



Unit 1: Job Evaluation

Answer the following (1 Mark)

- 1. What is the purpose of job evaluation?**

To establish a rational pay structure.

- 2. What is the basic purpose of performance appraisal?**

To find out how well the employee is doing the job and establish a plan for improvement.

- 3. Who should explain the aims and uses of job evaluation programme to the employees and unions?**

Top management

- 4. State any one benefit of job evaluation.**

It tries to link pay with the requirements of the job.

- 5. State any one basic approach of job evaluation.**

Ranking Method.

- 6. Which method of job evaluation arranges jobs from highest to lowest, in order of their value or merit to the organization?**

Ranking Method

- 7. Which method places groups of jobs into job classes or job grades?**

Classification Method

- 8. Mention the major disadvantage of job classification method.**

Cumbersome System

- 9. Which method of job evaluation ranks jobs according to a series of factors?**

Factor Comparison Method

- 10. Which method of job evaluation expresses jobs in terms of key factors?**

Point Method

11. State major disadvantages of ranking method.

Entirely subjective

12. Which factors are evaluated in classification method?

Whole job

13. What is the major advantage of factor comparison method?

Easy to use

14. What is the major disadvantage of point method?

May be costly

Briefly answer the following. (2 marks)

1. What is Job evaluation?

Job evaluation provides a systematic basis for determining the relative worth of jobs within an organization.

2. Mention any two features of job evaluation.

- It tries to assess jobs, not people.
- The standards of job evaluation are relative, not absolute.
- The basic information on which job evaluations are made is obtained from job analysis.

3. How does the aim of job Evaluation differ from the aim of performance appraisal.

- Aim of job evaluation: Determine wage rates for different jobs.
- Aim of Performance appraisal: Determine incentives and rewards for superior performance.

4. Who comprise the job evaluation committee?

- a) Experienced employees,
- b) union representatives and
- c) HR experts

5. Write two merits of factor Comparison method.

- Analytical and objective
- Flexible

6. State any two demerits of factor Comparison method.

- Difficult to understand, explain and operate.
- Time consuming and costly.

7. What is Performance appraisal?

Performance appraisal is systematic description of an employee's job related strengths and weaknesses.

8. List the person who should be communicated about job evaluation.

- Operating managers
- All the employees
- Trade union

9. In which method jobs are arranged from highest to lowest, in order of their value or merit to the organization.

Ranking Method

10. Who comes under the category of class I, II, III and IV employees?

The following is the category of classification method:

Class I: Executives

Class II: Skilled workers

Class III: Semiskilled workers (steno typists, machine operators, etc.)

Class IV: Semiskilled workers (daftaris, file clerks, office boys, etc.)

11. List any two skills considered in point system method.

- Social skills
- Problem solving skills

Answer the following (limit 250 words). (5 marks)

1. What is Job Evaluation? What are its features?

Job evaluation provides a systematic basis for determining the relative worth of jobs within an organization.

Features of job evaluation

The purpose of job evaluation is to produce a defensive ranking of jobs on which a rational and acceptable pay structure can be built. The important features of job evaluation may be summarised thus:

- It tries to assess jobs, not people.
- The standards of job evaluation are relative, not absolute.
- The basic information on which job evaluations are made is obtained from job analysis.
- Job evaluations are carried out by groups, not by individuals.
- Some degree of subjectivity is always present in job evaluation.

Job evaluation does not fix pay scales, but merely provides a basis for evaluating a rational wage structure.

