. Another method is that of setting up wage ranges—a starting rate, a standard rate and a maximum rate for individuals on the same job. In such a case, procedures have to be devised for enabling individuals to move through the ranges.

One such procedure may be automatic increases based on length of service. Another may be to allow increases on the basis of merit rating or performance appraisal. The third may be a combination of both.

4. Methods of Wage Payment: Generally, there are two principal methods of wage payment. These are as follows – (i) payment on the basis of time such as by hour, day, week or month (time rate), and (ii) payment on the basis of output that is by piece produced (piece rate). In a particular organisation, either or both may be used depending on the arrangement of work and consent of the parties. Where incentive schemes are in operation, there is a problem of selecting the most suitable of these or a system combining both may be adopted.

5. Compensation for Executives and Managerial Personnel: The problem of remuneration of executives and managerial and professional personnel is not generally tackled in a planned and systematic manner. This has been in contrast to more or less careful attention to the pay problems of workers. Efforts have been made to design pay plans for them in such a way so as to offset the effects of progressive income tax. One way for satisfying this group has been providing them with substantial fringe benefits not coming under the purview of income tax law.

However, in India, recent amendments to income tax law have brought a number of fringe benefits under the coverage of taxation. As a result, the advantages available to this class of personnel through the availability of fringe benefits have materially declined. Despite these limitations, lucrative schemes of performance-based remuneration and rewards for these categories of personnel have been adopted in most of the competing industrial organisations.

6. Control: To the management, control constitutes the central problem in wage and salary administration. Control in wage and salary administration involves the evaluation of the sufficiency and efficiency of the solutions reached on the total compensation problem. The management has to control both payroll and labour cost, and also has to realise that the value in return of wage bill is more important than the wage bill itself.

More specifically, control in wage and salary administration involves evaluation of achievements in many areas including the following:

- (i) Whether the total wage bill constitutes a specified proportion of sales;
- (ii) Whether the pay for jobs is within the ranges set up for them;
- (iii) Whether efficient employees on the payroll are being maintained;
- (iv) Whether the general level of wages is in tune with the conditions of labour market;
- (v) Whether individual wages and salaries are worked out on a consistent basis.

Control also demands creation of standards for comparing the efficacy of the practices in every phase of wage and salary administration, including wage bill, forecast, basic rates, rate-ranges and wage and salary data in the community and the industry.

National Commission on Labor on Wage Policy

According to the NCL, “The main aim of a wage policy, as we envisage it, is to bring wages into conformity with the expectation of the working class and in the process seek to maximum wage employment”.

To achieve this, the NCL’s following observations may be noted:

- ✓ Wage policy should aim at the progressive increase in real wages. Sustained improvement in real wages can be brought about by increasing productivity.
- ✓ The wage levels will have to recognize that in India modern capital-intensive, large-scale sector exists side-by-side with the small and traditional labour-intensive sector.
- ✓ ‘Wage policy’ should therefore foster an appropriate choice of techniques so as to maximize employment at rising levels of productivity and wages.
- ✓ The incomes and wage policy that may be formulated has to take into account the structural feature of the national economy.
- ✓ In the unorganized sector adequate governmental or quasi-governmental machinery may be necessary to provide for minimum wage regulation according to conditions in different workers in weak position.
- ✓ In order to protect real wage from erosion the level of money wages has to be adjusted to price changes.

Objectives of National Wage Policy:

The importance of wage policy is obvious as it forms a highly sensitive and complex dimension of labour policy and influences employee’s level of motivation, morale, productivity and standard of living. Its importance has been recognized by the Constitution of India. The provisions in the Indian constitution and

the policy statements in successive five-year plan documents provide useful insights into the Government's approach towards wage policy.

The second National Commission on labour recommended the appointment of a high-level committee with technically competent people including economists, trade unionists, entrepreneurs and consumers to formulate a national wage policy.

Despite several theoretical guidelines for the formulation of a wage policy, there are various concrete facts that must be taken into account in designing a wage policy. Accordingly, in view of the realities of the situation, there are several hurdles in the formulation of a wage policy in a developing economy like India's which adheres in a democratic system. Ideally, wage revision should be higher than the rate of growth in gross domestic product (GDP) and lower than the rate of inflation. This ensures that real wages are maintained.

