



Certified Payroll Manager Sample Material

V-Skills Certifications

**A Government of India
&
Government of NCT Delhi Initiative**

V-Skills



1. INTRODUCTION TO COMPENSATION

1.1. Meaning Of Wage/ Compensation Payment

Wage is a monetary payment made by the employer to his employee for the work done or services rendered. It is a monetary compensation for the services rendered. A worker may be paid Rs. 100 per day or Rs. 4500 per month. This is wage payment. The worker gives his services and takes payment called wage payment. Industrial workers are paid remuneration for their services in terms of money called wage payment. Wages are usually paid in cash at the end of one day, one month or one week. Money wage is the monetary compensation or price paid by the employer to his employee for the services rendered. Such compensation is also called wage or salary or reward given by an organization to a person in return to a work done.

- ✓ Generally, compensation payable to an employee includes the following three components:
 - Basic compensation for the job (wage/salary)
- ✓ Incentive compensation for the employee on job
- ✓ Supplementary compensation paid to employees (fringe benefit and employee services)

Definition

According to Milkovinch and Boudreau, “Compensation refers to all forms of financial returns, tangible services, and benefits employee received as part of their employment relationship.

Objective/goals of wage & salary:

- ✓ **Internal & external Equity:** A very important objective in administering wage and salary is to achieve internal and external equity. Internal equity means similar pay for similar work. Differences in wages between jobs should be in proportion to the differences in the worth of the jobs.
- ✓ **Fair wages:** A fair wage is something more than the minimum wage providing the bare necessities of life. A fair wage depends on several factors- productivity of labor, prevailing rates of wages in the same or similar occupations in the same or neighboring region, place of industry in the country's economy, employer's capacity to pay and so on.
- ✓ **Attract competent talent:** Through proper wage salary administration, the organization seeks to attract talented, well qualified and hardworking people.
- ✓ **Retain good employees:** Through fair and competitive wages and salaries, the organization aims at retaining competent employees who are doing a good job. The purpose is to reduce employee turnover.
- ✓ **Satisfy employee needs:** A key objective of adequate wages and salaries is to help employees fulfill their various needs. It creates a sense of security and enhances the self-worth of the employees.
- ✓ **Motivate employees to higher productivity:** A well planned wage and salary system motivates employees to work hard, resulting in higher levels of productivity.

1.2. Importance of wage payment

To worker: Wage payment is important to all categories of workers. Wage is a matter of life and death to workers/employees. Their life, welfare and even social status depend on wage payment. It is only source of income to large majority of workers. They and their unions always demand higher wages and other monetary benefits.

Majority of labour problems and disputes are directly related to wage payment. The efficiency of workers and their interest and involvement in the work depend on wage payment. Even their attitude towards employer depends on wage payment. In brief, wage payment is a matter of greatest importance to workers. Wage problem is the most pressing and persistent problem before the entire labour force.

To Employer: Wage payment is equally important to employers as their profit depend on the total wage bill. An employer in general is interested in paying low wages and thereby controls the cost of production. However, low wages are not necessarily economical. In fact they may prove to be too costly to the employer in the long run. E.g. In garment manufacturing company if tailors are not paid properly then it is difficult for the company to retain them. An employer has a moral and social responsibility to pay fair wages to his worker as they are equal partners in the production process. He should give fair wages which will benefit to both the parties. Employees will offer full co-operation to the management when they are paid attractive wages. On the other hand, strikes and disputes are likely to develop when workers are paid low wages or when they are dissatisfied and angry due to low wage rates. It is possible to earn more profit by paying attractive wages to workers. E.g. Reliance, City Bank, Motorola are earned huge profits because of their higher pay packages.

To government: Government also give special importance and attention to wages paid to industrial workers as industrial development, productivity, industrial peace and cordial labour management relation depend on the wage payment to workers. Government desires to give protection to the working class and for this minimum wages act and other Acts are made. In India, wages are now link with the cost of living. This is for the protection of workers. Government is the biggest employer in India and the wage rates of government servant and employees of public sector organizations are decided by government only. Revision of pay scale of government employees made for adjusting their wages as per the cost of living. For this, "Pay Commission" is appointed and pay scale is adjusted as per the recommendations made.