2. List the process involved in job evaluation. Explain the following concepts

- a) **Gaining acceptance:**
- b) **Creating job evolution committee:**
- c) **Finding the job to be evaluated:**

Process consists of following steps:

- i. Gaining acceptance
 - ii. Creating job evaluation committee
 - iii. Finding the jobs to be evaluated
 - iv. Analysing and preparing job description
 - v. Selecting the method of evaluation
 - vi. Classifying jobs
 - vii. Installing the programme
 - viii. Reviewing periodically
- i. Gaining acceptance:** Before undertaking job evaluation, top management must explain the aims and uses of the programme to the employees and unions. To elaborate the programme

further, oral presentations could be made. Letters, booklets could be used to classify all relevant aspects of the job evaluation programme.

ii. Creating job evolution committee: It is not possible for a single person to evaluate all the key jobs in an organisation. Usually a job evaluation committee consisting of experienced employees, union representatives and HR experts is created to set the ball rolling.

iii. Finding the job to be evaluated: Every job need not be evaluated. This may be too taxing and costly. Certain key jobs in each department may be identified. While picking up the jobs, care must be taken to ensure that they represent the type of work performed in that department.

3. List two essential for success of job evaluation programme. Also state the guidelines that should be followed while conducting the job evaluation programme.

Operating managers should be convinced about the techniques and programme of job evaluation. They should also be trained in fixing and revising the wages based on job evaluation.

All the employees should be provided with complete information about job evaluation techniques and programme.

The guidelines that should be followed while conducting the job evaluation programme.

1. Rate the job - not the person or employee on the job.
2. Strive to collect all the facts accurately.
3. Study jobs independently and objectively, and then discusses views thoroughly and open-mindedly before reaching final decisions.
4. Job evaluation must be conducted systematically, based on factual and accurate information.
5. The results of job evaluation must be *fair* and rational and unbiased to the individuals being affected.

4. Write an essay on benefits of job evaluation.

Benefits of job evaluation

- It tries to link pay with the requirements of the job.
- It offers a systematic procedure for determining the relative worth of jobs. Jobs are ranked on the basis of rational criteria such as skill, education, experience, responsibilities, hazards, etc., and are priced accordingly.

- An equitable wage structure is a natural outcome of job evaluation. An unbiased job evaluation tends to eliminate salary inequities by placing jobs having similar requirements in the same salary range.
- Employees as well as unions participate as members of job evaluation committee while determining rate grades for different jobs. This helps in solving wage related grievances quickly.
- Job evaluation, when conducted properly and with care, helps in the evaluation of new jobs.
- It points out possibilities of more appropriate use of the plant's labour force by indicating jobs that need more or less skilled workers than those who are manning these jobs currently.

Unit: 2 Compensation Administrations

1 mark Questions

1. What is meant by compensation?

Compensation is what employees receive in exchange for their contribution to the organisation.

2. What is meant by benefits in the context of compensation?

Benefits are indirect rewards given to an employee or group of employees as a part of organizational membership (health insurance, vacation pay, retirement pension etc.)

3. What is the most important objective of any pay system?

The most important objective of any pay system is Fairness or equity.

4. Mention any one remuneration in which if paid, do not amount to wages under any of the Acts?

Bonus or other payments under a profit-sharing scheme.

5. What is 'allowances'?

The term 'Allowances' includes amounts paid in addition to wages over a period of time including holiday pay, overtime pay, bonus, social security benefit, etc.

6. Explain the term 'wages'.

The term 'wages' implies remuneration to workers doing manual work.

7. Which article of the Constitution of India guaranteed 'equal pay for equal work' for both men and women?

Article 39 of the Constitution of India guaranteed 'equal pay for equal work' for both men and women.

8. What can be the criteria for fixing minimum wage?

The criteria for fixing minimum wage can be an hour, a day, a month or any other longer period.

9. Which act prescribes minimum rates of wages?

Minimum Wages Act, 1948 prescribes minimum rates of wages.

10. Which five year plan first recommended the formation of a wage board?

Second five year plan first recommended the formation of a wage board.

11. What is bonus?

Bonus means an extra payment to the workers beyond the normal wage.

2 marks Questions

1. Differentiate between base pay and variable pay.

Base pay: It is the basic compensation an employee gets, usually as a wage or salary.