The term "Wage Policy" refers to the legislation or Government action undertaken to regulate the level or structure of wages or both, for the purpose of achieving specific objectives of social and economic policy. According to ILO, the wage policy means "legislation or government action calculated to affect the level or structure of wages, or both for the purpose of attaining specific objectives of social and economic policy".

The ILO has enumerated the following objectives of a wage policy in developing countries:

- ✓ To abolish malpractices and abuses in wage payment.
- ✓ To set minimum wages for workers whose bargaining power is weak because they are unorganized or inefficiently organized, accompanied by separate measures to promote the growth of trade unions and collective bargaining.
- ✓ To obtain for the workers adjust share in the fruits of economic development, supplemented by appropriate measures to keep workers' expenditure on consumption goods in step with available supplies so as to minimize inflationary pressure.
- ✓ To bring about a more efficient allocation and utilization of manpower through wage differentials and, where appropriate, systems of payment by results.

In India, the objectives of a national wage policy may be stated thus:

- ✓ To provide a minimum wages to workers employed in sweated industries.
- ✓ To improve the existing wage-structure.
- ✓ To fix wage ceilings.
- ✓ To accelerate export promotion.
- ✓ To control inflationary tendencies.

a. Provision of Minimum Wages in Sweated Industries:

In a country like India, where in sweated industries employers exploit laborers, the basic need is to provide for "safety net" – wages to prevent their exploitation. According to Turnover, "the protection of workers against exploitation or unduly low wages remains the wage policy's major pre-occupation in under-developed areas".

The fixing of a minimum wage is also necessary to boost industrial employment, partly to smooth the flow of labor from the farm to expanding modern industries; and partly to cover the differentials in wage rates so

that wages paid to employees doing identical work are rationalized. The wage policy should therefore aim at a minimum wage in sweated occupations as well as a floor for entry to industrial employment.

b. Improvement in Existing Wage Structure:

A rational wage structure facilitates the acquisition of productive skills, serves as an incentive to higher productivity and wage income, and encourages the allocation of labor to the expanding sectors of the economy in which labor is in great demand. Justice and fairness demand that a sound relationship should exist between rates of pay for different groups in similar occupations.

The jobs that are hazardous or demand a higher degree of skill, training, experience, responsibility, mental and physical effort should be paid more than the others. According to Clark Kerr, "Improving worker efficiency and performance, encouraging the acquisition of skills and providing an incentive for labor mobility should be the real purpose of a wage policy in a developing economy".

c. Fixation of Wage Ceilings:

Ceilings on wages need to be fixed to save employees from the pinch of the inflationary tendencies that flow from uncontrolled price rise. The workers should get a just share in the fruits of economic development and increased productivity. Productivity and efficiency can be boosted by giving incentives to them and by improving the investment capacity of industries, which can be done when they plough back a part of the profits in the industry.

d. Acceleration or Export Promotion:

To get imports of essential capital goods, technical know-how, trained manpower and raw materials, foreign exchange has to be earned by promoting exports through increased productivity of exportable goods and price stability or price reduction, wherever possible. A wage policy should help to accelerate a nation's developmental process.

e. Control over Inflationary Tendencies:

Controlling inflationary pressures should be an essential element of wage policy, for increasing prices erode workers' real income, lower their standard of living, and ultimately cause industrial unrest. A wage policy should, therefore, aim at stabilizing prices by tying wage increases to productivity.

Wage policy -Limitations:

The limitations of wage policy are as under:

- ✓ **Enforcement** – Enforcement in unorganised sector.
- ✓ **Rise in Prices** – Prices rising is almost beyond government's regulatory capabilities.
- ✓ **Wages versus Productivity** – Wages lag far behind from the labour productivity.
- ✓ **Imbalanced Labour** – Lesser number of workers in organised sector takes away bulk of wages than unorganised.
- ✓ **Less Skilled Labour** – Ever increasing addition to workforce yet dearth of skilled labour.
- ✓ **Shifting of Methods** – High wages may force employer to shift towards capital-intensive methods.
- ✓ **Reduction in Capital** – High wages bring a reduction in the capital for growth.
- ✓ **Increased Consumption** – The nature of wage incomes are consumption-oriented rather than savings-oriented so increased wages would mean increased consumption. Therefore, economic growth may not be affected directly as it depends upon rate of investment possible with the medium of savings.

