**WAGE AND SALARY ADMINISTRATION**

**MEANING OF WAGE**

**Wage** is monetary compensation paid by an employer to employee in exchange of work done. Payment can be calculated as fixed amount for each task completed, or at an hourly or daily rate, or as per the organization’s rules and regulation.

**MEANING OF SALARY**

**Salary** is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. Salary is a fixed amount of money or compensation paid to an employee by an employer in return for work performed. Salary is commonly paid in fixed intervals, for example, monthly payments of one-twelfth of the annual salary.

**MEANING OF ADMINISTRATION**

The term **administration** can be defined as the systematic and disciplined interpretation and implementation of the policies and plans formulated by the Board Of Directors of a particular organization.

**MEANING OF WAGE AND SALARY ADMINISTRATION**

Wage and salary administration is an integral part of the management of the organization. It is a systematic approach to providing monetary value to employees in exchange for work performed. It is an organized practice that involves balancing the work –employee relation by providing monetary as well as non monetary benefits to employees. Although hourly workers are called wage workers and others are generally called salaried, all depend on the payment by the employers for livelihood.

**OBJECTIVES OF WAGE AND SALARY ADMINISTRATION**

The main objective of wage and salary administration is to establish and maintain an equitable wage and salary system. This is so because only a properly developed compensation system enables an employer to attract, obtain, retain and motivate people of required calibre and qualification in his/her organisation. These objectives can be seen in more orderly manner from the point of view of the organisation, its individual employees and collectively. There are outlined and discussed subsequently:

**Organizational Objectives:-**

The compensation system should be duly aligned with the organisational need and should also be flexible enough to modification in response to change.

The organizational objectives are:

* Enable the organizations to have the quality and quantity of staff as per its requirements.
* Retain the employees in the organizations.
* Motivate the employees for good performance for better performance in the future.
* Maintain equity and fairness in compensation for similar jobs.
* Maintain flexibility in the system so that changes can be made as and when required.
* The system should be cost effective.

**Individual Objectives:-**

From individuals point f view, the wage and salary administration shouldhave the following objectives:

* Ensure a fair compensation.
* Provides compensation according to employee’s worth.
* Avoids the chance of favoritism from creeping in when rates are assigned.
* Enhances employee morale and motivation.

**PRINCIPLES OF WAGE AND SALARY ADMINISTRATION:-**

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

1. External equity
2. Internal equity
3. Individual worth
4. **External equity:**

This principle acknowledges that factors or variables external to organization influence levels of compensation in an organization for instance demand and supply of labour, the market rate, etc. if these variables are not kept into consideration while fixing wage and salary levels, these may be insufficient to attract and retain employees in the organization. This principle ensures that jobs are fairly compensated in comparison to similar jobs in the labour market.

1. **Internal equity:**

Organizations have various jobs which are relative in value term. In other words, the values of various jobs in an organization are comparative. Within the same organization pay levels of the employees differ in respect to the differences in the value of the jobs they perform. This relative worth of jobs is ascertained by job evaluation. Thus, an ideal compensation system should ensure that the more difficult job should be paid more.

1. **Individual Equity:**

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

**Wage determination process**

Wage determination is a complex process. However, wage determination process consists of the following steps:   
  
**1. Job Analysis:**

Job analysis describes the duties, responsibilities, working conditions and inter-relationships between the job as it is and the other jobs with which it is associated. It attempts to record and analyse details concerning the training, skills, required efforts, qualifications, abilities, experience, and responsibilities expected of an employee. After determining the job specifications, the actual process of grading, rating or evaluating the job occurs. A job is rated in order to determine its value relative to all the other jobs in the organization which are subject to evaluation. The next step is that of providing the job with a price. This involves converting the relative job values into specific monetary values or translating the job classes into rate ranges.   
  
**2. Wage Survey:**

In determining the wages for a specific job it is very necessary to work as to what wages are being given for the same job in other enterprises. If, on the basis of utility, the wages for a specific job are determined below the wages for the same job on other enterprises, following will be its disadvantages:

**3. Group Similar Jobs into Pay Grades:**

After the results of job analysis and salary surveys have been received, the committee can turn to the task of assigning pay rates to each job, but it will usually want to first group jobs into pay grades. A pay grade is comprises the jobs of approximately equal difficulty or importance as determined by job evaluation. Pay grading is essential for pay purposes because instead of having to deal with hundreds of pay rates, the committee might only have to focus on a few.  
  
**4. Price Each Pay Grade:**

The next step is to assign pay rates to pay grades. Assigning pay rates to each pay grade is usually accomplished with a wage curve. The wage curve depicts graphically the pay rates currently being paid for jobs in each pay grade, relative to the points or ranking assigned to each job or grade by the job evaluation. The purpose of wage curve is to show the relationship between (i) the value of the job as determined by one of the job evaluation methods and (ii) the current average pay rates for the grades.