Variable pay: It is the compensation that is linked directly to performance accomplishments (bonuses, incentives, stock options)

2. Explain the term internal equity.

Internal equity: Ensures that more difficult jobs are paid more.

3. Explain the term external equity.

External equity: Ensures that jobs are fairly compensated in comparison to similar jobs in the labour market.

4. Mention any two factors on which the pay structure of a company depends?

The pay structure of a company depends on several factors such as labour market conditions, company's paying capacity and legal provisions.

5. Mention any two criteria which need to be considered for deciding the basic wage.

Two criteria which need to be considered for deciding the basic wage: Skill needs of the job, Experience needed.

6. Name the three factors that are linked to Dearness Allowance.

DA is linked in India to three factors: the index factor, the time factor and the point factor.

7. Mention two important factors that affect determination of fair wage.

Important factors that affect determination of fair wage:

- The productivity of labour;

- The prevailing rates of wages in the same or similar occupations in the same region or neighboring regions

8. Mention any two institutions involved in fixation of wages.

Minimum Wages Act, 1948 and The Payment of Wages Act, 1936 are two of the institutions involved in fixation of wages.

9. What is collective bargaining?

Collective bargaining is a procedure through which employee problems relating to various issues including wages are settled through the process of joint consultation, in an atmosphere of 'give and take', trust and mutual confidence.

10. Mention any four factors which are used when deciding executive compensation package.

Four of the factors which are used when deciding executive compensation package are as follows:

- Job related experience
- Training time required
- Frequency of review of work
- Utilization of individual choice

5 marks Questions

1. Write a brief note on objectives of compensation planning.

The most important objective of any pay system is fairness or equity. The term equity has three dimensions.

- A. Internal equity:** This ensures that more difficult jobs are paid more.
- B. External equity:** This ensures that jobs are fairly compensated in comparison to similar jobs in the labour market.
- C. Individual equity:** It ensures equal pay for equal work, i.e., each individual's pay is fair in comparison to others doing the same/similar jobs.

In addition, there are other objectives also. The ultimate goal of compensation administration (the process of managing a company's compensation programme) is to reward desired behaviours and encourage people to do well in their jobs.

Some of the important objectives that are sought to be achieved through effective compensation management are listed below:

- A. Attract talent:** Compensation needs to be high enough to attract talented people. Since many firms compete to hire the services of competent people, the salaries offered must be high enough to motivate them to apply.
- B. Retain talent:** If compensation levels fall below the expectations of employees or are not competitive, employees may quit in frustration.
- C. Ensure equity:** Pay should equal the worth of a job. Similar jobs should get similar pay. Likewise, more qualified people should get better wages.
- D. New and desired behaviour:** Pay should reward loyalty, commitment, experience, risks taking, initiative and other desired behaviours. Where the company fails to reward such behaviours, employees may go in search of greener pastures outside.
- E. Control costs:** The cost of hiring people should not be too high. Effective compensation management ensures that workers are neither overpaid nor underpaid.
- F. Comply with legal rules:** Compensation programmes must invariably satisfy governmental rules regarding minimum wages, bonus, allowances, benefits, etc.
- G. Ease of operation:** The compensation management system should be easy to understand and operate. Then only will it promote understanding regarding pay-related matters between employees, unions and managers.

2. What is base compensation? What are the objectives and principles of wage and salary administration?

Base compensation: It refers to monetary payments to employees in the form of wages and salaries.

Objectives: A sound plan of compensation administration seeks to achieve the following objectives:

- A. To establish a fair and equitable remuneration offering similar pay for similar work.
- B. To attract qualified and competent personnel.
- C. To retain the present employees by keeping wage levels in tune with competing units.
- D. To control labour and administrative costs in line with the ability of the organisation to pay.
- E. To improve motivation and morale of employees and to improve union-management relations.
- F. To project a good image of the company and to comply with legal needs relating to wages and salaries.