Payment of Bonus Act-1965

The payment of Bonus Act, 1965 aims to regulate the amount of bonus to be paid to the persons employed in establishments based on its profit and productivity. The act is applicable to the whole of India for all establishments which had twenty or more persons employed on any day during the year.

Objectives of the Act

The objectives of the Bonus Act (Payment of bonus Act) are as follows:

- To impose a legal responsibility upon the employer of every establishment covered by the Act to pay the bonus to employees.
- To designate the minimum and maximum percentage of bonus.
- To prescribe the formula for calculating bonus.
- To provide redressal mechanism.

Applicability of the Act

The Payment of Bonus Act implements to the establishments which fall under any of the below listed:

- It applies to any factory or establishment which had twenty or more workers employed on any day during the year.
- The act does not apply to the non-profit making organisations.
- It is not applicable to establishments such as LIC, hospitals which are excluded under Sec-32.
- It is not applicable to establishments where employees have signed an agreement with the employer.
- It is not applicable to establishments exempted by the appropriate government like sickunits.

Departments, Undertakings and Branches

According to the Bonus Act, any different departments or undertakings or branches of an establishment of whether located in the same place or at different areas should be considered as parts of the similar establishment for computation of bonus under the Act.

A separate balance sheet regarding profit and loss of the establishment in the year had to be prepared and maintained concerning such department or undertaking, or branch should be treated as a separate establishment for computation of bonus for the year.

Eligibility for Bonus

Any employee is eligible for availing bonus if the following conditions are satisfied:

- The employee receiving salary or wages up to Rs.21,000 per month
- The employee engaged in any work whether skilled, unskilled, managerial, supervisoryetc.
- The employee who have worked not less than 30 working days in the same year.

Disqualification of Bonus

The employees cannot avail the bonus if any action taken by the management in case of dishonesty, theft, sabotage of any property of establishment, violent behaviour while on the duty within premises of the establishment.

Number of Working Days

An employee will be considered "working" in a year if the following conditions are satisfied:

- The employee who is under an agreement or as permitted by standing orders under the Industrial Employment (Standing Orders) Act, 1946, the Industrial Disputes Act, 1947 or any other law applicable to the establishment.
- The employee during employment has taken leave with salary.

- The employee who has been absent due to temporary disablement caused by accident during the work.
- The employee has been on maternity leave with salary in the accounting year.

Payment of Minimum and Maximum Bonus

- The minimum bonus will be 8.33% of the salary during the year, or
- 100 rupees will be given in case of employees above 15 years and sixty rupees in the case of employees below 15 years, whichever is higher.
- The maximum bonus is 20% of the salary during the accounting year.

Timeline for Payment of Bonus

The payment of bonus should be paid in cash within eight months from the end of the accounting year or within a month from the date of enforcement of the act.

Computation of Bonus

As per the Section 4 and Section 7 together with the Schedule one and two deal with the calculation of gross profit and available surplus out of which 67% in case of companies and 60% in other cases would be allocable surplus.

To compute the available surplus the sums, so deductible from the gross profits are:

- All direct taxes under Section 7
- The sums which are particularised in the schedule
- The allowance for investment or development in which the employer is allowed to deduct from his income under the Income Tax Act.

Available Surplus = Gross Profit – (deduct) the following:

- Depreciation is allowable in Section 32 of the Income-tax Act.
- Development Allowance.

Inspectors under Section 20

Section 20 enables the relevant government to appoint Inspectors for this Act after notification in the official gazette.

Powers of inspectors:

- Making an employer to furnish information.
- Able to visit any establishment at any reasonable time.
- Able to order certain production documents and examine the same.
- Able to take extracts from the records
- To examine the employers, his agent or servant or any other person found in charge of the establishment.
- To execute such other powers as may be prescribed under the rules.

Duties of the Employer

The following duties to be carried out by the employer:

To estimate and pay the annual bonus as required under the Act.

To maintain the following registers:

- The register should show the computation of allocating surplus in respective Form.
- The register should be maintained with the payment of the bonus to the employees.
- The records should be maintained before inspection and such other information should be stored.

Rights of Employers

The following rights to be claimed out by the employers:

- Right to notice any disputes relating to application or interpretation of any provision of the Act,

to the Labour Court or Labour Tribunal.

- Right to make a valid deduction from the bonus due to an employee, such as festival bonus paid and financial loss created by the misbehaviour of the workers.
- Right to take the bonus of an employee, who has been dismissed from service for misbehaviour, violent behaviour, fraud, misappropriation or sabotage of any property of the establishment.