In India, wage payment is very critical, controversial and delicate issue for all categories of work force. This is due to poverty, rising prices, mass unemployment and rising population. Wage payment indeed a vexatious problem and needs to be tackled from economic, social and humanistic angles.

Concept of fair wages: Fair wages is the wage which is above the minimum wage but below the living wage. Obviously the lower limit of the fair wage is the minimum wage and the upper limit is set by the ability of the industry to pay. Between these two limits, fair wages should depend on the factors like -

- ✓ Prevailing rates of wages in the same occupation
- ✓ Prevailing rates of wages in the same region or neighboring areas

- ✓ Employers ability to pay
- ✓ Level of national income and its distribution
- ✓ Productivity of labour
- ✓ Status enjoyed by the industry in the economy

Hence it can be said that fair wages are determined on industry cum region basis. When fair wages are paid employees enjoy higher standard of living. It is accepted fact that wages must be fair and reasonable. Wages is fair when the employee is able to meet its essential needs and enjoy reasonable standard of living. “Equal pay for equal work” serves as base of fair wage.

According to Encyclopedia of social science, “air wages are equal to those received by the workers performing work of equal skill, difficulty or unpleasantness.”

1.3. Factors Influencing Wage And Salary Structure:

The organization’s ability to pay:

Wage increases should be given by those organizations which can afford them. Companies that have good sales and therefore high profits tend to pay higher wages than those which are running at a loss or earning low profits because of the high cost of production or low sales.

Supply and demand of labour:

If the demand and certain skills are high and the supply is low the result is rise in the price to be paid for these skills. The other alternative is to pay higher wages if the labour supply is scarce and lower wages when it is excessive.

The cost of living:

When the cost of living increases, workers and trade unions demand adjusted wages to offset the erosion of real wages. However when living costs are stable or decline the management does not resort with this argument as a reason for wage reduction.

The living wage:

Employers feel that the level of living prescribed in workers budget is opened to argument since it is based on subjective opinion.

Job requirements:

Jobs are graded according to the relative skill responsibility and job conditions required.

Trade unions bargaining power:

Trade unions do affect the rate of wages. Generally the stronger and more powerful trade union, higher the wages.

Productivity:

Productivity is another criterion and is measured in terms of output man-hour. It is not due to labour efforts alone. Technological improvements, greater ingenuity and skill by the labour are all responsible for the increase in productivity.

Prevailing market rate:

This is also known as comparable wages or going wage rate. Reason behind this is competition demand that competitors adhere to the same relative wage level.

Skill levels available in the market:

With the rapid growth of industries, business trade there is shortage of skilled resources. The technological development, automation has been affecting the skilled levels at a faster rate.

Psychological and social factors:

This determine in a significant measure how hard a person will work for the compensation received or what pressures he will exert to get his compensation increased.

1.4. Components Of Employee Remuneration:

The remuneration packet of an employee includes wage/salary, incentives, fringe benefits, perquisites and finally non-monetary benefits. This is made clear in the following chart:

1.5. Wages And Salary:

Wages represent hourly rates of pay, and salary refers to the monthly rate of pay, irrespective of the number of hours put in by the employee. Wages and salaries are subject to the annual increments. They differ from employee to employee, and depend upon the nature of job, seniority, and merit.

Incentives:

Incentives are paid in addition to wages and salaries and are also called payments by results. Incentives depend upon productivity, sales, profit, or cost reduction efforts. There are: (a) Individual incentive schemes, and (b) Group incentive programmers. Individual incentives are applicable to specific employee performance. Where a given task demands group efforts for completion, incentives are paid to the group as a whole. The amount is later divided among group members on an equitable basis.

Fringe benefits:

These are monetary benefits provided to employees. They include the benefit of: (a) Provident fund, (b) Gratuity, (c) Medical care, (d) Hospitalization payment, (e) Accident relief, (f) Health and Group insurance, (g) Subsidized canteen facilities, (h) Recreational facilities, and (i) Provision of uniforms to employees.

Perquisites:

There are special benefits offered to managers/executives. The purpose is to retain competent executives. Perquisites include the following: (a) Company car for traveling, (b) Club membership, (c) Paid holidays, (d) Furnished house or accommodation, (e) Stock option schemes, etc.