Principles of Wage and Salary Administration

There are several principles of wage and salary plans and practices. The important ones among them are:

1. Wage and salary plans should be sufficiently flexible.
 2. Job evaluation must be done scientifically.
 3. Wage and salary administration plans must always be consistent with overall organisational plans and programmes.
 4. Wage and salary administration plans and programmes should be in conformity with the social and economic objectives of the country like attainment of equality in income distribution and controlling inflationary trends.
 5. Wage and salary administration plans and programmes should be responsive to the changing local and national conditions.
 6. These plans should simplify and expedite other administrative processes.
- ## **3. Define 'wages' and 'salaries'. Summarize the elements of wage and salary system as identified by Henderson.**

Wages: It implies remuneration to workers doing manual work.

Salaries: It is usually defined to mean compensation to office, managerial, technical and professional staff.

Henderson identified the following elements of a wage and salary system:

- A. Identifying the available salary opportunities, their costs, estimating the worth of its members, of their salary opportunities and communicating them to employees.
- B. Relating salary to needs and goals.
- C. Developing quality, quantity and time standards related to work and goals.
- D. Determining the effort necessary to achieve standards.
- E. Measuring the actual performance.
- F. Comparing the performance with the salary received.
- G. Measuring the job satisfaction of the employees.
- H. Evaluating the unsatisfied wants and unrealised goals aspirations of the employees.
- I. Finding out the dissatisfaction arising from unfulfilled needs and unattained goals.
- J. Adjusting the salary levels accordingly with a view to enabling the employees to reach unreach goals and fulfilled needs and aspiration.

4. Write an essay on factors influencing compensation levels.

Factors influencing compensation levels

- A. Job needs:** Jobs vary greatly in their difficulty, complexity and challenge. Some need high levels of skills and knowledge while others can be handled by almost anyone. Simple, routine tasks that can be done by many people with minimal 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.
- B. Ability to pay:** Projects determine the paying capacity of a firm. High profit levels enable companies to pay higher wages. This partly explains why computer software industry pays better salaries than commodity based industries (steel, cement, aluminium, etc.). Likewise, multinational companies also pay relatively high salaries due to their earning power.
- C. Cost of living:** Inflation reduces the purchasing power of employees. To overcome this, unions and workers prefer to link wages to the cost of living index. When the index rises due to rising prices, wages follow suit.

D. Prevailing wage rates: Prevailing wage rates in competing firms within an industry are taken into account while fixing wages. A company that does not pay comparable wages may find it difficult to attract and retain talent.

E. Unions: Highly unionized sectors generally have higher wages because well organised unions can exert pressure on management and obtain all sorts of benefits and concessions to workers.

F. Productivity: This is the current trend in most private sector companies when workers' wages are linked to their productivity levels. If your job performance is good, you get good wages. A sick bank, for example, can't hope to pay competitive wages, in tune with profit making banks.

G. State regulation: The legal stipulations in respect of minimum wages, bonus, dearness allowance, allowances, etc., determine the wage structure in an industry.

Demand and supply of labour: The demand for and the supply of certain skills determine prevailing wage rates. High demand for software professionals, R&D professionals in drug industry, telecom and electronics engineers, financial analysts, management consultants ensures higher wages. Oversupply kills demand for a certain category of employees leading to a steep fall in their wages as well.

5. Explain the concept of bonus. What are the important features of Payment of Bonus Act 1965?

Bonus: It is an extra payment to the workers beyond the normal wage.