Rights of Employees

The following rights to be claimed out by the employees:

- Right to claim bonus due under the Act and to request an application to the Government for the redemption of bonus amount which is unpaid, within one year of its being due.
- Right to notice any dispute to the Labour Court/Tribunal.
- Employees who are not eligible for the Payment of Bonus Act, cannot raise a dispute about the bonus under the Industrial Disputes Act.
- Right to seek clarification and obtain information, on any item in the accounts of the establishment.

Offences and Penalties

- In case of violation of the provisions under the Act or rules, then the penalty is imprisonment for six months or may impose fine of Rs.1000 or both.
- In case of failure to comply with the directions or requisitions made, then the penalty is imprisonment for six months or may impose fine of Rs.1000 or both.
- In case of offences by companies, firms, body corporate or association of individuals, its director, partner or a principal or officer responsible for the conduct of its business, should be deemed to be guilty of that offence, unless the person concerned proves that the crime was committed out of his knowledge or that he exercised all due diligence.

"MINIMUM WAGES ACT- 1948."

OBJECT AND SCOPE OF THE ACT

The main aim of the enactment is to make provisions for statutory fixation of minimum rates of wages in scheduled employment wherein labour is not organised and sweated labour is most prevalent. An underdeveloped country like India faces the problem of unemployment in a very large scale.

Workers may offer to work even on starvation wages

Workers may offer to work even on starvation wages. Employers may be ready to offer them the work at starvation wages. What the Act purports to achieve is to prevent the exploitation of labour and for that purpose, authorises the appropriate Government to take steps to prescribe the minimum rates of wages in certain employment.

For this purpose, the capacity of employer shall not be considered.

The State assumes that every employer must pay the minimum wages to the labour engaged by him.

The Act contemplates the minimum wage rates must ensure not merely the mere physical needs of a worker which would keep them just above starvation level, but must ensure for him not only his and his family's subsistence, but also to preserve his efficiency as a worker. It should therefore provide something above the bare subsistence level.

Minimum wage is fixed on ethical ground and not on economic ground

Minimum wage is fixed on ethical ground and not on economic ground. It does not consider either the value of work done by a worker or the capacity of the employer to pay. It is a bedrock minimum which must be

paid to a worker in any case, and if a particular industry is unable to pay even the minimum wage, it has no right to run, it must shut down.

The act gives statutory recognition to the notion that an employee must get at least a minimum wage in certain employment where labour is unorganized and is likely to be exploited. It is a clear direction against the exploitation of the ignorant members of the society by the capitalist class

Definitions

Wages [sec 2(h)] Wages means all remuneration capable of being expressed in terms of money, which would, if terms of contract of employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment and includes house rent allowance

But wages does not include the following:

- (i) the value of: (a) any house accommodation, supply of light, water, medical attendance, or (b) any other amenity or any service excluded by general or special order of the appropriate government;
- (ii) any contribution paid by the employer to any Pension Fund or Provident Fund or under any scheme of social insurance;
- (iii) any traveling allowance or the value of any traveling concession;
- (iv) any sum paid to the person employed to defray special expenses entailed on him by the nature of his employment; or
- (v) any gratuity payable on discharge. The term wages includes payment of remuneration in respect of days of rest. It also includes bonus paid not ex-gratia payment.

The term 'employee', does not include any member of the Armed Forces of the union.

The following have been held to be included in employee as used in the Act-

- (a) An out-worker who prepare goods at his residence and then supplies to the employer.
- (b) Chowkidar who guards the factory and an accountant who is concerned with accounts and a compounder working in a tea plantation.
- (c) A dismissed employee for the purpose of claiming relief under the Act.

Fixation & Revision of Minimum Wages

Sec. 3 (1-A) - The appropriate govt may refrain from fixing the minimum rates of wages fixed by it, in respect of any scheduled employment in which these are, in the whole state, less than one thousand employees engaged in such employment.

