

Quadrant II – NOTES

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Module Name: EMPLOYEE COMPENSATION

Module No: 07

EMPLOYEE COMPENSATION:

Wage is the amount paid by the employer to the employees for the services provided. It refers to the compensation paid usually in monetary terms for the services of the employees. The payment is made either on daily, weekly, fortnightly or monthly basis.

Money wage refers to the payment received in the monetary terms. It is also called as nominal wage.

Real wage refers to the amount of goods and services that can be purchased by an employee from the money wage or nominal wage received. Thus, real wage is the purchasing power of the money wage. The standard of living and prosperity of employee depends on real wage and therefore it is significant to the employee.

A) Factors determining the wage rates:

1. Financial position of the employer:

Wage rates depend on the financial status of the employer. Profit making organisations are able to pay better wages to their employees when compared to organisations having weak financial position. Financial capabilities of employers influence wage rate.

2. Type of job performed by performed by employer:

Wage rate are also affected by the nature of job that an employee performs. Higher wages are paid in the case of the complex jobs requiring better employee skills in comparison to jobs which are easier to perform requiring less skills. Similarly, payment for the jobs involving risk and hazards is higher as compared to less risky or safe jobs. Wages rates also depend on the job level.

3. Strength of trade unions:

A strong trade union has better bargaining abilities and therefore able to ensure higher wages for the employees. In the organisation where trade unions are weak or ineffective, the wage payment is likely to be lower due to weak bargaining power of the trade union.

4. Government regulation:

The rule and regulations formulated by the government especially labour law influences the wage rates in industries. For example, Minimum wage act stipulates the minimum level as it would result in violating provisions of the act.

5. Employee efficiency level

Many organisations pay wages based on employee performance. Efficient workers are paid more and inefficient workers are paid less. The wage policy payment by the results benefits employees who are efficient performers. Thus, efficiency level of employee affects the wage rates.

6. Industrial locality

Wage rates also depend on the locality or are where the industrial units are located. Usually, industrial units in the same locality have identical wage rate.

7. Labour market conditions:

When the availability of manpower exceeds organisational requirement wage rate is lower. However, if there is scarcity of the manpower and the demand of labour is more, the wage rate is higher.

8. Welfare facilities:

When the organisation provides liberal welfare facilities to its employees, wage rate is lower. the organisation which provides limited welfare facilities usually offer higher wages to the employees

B.) ESSENTIAL OF A SOUND WAGE SYSTEM

1. Simplicity

A sound wage system should be simple from the point of view of the employees. Simplicity facilitates easy understanding of the wage system. It also ensures efficient and effective implementation of the wage plan.

2. Clarity

The wage system should be clear to the employees. There should be no ambiguity or vagueness in the wage plan. Absence of clarity results in the doubts, misunderstanding and confusion among the employees regarding the wage system. Clarity results in acceptability of the wage system by the employees.

3. Flexibility

A sound wage system should be allowed flexibility in the wage plan. The organisation should be able to modify the system as per changing business situations and requirements. This makes the system relevant and acceptable.

4. Just and fair

Sound wage plan provides fairness from the point of view of employer and employees. It does not discriminate employees on the basis of gender, caste, creed or religion. It is impartial, just, fair to all concerned.

5. Timely payment of wages

A suitable system of wage payment ensures timely payment of wages to the employees. Delays in payment of wages cause inconvenience and hardships to them. Wage payment should adhere to the time schedule as mentioned in terms and conditions of employment contract.

6. Guarantees minimum wages

A sound wage plan is one which guarantees minimum wages to the employees. This help employees to satisfy their basic requirements.

7. Motivates employees

Another important feature of a good wage plan is that it motivates employees. The system should reward efficient employees and also encourage inefficient employees to improve their performance.

8. Legally enforceable

The wage system should not violate labour laws of the land. The system should not contradict with labour legislations. Wage system must be legally sound.