The Payment of Bonus Act, 1965

The Act defines an employee who is covered by it as one earning Rs 2,500 p.m. (w.e.f. 1.4.93) basic plus dearness allowance and specifies the formula for calculating the allocable surplus from which bonus is to be distributed. The minimum bonus to be paid has been raised from 4 per cent to 8.33 per cent (w.e.f. 25.9.75) and is sought to be linked to increased productivity in recent times. Through collective bargaining, the workers, through their representative union, can negotiate for more than what the Act provides and get the same ratified by the government, if necessary. In the absence of such a process, the Act makes it mandatory to pay bonus to employees (who have worked in the unit for not less than 30 working days in a year) following a prescribed formula for calculating the available surplus. The available surplus is normally the gross profits for that year after deducting depreciation, development rebate/investment allowance/development allowance, direct tax and other sums referred to in Sec. 6. The Act applies to every factory or establishment in which 20 or more persons are employed in an accounting year. Currently the position is such that even if there is a loss, a minimum bonus needs to be paid treating the same as deficit to be carried forward and set off

against profits in subsequent years (Sec. 15). The Act is proposed to be changed since the amount of bonus, the formula for calculating surplus, and the set off provisions have all been under serious attack from various quarters.

6. Explain any three options which a firm should consider while designing a compensation system.

The compensation system that is followed by a firm should be in tune with its own unique character and culture and allow the firm to achieve its strategic objectives. A wide variety of options confront a firm while designing such a system.

- A. Internal and external pay:** Pay equity, as stated previously, is achieved when the compensation received is equal to the value of the work done. Compensation policies are internally equitable when employees believe that the wage rates for their jobs approximate the job's worth to the organisation. Perceptions of external equity exist when the firm pays wages that are relatively equal to what other firms are paying for similar types of work.
- B. Fixed vs. variable pay:** Now-a-days variable pay programmes are widely followed throughout many organisations and for all levels of employees. Widespread use of various incentive plans, team bonuses, profit sharing programmes have been implemented with a view to link growth in compensation to results. Of course, while using variable pay systems, management must look into two issues carefully: *Should performance be measured and rewarded based on individual, group or organisational performance?*
- C. Performance vs. membership:** Knowledge-based organisations these days follow a performance-based payment plan offering awards to employees for cost saving suggestions, bonuses for perfect attendance or merit pay based on supervisory appraisals. 3 M's encouragement of innovation through this route, for example, has paid off in what has become a legend in the field of product development (one of its chemists developed the immensely popular product 'Post-it' when 3M gave time for the employee and announced a handsome bonus for the final result. Most organisations, however, still pay their employees based on the number of hours of work per week coupled with certain benefits for serving the company loyally for a particular period.

Unit: 3 Incentives and Employee Benefits

1 mark Questions

1. What is the significance of wage payment to a worker?

It determines their standard of living, their attitude towards the company and influences their motivation to work.

2. What is the significance of wage payment to an employer?

The significance of wage payment to an employer that it is affected by the total wage bill.

3. When can wage system be called balanced?

When Pay, benefits and other rewards should offer a reasonable total compensation package it is called a balanced wage system.

4. What is meant by individual incentives?

Individual Incentives offered to reward the effort and performance of individuals.

5. What is meant by group incentives?

Group or team incentive plans reward team members with an incentive bonus when agreed upon standards are met or exceeded.

6. Name that wage system where the worker is paid on the basis of time spent on the work?

Time wage system where the worker is paid on the basis of time spent on the work.

7. Name that wage system which recognizes efficiency?

Piece rate system recognizes efficiency.

8. What is merit pay?

Merit pay is a reward based on how well an employee has done the assigned job.

9. Define 'fringe benefits'.

The term 'fringe benefits' refers to the extra benefits provided to employees in addition to the normal compensation paid in the form of wage or salary.

10. Mention two health benefits in the context of fringe benefits.

Sickness benefits, Maternity benefits are two health benefits in the context of fringe benefits.

2 marks questions

1. Mention any four features of an ideal system of wage payment.

Simple, Beneficial, Equitable, Guaranteed minimum wage.

2. Mention any two methods of wage payment.

Time wage system, Piece rate system.

3. Write two advantages of piece rate system.

- It provides encouragement for higher production by rewarding efficient workers in a suitable way.
- Since wage rate is fixed per unit, it is easy to prepare quotations, estimates and budgets.