Minimum Rates [Sec. 3 (2)] The appropriate govt may fix:

- a) A min rate of wages for time work (referred to as 'min time rate')
- b) A min rate of wages for Piece work (referred to as 'min piece rate')
- c) A min rate of remuneration to apply in the case of such employees employed on piece work for the purpose of securing to such employees a min rate of wages on a time work basis (referred to as 'guaranteed time rate')
- d) A min rate (whether a time rate r a piece rate) to apply in substitution for the min rate which would otherwise be applicable, in respect of overtime work done by employers (referred to as 'overtime rate')

Different Minimum Rates (Sec 3(3))

In fixing or revising min rates of wages; Diff min rates of wages may be fixed for-Diff scheduled employment;

- a) Diff classes of work in the same scheduled employment; Adults, adolescents, children and apprentices; Diff Localities
- b) **Min rates of wages may be fixed for any one or more of the following wage periods namely-**
By the hour By the day By the month By such other larger wage periods as may be prescribed

Minimum Rates of Wages composition [Sec. 4]

Any min rate of wages fixed or revised by the appropriate govt in respect of scheduled employments under sec-3 may consist of –

- i) A basic rate of wages and a special allowance at a rate to be adjusted, at such intervals and in such manner as the appropriate govt may direct, to accord nearly as practicable with the variation in the cost of living index number applicable to such workers(hereinafter referred to as the ‘cost of living allowance’); or
- ii) A basic rate of wages with or without the cost of living allowance , and the cash value of the concessions in respect of suppliers of essential commodities at concession rates, where so authorized; or
- iii) An all-inclusive rate allowing for the basic rate, the cost of living allowance and the cash value of the concessions, if any. The cost of living allowance and the cash value of the concessions in respect of supplies of essential commodities at concession rate shall be computed by the competent authority at such intervals and directions specified or given by the appropriate govt. In clause (i) above, the words ‘the rate of cost of living allowance to be adjusted’ means only upwards and not downwards.

Procedure for fixing & revising minimum wages (Sec 5)

In fixing min rates of wages in respect of any scheduled employment for the first time or in revising minimum rates of wages so fixed the appropriate govt. shall follow either of the following modes;

- a) It shall appoint as many committees and sub-committees 'as it considers necessary to hold enquiries and advice it in respect of such fixation or revision, as the case may be; of fixation or revision of minimum rates of wages; or
- b) It shall, by notification in the official Gazette publish its proposal for the information of persons likely to be affected thereby and specify a date not less than two months from the date of the notification on which the proposals will be taken into consideration [Sec. 5(1)].

SAFEGUARD ON PAYMENT OF MINIMUM WAGES

1. Wages in Kind [Sec. II]_: The minimum wages payable under this Act shall be paid as cash except in the following circumstances-Where it has been the custom to pay wages wholly or partly in kind and the appropriate Government is of the opinion that it is necessary in the circumstances of the case, may by notification in the official Gazette, authorise the payment of wages either wholly or partly in kind.

If the appropriate Government is of the opinion that the provision should be made for the supply of essential commodities at concessions rates, it may, by notification in the official Gazette, authorise the provision of such supply at concessional rates

2.Payment of Minimum Rates of Wages (Sec. 12) : Where minimum wages have been in force in any Scheduled employment, the employer shall pay wages to every employee engaged in such employment at a rate not less than the minimum rate of wages fixed under section 5 for that class of employees in that employment. The wages of an employed person shall be paid to him without deduction of any kind except as may be authorised within such time and subject to such conditions as may be prescribed. This section shall not affect the provisions of Payment of Wages Act, 1936.

3.Penalty [Sec. 22]. Any employer who pays to any employee less than the minimum rates of wages fixed for that class of work or less than the amount due to him under this Act shall be punishable with imprisonment which may extend to six months or with fine which may extend to Rs. 500 or both.

4.Rates of overtime [Sec. 14] : Where an employee whose minimum rates of wages is fixed under the Act by the hour, by the day or by any such longer period or may be prescribed, works on any day in excess of the number of hours constituting a normal working day, the employer shall pay him for every hour or part of it so worked in excess at the overtime rates fixed under this Act or under any law of the appropriate Government for the time being in force. Sec. 59 of the factories Act 1948, provides that where a worker

works for more than 9 hours on any day or 48 hours in a week, he shall, in respect of overtime work, be paid wages at the rate of twice the ordinary rates of wages.

5. Wages of Worker who works for less than normal working day [Sec 15].: Where the minimum rates of wages of an employee has been fixed under this Act by the day and the employee, on any working day, works for a period less than the requisite number of hours constituting a normal working day, save as otherwise provided, he shall be entitled to receive wages in respect of work done by him on that day as if he had worked for a full normal working day.