Non-monetary benefits:

These benefits give psychological satisfaction to employees even when financial benefit is not available. Such benefits are: (a) Recognition of merit through certificate, etc. (b) Offering challenging job responsibilities, (c) Promoting growth prospects, (d) Comfortable working conditions, (e) Competent supervision, and (f) Job sharing and flexi-time.

1.6. Systems of Wage Payment:

- ✓ Time Rate System
- ✓ Piece Rate System

1.7. Time Rate System:

It is the oldest and simplest method of wage payment used extensively in the industrial as well as government departments. Wages are paid as per the time spent by the workers in the factory. The production given by them is not taken into consideration. The employer buys the hours of the workers and pays them accordingly. Time rate system is also called as day wage system. In the time rate system, efficiency, sincerity, ability is not given attention and all the workers are paid at one and the same rate as per the period spent in the factory.

Advantages of time rate system:

- ✓ **Easy and simple:** Time rate is easy to understand and simple to follow and calculate. Wage calculations are also easy and quick. Each worker knows how much wage payment he is entitled to at the end of the month. This gives convenience to employer and employees.
- ✓ **Guarantee of minimum wage:** It gives the guarantee of certain minimum wage payment to every worker irrespective of their working capacity. Workers get a regular and stable income and this gives a sense of security to all workers as regards wage payment.
- ✓ **Maintains quality of production:** Quality of production is maintained here as the workers are not in a hurry to complete the work. They do not rush the job and spoil the quality because of the temptation to earn more. Workers tend to work slowly and with care. Even accidents are less as workers use the machines in a careful manner.
- ✓ **Support from trade unions:** Workers and trade unions accept and support time rate system as all workers are placed in one category as regards wage payment. This ensures unity among workers. Trade unions normally prefer time rate system of wage payment.
- ✓ **Avoids quarrels among workers:** Time rate avoids heart burning and quarrels among the workers as uniform wages are paid to all. Here efficiency, honesty and sincerity of workers are not given any special weight age. Wage rate is the same for sincere and lazy workers.
- ✓ **Convenient in modern factory system:** Time rate payment is convenient in modern factory system where production process is continuous and integrated. It is not possible to measure the work completed by one individual worker and hence time rate system is convenient.

1.8. Disadvantages Of Time Rate System:

- ✓ **Not scientific:** Time rate is not scientific system of wage payment as there is no direct linking between wages and production/productivity. Wages bill may increase without corresponding increase in the production. This will bring loss to the employer / management.

- ✓ **Absence of positive encouragement:** In the time rate system, there is no positive encouragement to workers to improve their efficiency/ performance as the wage rate is uniform to all workers; efficient and inefficient.
- ✓ **No distinction between workers:** In the time rate system no distinction is made between efficient and lazy workers, both are paid at one rate which is unfair. This system gives punishment to sincere and efficient workers. They are discouraged as they are paid less than what they deserve. They may even leave the job.
- ✓ **No initiative to workers:** Time rate fails to encourage workers to take more interest and initiative in their work. In fact, it encourages them to follow “go slow” policy. This is because wage payment is not linked with the production given.
- ✓ **Labour cost may increase:** In the time rate system, there is a possibility of increase in the labour cost without corresponding increase in the production. Workers may work with slow speed, give less production but collect the wage as per time or day fixed.
- ✓ **Strict supervision:** In the time rate strict supervision on the workers is essential as payment is for period and not production. This raises the expenditure on supervision.
- ✓ **No effect on productivity/ efficiency:** Time rate fails to raise productivity and efficiency of labour force. It is not an incentive system of wage payment.

1.9. Piece Rate System:

This is another basic system of wage payment. It is just opposite to the time rate. It is also treated as an incentive wage system as it encourages workers to produce more and also to earn more. In the piece rate system, wages are paid as per the output or production given by the worker and not as per the time spent by the worker in the factory. Payment is by results in terms of output given. Wage rate is fixed per piece of work or for certain quantity of production. The production given by a worker at the end of the day is counted and payment is made accordingly.0020

1.10. Merits/ Advantages Of Piece Rate System:

- ✓ **Linking of wages with production:** Here wages are linked with production or productivity. It raises the productivity of labour. Workers work with speed and use their capacity fully as the wage payment is directly related to the quantity of production given by a worker.
- ✓ **Distinction is made between efficient and inefficient workers:** Distinction is made between efficient and inefficient worker and full justice is done to efficient worker as he gets payment in proportion to the production given. Efficient workers support the piece rate system but it is not preferred by unskilled and inefficient workers. They get less payment under this method as their capacity to produce is less.
- ✓ **Encourages workers to take initiative in the work:** Piece rate system encourages workers to take more interest and initiative in the work as every worker gets full reward of his efforts. There is direct efforts-reward relationship in the piece rate system.