4. Write two disadvantages of piece rate system.

- Quantity will be over-emphasized at the cost of quality unless close supervision is maintained.
- Piece rates are unsuitable in circumstances where work is intermittent and job cannot be standardized.

5. State two most important features of a sound incentive plan.

- Minimum wages are guaranteed to all workers.
- Incentives by way of bonus, etc., are offered to efficient workers for the time saved.

6. Under what circumstances merit plans can work successfully?

Merit plans can work in cases where the job is well designed and the performance criteria are both well delineated and assessable.

7. Give two examples of indirect workers.

Repairs and maintenance staff, store staff are example of indirect workers.

8. What is the rationale behind providing incentives to indirect workers?

Payment of bonus to indirect workers creates team spirit and they work with zeal and enthusiasm. It also helps in maintaining the efficiency of important services like plant repairs, stores maintenance, materials handling, etc.

9. List two important considerations while introducing incentive schemes to indirect workers.

Introducing incentive schemes to indirect workers, the following points should be kept in mind: (i) The scheme should achieve all-round efficiency in the organization, (ii) It should be provided for a specific period, say a week, a month, etc.

10. State two important features of fringe benefits.

- They are supplementary forms of compensation.
- They are paid to all employees (unlike incentives which are paid to specific employees whose work is above standard) based on their membership in the organisation.

5 marks questions

1. Briefly describe merit pay with its advantages and disadvantages.

Advantages of merit pay

- When high achievers are rewarded, they set the benchmarks for others to follow. Merit raises, unfortunately, may not always achieve their intended purpose. Unlike a bonus, merit raise may be perpetuated year after year even when performance declines. When this takes place, employees come to expect the increase and see it as being unrelated to their performance.
- Evaluating merit, further, is not easy. In most cases, merit raises may be based on seniority or favoritisms or sometimes just to cover rising inflationary pressures.
- Subordinates who are politically, socially and familiarly connected inside and outside the organisation, who have clout and who can hurt the supervisor in some way are likely to receive a larger share of the merit pie than their performance may warrant.

Disadvantages of merit pay

- Tying pay to goals may force people to be narrow-minded; they may focus on goals that are measurable, easy to achieve and avoid the more important goals.
- It is difficult to define and measure performance objectively
- Employees fail to make the connection between pay and performance
- Every supervisor may not be a competent evaluator

- There may be lack of honesty and cooperation between management and employees. Politics may come to play a major role in recognising meritorious performers.
- The size of merit award has little effect on performance.

2. Write a brief note on successes and failures of incentives of plans.

One important advantage of incentive plans is that they motivate employees to show superior performance. Employees are induced to produce more and earn more. Increased earnings would help employees to improve their standard of living. The other benefits of incentive plans are better utilisation of equipment, reduced supervision, reduced scrap, reduced lost time, reduced absenteeism and turnover. All these would, in the end, result in the reduction of total as well as unit cost of production.

The research evidence regarding the impact of incentive plans on individual as well as organisational performance is somewhat mixed. In an attempt to produce more, employees may sacrifice quality, put resources to extravagant use and rush up everything leading to increased accidents. Employees often have inflated ideas about their performance levels, which translate to unrealistic expectations about rewards as well. When they fail to receive appropriate performance ratings, they do not hesitate to turn the tables against management. In the end, many employees may feel that their rewards are not closely linked to their performance. Again, many PFP systems have failed because the performance measure that was rewarded was not related to the performance objectives of the entire organisation as a whole and to those aspects of performance that were most important to the organisation. Again PFP systems can be expensive to develop and maintain. The cost of establishing standards, rates, outlining a set of procedures to be followed at various levels etc. may be quite prohibitive.