However, in the following cases, he shall not be entitled to receive the wages for a full normal working day-

- (i) where the failure to work is caused by his unwillingness to work and not by the omission of the employer to provide him with work; or
- (ii) in such other cases and circumstances as may be prescribed.

6. Wages for two or more classes of work [Sec. 16].: Where an employee does two or more than two classes of work for each one of which a different rate of minimum wages is fixed, the employees, in such a case, shall be entitled to receive wages from his employer in respect of time respectively occupied in each such class of work, at not less than the minimum rate in force in respect of each of such class.

7. Minimum Time Rate Wage for Piece Rate Work [Sec. 17]: Where an employee is employed on piece work but for such work minimum time rate and not the minimum piece rate has been fixed under the Act, the employee shall be entitled to receive wages at not less than the minimum time rate.

Amount of Compensation [Sec. 20(3)].

Where an application has been admitted by the Authority, the Authority shall hear the applicant and the employer or give them an opportunity of being heard and after such further inquiry as it considers necessary may direct-

(i) in the case of claims arising out of payment of less than the minimum rates of wages, the payment to the employee the difference between the minimum wages payable to him and the wages actually paid, together, with the payment of such compensation as the Authority may think fit but not exceeding 10 times the amount of difference.

(ii) in any other case, the payment of the amount due to the employee, together with the payment of compensation as it may think fit, not exceeding Rs. 10. The Authority may direct payment of such compensation in cases where the excess or the amount due is paid by the employer to the employee before the disposal of the application.

Payment of Wages Act-1936

Rules for Payment of Wages (Section 3-6)

The Payment of Wages Act, 1936, defines several rules to regulate the payment of wages to certain classes of employed persons in [India](#). In this article, we will focus on the rules for payment of wages act which is specified under sections 3 to 6.

Rules for Payment of Wages

The four sections which detail the rules for payment of wages under the Payment of Wages Act, 1936 are:

1. Responsibility for payment of wages – Section 3
2. Fixation of wage periods – Section 4
3. Time of payment of wages – Section 5

4. Wages to be paid in currency notes or currency coins – Section 6 Let's look at each of these sections in detail.

Section 3 – Responsibility for Payment of Wages

- (1) Every employer is responsible for the payment of all wages to all the employees that he employs. In any other case, if the employer names a person, or if there is a person responsible to the employer or is nominated, then such a person is responsible for the payment of wages.
- (2) Notwithstanding anything contained in sub-section (1), the employer is responsible to make the payment of all wages which the Act requires him to make. In fact, if the contractor or the person that the employer designates to make the payment fails to do so, then the responsibility lies with the employer.

Section 4 – Fixation of Wage Periods

- (1) The person responsible for the payment of wages under Section 3 must fix periods in respect of which he shall make the payment of wages. This period is called the wage period.
- (2) A wage period will not exceed one month under any circumstance

Section 5 – Time of Payment of Wages

- (1) Every person employed upon or in:
 - a. Any railway, factory or industrial or other establishments upon or in which the total number of employed persons is less than one thousand, must receive his wages before the expiry of the seventh day from the last day of the wage period for which the wages are payable.
 - b. Any other railway, factory or industrial or other establishments, must receive his wages before the expiry of the tenth day from the last day of the wage period for which the wages are payable.
- (2) If the employer terminates the employment of a person, then he must ensure that the terminated employee receives his wages before the expiry of the second working day from the date of termination of employment.
- (3) The Appropriate Government can exempt to such an extent and also subject to such conditions in the order the person responsible for the payment of wages to employed persons.
- (4) The employer or the person responsible for paying wages must ensure that the wages are paid on a working day.

Section 6 – Payment of wages in currency notes or currency coins

The employer or the person responsible for making the payment of wages must pay in currency coins or currency notes or in both. Further, he cannot pay in kind.
Also, the employer can pay the wages via a cheque or a direct deposit to the bank account of the employee after taking a written authorization from him.

Payment of Wages Act Section 8: Fines

According to the Payment of Wages Act, 1936, an employer can deduct fines from the wages of an employee. Section 8 offers rules and regulations governing fines under the Act. In this article, we will look at all the rules pertaining to the levying of a fine in detail.