- ✓ **Fair to employer and employees:** This system is fair to employers as well as employees. The employees get income in proportion to production given by them and the employer gets production in proportion to the wage paid.
- ✓ **Incentive system:** This system serves as the incentive system. Workers work efficiently and take interest in the work due to corresponding benefit/ reward in the form of higher wage payment.
- ✓ **Limited supervision adequate:** In this system strict supervision on the workers is not necessary as workers work sincerely. This is because their wage payment is directly linked with their sincerity and ability.
- ✓ **Freedom of work to workers:** Workers get more freedom of work and there is effective control on the cost of production in the piece rate system.
- ✓ **Brings cordial relations:** Piece rate brings cordial labour management relations and industrial peace.

1.11. Demerits/Limitation Of Piece Rate System

- ✓ **No guarantee of minimum wage payment:** There is a guarantee of certain minimum wage payment to a worker. This may prove to be dangerous particularly to a newly recruited worker and workers who are below average.
- ✓ **Workers suffer even when they are not at fault:** Sometimes workers suffer in wage payment even when they are not at fault. Due to power failure, etc they may not be able to give production and naturally they will not be eligible for wage payment even when they remain present in the factory for the whole day.
- ✓ **Complicated system:** Piece rate system is complicated and difficult as it is difficult to understand by ordinary workers. Management will have to keep elaborate records of production given by each worker. Workers also make complaints as regards wage payment when they feel that due payment is not made to them.
- ✓ **Disturbs unity of workers:** Piece rate affects the unity among workers as wage payment will not be uniform to all workers. This will lead to quarrel among workers. Trade unions oppose piece rate system on the ground that it will lead to rivalry among workers and destroy unity among them.
- ✓ **Not fair to trainees:** Piece rate system is not fair to trainees, as their capacity to produce is less and naturally they will get less wages.
- ✓ **Quality of production is adversely affected:** It affects the quality of production as workers may work with speed and this may bring down the quality of production. In addition the wastages and spoiled work are likely to increase due to haste on the part of the workers to labour hard and over strain themselves in order to earn more. This affects the health of workers.

1.12. Time Rate V/S Piece Rate Systems

Meaning:

- ✓ Wages are paid as per the time spent by workers.
- ✓ Wages are paid as per the output or production given by workers.

Old/New System:

- ✓ Oldest and simplest method of wage payment
- ✓ Modern and incentive system of wage system

Guarantee of wages:

- ✓ Gives guarantee of certain minimum wage payment to every worker
- ✓ Fails to give guarantee of minimum wage payment to every worker

Support:

- ✓ Employees and trade unions support time rate system.
- ✓ Employers and efficient workers prefer piece rate system.

Understanding of system:

- ✓ Easy to understand and simple to administer
- ✓ Complicated system as various records and registers are required to be maintained
- ✓ Distinction between workers:
- ✓ Distinction is not made between efficient and inefficient workers as all are paid at one and same rate.
- ✓ Distinction is made between efficient and inefficient workers. Efficient worker is paid more while an inefficient worker is paid less.

Effect on Production:

- ✓ Encourages workers to follow go-slow policy and naturally production suffers.
- ✓ Encourages workers to take more interest in the work and naturally production increases

Quality of production:

- ✓ Quality, workmanship of production are not affected, raw materials, machinery are utilized properly. The spoiled work is also negligible.
- ✓ Quality, workmanship of production may suffer. Increase in spoiled work and wastage of raw materials.

Supervision:

- ✓ Strict supervision is necessary as workers are paid as per the period spent.
- ✓ Strict supervision is not necessary as workers are paid in proportion to the production given.

Suitability:

- ✓ Suitable to manufacturing units, also suitable when individual contribution is not easily measurable.
- ✓ Suitable when contribution of individual worker is measurable and work is standardized and resistive in character.