3. What are the features of team based plans? What are its disadvantages? Under what circumstances it can work well?

The features of team based plans, Team based incentive plans reward all team members equally based on overall performance of the team members. Performance is evaluated using an objective standard. As in individual plans, payments to team members may be made in the form of cash bonus or in the form of non-cash rewards such as pleasure trips, time off or luxury items. Team based incentives foster cohesiveness among team members. They can motivate group members to behave and think as a unit rather than as competing individuals.

Also it is easy to measure the overall performance of the entire team (rather than contributions of each member of the team).

- However, complaints of unfairness are inevitable in a group situation where all team members may not contribute in equal measure. Imagine what would happen to a class where all students get the same grade. Tying the performance of those who contribute little (free riders) and those who turn out exceptional performance to a common yardstick may itself become a bone of contention between team members. Problems could also crop up when a person becomes a member of more than one team, contributing differently on various occasions depending on the level of difficulty in each assignment. Where team members change frequently, rewarding in an equitable way may be difficult. Finally, intergroup competition may come in the way of improving overall performance through cooperative efforts. A team may become so focused on maximising its own performance that it ends up competing with other teams - often with negative consequences.

Team-based incentive plans, as research evidence indicates, seem to work best when the following criteria are present.

- When employees are committed to their work and are intrinsically motivated
- Where it is possible to separate organisational work into self-contained, independent groups.
- Where there are few levels in the hierarchy and teams of individuals at the same level are expected to complete most of their work with little dependence on supervisors or upper management.
- Where work tasks are so interconnected that it is not easy to single out who did what.

4. Write a short note on an organization wide incentive plan.

Organisation wide incentive plans reward employees on the basis of the success of the organisation over a specified time period. These plans seek to promote a 'culture of ownership' by developing a sense of belongingness, cooperation and teamwork among all employees. There are three basic types of organisation-wide incentive plans: profit sharing, gain sharing and employee stock ownership plans.

Profit Sharing: Profit sharing is a scheme whereby employers undertake to pay a particular portion of net profits to their employees on compliance with certain service conditions and qualifications. The purpose of introducing profit sharing schemes has been mainly to

strengthen the loyalty of employees to the firm by offering them an annual bonus (over and above normal wages) provided they are on the service rolls of the firm for a definite period. The share of profit of the worker may be given in cash or in the form of shares in the company. These shares are called bonus shares. In India, the share of the worker is governed by the Payment of Bonus Act.

Gain Sharing: A gain sharing plan aims at increasing productivity or decreasing labour costs and sharing the resultant gains (usually a lump sum payment) with employees. It is based on a mathematical formula that compares a baseline of performance with actual productivity during a given period. When productivity exceeds the base line an agreed-upon savings is shared with employees. Gain sharing is built around the idea that involved employees will improve productivity through more effective use of organisational resources. Three major types of gain sharing plans are currently in use: Scanlon Plan, Rucker, Plan, and Improshare. Improshare stands for improved productivity through sharing. This plan is similar to a piece rate except that it rewards all employees in an organisation.

Employees Stock Ownership Plans: Under employee stock option plan, the eligible employees are allotted company's shares below the market price. The term stock option implies the right of an eligible employee to purchase a certain amount of stock in future at an agreed price. The eligibility criteria may include length of service, contribution to the department/division where the employee works, etc. The company may even permit employees to pay the price of the stock allotted to them in instalments or even advance money to be recovered from their salary every month. The allotted shares are generally held in trust and transferred to the name of the employee whenever he or she decides to exercise the option.

5. Briefly explain any of the following incentive plan, Profit sharing plan, gain sharing plan, and employee stock ownership plan.

Profit Sharing: Profit sharing is a scheme whereby employers undertake to pay a particular portion of net profits to their employees on compliance with certain service conditions and qualifications. The purpose of introducing profit sharing schemes has been mainly to strengthen the loyalty of employees to the firm by offering them an annual bonus (over and above normal wages) provided they are on the service rolls of the firm for a definite period. The share of profit of the worker may be given in cash or in the form of shares in the company.