Section 8 - Payment of Wages Act – Fines

The rules and regulations pertaining to deducting fines from the wages of an employee are as follows:

Sub-section (1)

The employer cannot impose any fine on any employed person save in respect of such acts and omissions on his part as the employer with the previous approval of the State Government or the prescribed authority might have specified via a notice under sub-section (2).

Sub-section (2)

The employer must ascertain that he exhibits the notice which specifies all such acts and omissions in the prescribed manner.

Further, he must exhibit this notice on the premises in which the employees work. Also, in the case of railway employees who work in places other than the factories, the employer must display the notice at the prescribed place or places.

Sub-section (3)

The employer cannot impose a fine on any employed person until he gives the employed person an opportunity of showing cause against the fine. Also, if the procedure prescribed for the imposition of fine changes, then the employer must give the employed person an opportunity in accordance with it.

Sub-section (4)

Even if an employed person is liable for a fine, the employer cannot impose a fine of more than three percent (3%) of the wages payable to him during any one wage period.

Sub-section (5)

If the employed person is under fifteen years of age, then the employer cannot impose fines on him.

Sub-section (6)

The employer cannot recover the fine imposed on any employed person through installments or after the expiry of ninety (90) days from the date on which he has imposed the fine.

Sub-section (7)

Fines are deemed to have been imposed on the day the employed person commits the act or omission in respect of which the fines were imposed.

Sub-section (8)

According to Section 3 of the Act, a person is deemed responsible for the payment of wages. Further, the same person is also responsible to record all fines and realizations in a register in the prescribed format.

Also, any realization is applied only for purposes beneficial to persons employed in the factory or establishment. These realizations also require approval from the prescribed authority.

Explanation: Let's say that there are several railways, factory or industrial or other establishments under the same management. In such cases, the person responsible for the payment of wages must credit all realizations to a common fund. This fund is maintained for all the staff under the same management. Also, the fund is applied only to such purposes as the prescribed authority approves.

Deductions from Wages

Section 7 of the Payment of Wages Act, 1936, outlines the deductions from wages permitted under the Act. An employer cannot make deductions of any kind except those specified under the Act. In this article, we will take a look at these rules pertaining to deductions from wages.

Section 7 – Deductions from Wages

Notwithstanding the provisions of the Railways Act, 1989 (24 of 1989), an employer must pay the wages of an employed person without deductions of any kind except those specified under the Payment of Wages Act, 1936. A deduction can be made only in the following manner.

1. Fines (explained in Section 8)
2. Absence from duty (explained in Section 9)
3. Damage to or loss of goods expressly entrusted in the employed person (explained in Section 10)
4. House-accommodation or other amenities or services that the employer provides (explained in Sec 11).
It is important to note that the term 'services' does not imply the supply of tools and also the raw materials required for fulfilling the job.
5. Recovery of Advances (explained in Section 12)
 - a. The recovery of loans made from any fund constituted for labor welfare
 - b. Also, the recovery of loans granted for house-building or other purposes. Additionally,
 - The income tax that the employed person is liable to pay
 - Any deduction under the order of the court or any other competent authority
 - Provident fund – subscription and also the repayment of advances
 - Payments that the employee makes to cooperative societies
 - Payment of premium of the life insurance policy to the Life Insurance Corporation of India, of the employed person. Further, this requires written authorization from the person employed.
- Payment of the contribution of the employed person towards any fund that the employer or the trade union constitutes. This also requires written authorization from the person employed.
- Payment of the fees for the membership of any trade union registered under the Trade Union Act, 1926.

Also, this requires written authorization from the person employed as well.

- The payment of insurance premium on Fidelity Guarantee Bonds
- Recovery of losses which the railway administration sustains on account of the employed person accepting counterfeit coins or mutilated or forged currency notes.
- If the railway administration sustains losses due to the employed person failing to invoice or bill or collect or account for the appropriate charges, then the losses are recovered as deductions.
- Recovery of losses which the railway administration sustains on account of the employed person incorrectly granting any rebates or refunds
- A contribution that the employed person makes to the Prime Minister's National Relief Fund or any similar Fund which is notified in the Official Gazette. Further, this needs written authorization from the person employed.
- A contribution to an insurance scheme that the Central Government may make for its employees

Limit on Deductions

As per Section 7(3) of the Payment of Wages Act, 1936, the total amount of deductions cannot exceed:

1. 75 percent of the wages when the deductions are wholly or partly for payments to cooperative societies.
2. 50 percent of the wages in every other case