**5. Wage Administration Rules:**

The development of rules of wage administration has to be done in the next step. It is considered advisable in the interests of the concern and the employees that the information about average salaries and ranges in the salaries of group should be made known to the employees concerned; for secrecy in this matter may create dissatisfaction and it may also vitiate the potential motivating effects of disclosure. Finally, the employee is appraised and the wage is fixed for the grade he is found fit.

### Factors Affecting Wage Rate Decisions:

The wage payment is an important factor affecting the labour management relations. Workers are very much concerned with the rates of wages as their standard of living is linked to the amount of remuneration they get. Managements, however, do not come forward to pay higher wages because cost of production goes up and profits decrease to that extent. A number of factors, thus, Influence the remuneration payable to the employees. These factors can be categorised into (i) External Factors and (ii) Internal Factors.

#### (A) External Factors:

**1. Demand and Supply:**

The labour market conditions or demand and supply forces operate at the national and local levels and determine organisational wage structure. When the demand for a particular type of labour is more and supply is less than the wages will be more.On the other hand, if supply of labour is more and demand on the other hand, is less then persons will be available at lower wage rates also. In the words of Mescon, ‘the supply and demand compensation criterion is very closely related to the prevailing pay, comparable wage and ongoing wage concepts since, in essence, all these remuneration standards are determined by immediate market forces and factors.

**2. Cost of Living:**

The wage rates are directly influenced by cost of living of a place. The workers will accept a wage which may ensure them a minimum standard of living. Wages will also be adjusted according to price index number. The increase in price index will erode the purchasing power of workers and they will demand higher wages. When the prices are stable then frequent wage increases may not be undertaken

**3. Trade Unions’ Bargaining Power:**

The wage rates are also influenced by the bargaining power of trade unions. Stronger the trade union higher will be the wage rates. The strength of a trade union is judged by its membership, financial position and type of leadership. Union’s last weapon is strike which may also be used for getting wage increases. If the workers are disorganised and disunited then employers will be successful in offering low wages.

**4. Government Legislation:**

To improve the working conditions of workers, government may pass a legislation for fixing minimum wages of workers. This may ensure them a minimum level of living. In underdeveloped countries bargaining power of labour is weak and employers try to exploit workers by paying them low wages. In India, Minimum Wages Act, 1948 was passed to empower government to fix minimum wages of workers.

**5. Psychological and Social Factors:**

Psychologically the level of compensation is perceived as a measure of success in life.Management should take into consideration the psychological needs of the employees while fixing the wage rates so that the employees take pride in their work. Sociologically and ethically, the employees want that the wage system should be equitable, just and fair. These factors should also be taken into consideration while devising a wage programme.

**6. Economy:**

Economy also has its impact on wage and salary fixation. While it may be possible for some organisations to thrive in a recession, there is no doubt that economy affects remuneration decisions. A depressed economy will probably increase the labour supply. This, in turn, should lower the going wage rate.

**7. Technological Development:**

With the rapid growth of industries, there is a shortage of skilled resources. The technological developments have been affecting skill levels at faster rates. Thus, the wage rates of skilled employees constantly change and an organisation has to keep its level upto the mark to suit the market needs.

**8. Prevailing Market Rates:**

No enterprise can ignore prevailing or comparative wage rates. The wage rates paid in the industry or other concerns at the same place will form a base for fixing wage rates. If a concern pays low rates then workers leave their jobs whenever they get a job somewhere else. It will not be possible to retain good workers for long.

#### (B) Internal Factors:

**1. Ability to Pay:**

The ability to pay of an enterprise will influence wage rates to be paid. If the concern is running into losses then it may not be able to pay higher wage rate. A profitable concern may pay more to attract good workers. During the period of prosperity, workers are paid higher wages because management wants to share the profits with labour.

**2. Job Requirements:**

Basic wages depend largely on the difficulty level, and physical and mental effort required in a particular job. The relative worth of a job can be estimated through job evaluation. Simple, routine tasks that can be done by many people with minimum skills receive relatively low pay. On the other hand, complex, challenging tasks that can be done by few people with high skill levels generally receive high pay.

**3.Management Strategy:**

The overall strategy which a company pursues should determine the remuneration to its employees. Where the strategy of the organisation is to achieve rapid growth, remuneration should be higher than what competitors pay. Where the strategy is to maintain and protect current earnings, because of the declining fortunes of the company, remuneration level needs to be average or even below average.

**4. Employee:**

Several employees related factors interact to determine his remuneration.

**These are:**

**(i)** Performance or productivity is always rewarded with a pay increase. Rewarding performance motivates the employees to do better in future.

**(ii) Seniority:**

Unions view seniority as the most objective criteria for pay increases whereas management prefers performance to effect pay increases.

**(iii) Experience:**

Makes an employee gain valuable insights and is generally rewarded.

**(iv) Potential:**

Organisations do pay some employees based on their potential. Young managers are paid more because of their potential to perform even if they are short of experience.