Gain Sharing: A gain sharing plan aims at increasing productivity or decreasing labour costs and sharing the resultant gains (usually a lump sum payment) with employees. It is based on a mathematical formula that compares a baseline of performance with actual productivity during a given period. When productivity exceeds the base line an agreed-upon savings is shared with employees. Gain sharing is built around the idea that involved employees will improve productivity through more effective use of organisational resources. Three major types of gain sharing plans are currently in use: Scanlon Plan, Rucker, Plan, and Improshare. Improshare stands for improved productivity through sharing. This plan is similar to a piece rate except that it rewards all employees in an organisation. Input is measured in hours and output in physical units. A standard is calculated and weekly bonuses are paid based on the extent to which the standard is exceeded.

Employees Stock Ownership Plans: Under employee stock option plan, the eligible employees are allotted company's shares below the market price. The term stock option implies the right of an eligible employee to purchase a certain amount of stock in future at an agreed price. The eligibility criteria may include length of service, contribution to the department/division where the employee works, etc. The company may even permit employees to pay the price of the stock allotted to them in instalments or even advance money to be recovered from their salary every month. The allotted shares are generally held in trust and transferred to the name of the employee whenever he or she decides to exercise the option. The stock option empowers the employee to participate in the growth of the company as a part owner.

6. Summarize the following:

A. Need for fringe benefit:

Most organisations in India have been extending fringe benefits to their employees, year after year, due to the following reasons:

- **Employee demands:** Employees demand more and varied types of fringe benefits rather than pay hike because of reduction in tax burden on the part of employees and in view of the galloping price index and cost of living.
- **Trade union demands:** Trade unions compete with each other for getting more and newer varieties of fringe benefits to their members. If one union succeeds in getting one benefit, the other union persuades management to provide a new one. Thus, the competition among trade unions within an organisation results in more and varied benefits.

- Employer's preference: Employers also prefer fringe benefits to pay-hike, as fringe benefits motivate employees to give their best to the organisation. It improves morale and works as an effective advertisement.
- As a social security: Social security is a security that society furnishes through appropriate organisation against certain risks to which its members are exposed. These risks are contingencies of life like accidents and occupational diseases/Employer has to provide various benefits like safety measures, compensation in case of involvement of workers in accidents, medical facilities, etc., with a view to provide security to his employees against various contingencies.
- To improve human relations: Human relations are maintained when the employees are satisfied economically, socially and psychologically. Fringe benefits satisfy the worker's economic, social and psychological needs. Consumer stores, credit facilities, canteen, recreational facilities, etc., satisfy the worker's social needs, whereas retirement benefits satisfy some of the psychological problems about the post-retirement life

B. Objectives of fringe benefit:

The important objectives of fringe benefits are:

- To create and improve sound industrial relations.
- To motivate the employees by identifying and satisfying their unsatisfied needs.
- To provide security to the employees against social risks like old age benefits and maternity benefits.
- To protect the health of the employees and to provide safety to the employees against accidents.
- To promote employees' welfare
- To create a sense of belongingness among employees and to retain them. Hence, fringe benefits are called golden handcuffs.
- To meet the requirements of various legislations relating to fringe benefits.

In order to have a sound benefits programme there are certain essential requirements. The programme should be based on specific objectives that are in line with organisational philosophy and policies. It should be affordable and cost-effective. Through surveys and committees, a benefit package can be developed to meet employees' needs.

7. Mention some important fringe benefits by the employer and describe old age and retirement benefits.

The saving capacity of the employees is very low due to lower wages, high living cost and increasing aspirations of the employees and his family members. As such, employers provide some benefits to the employees, after retirement and during old age, with a view to create a feeling of security about the old age. These benefits are called old age and retirement benefits. These benefits include (a) provident fund, (b) pension, (c) deposit linked insurance, (d) gratuity and (e) medical benefit.

Provident fund: This benefit is meant for economic welfare of the employees. The Employee's Provident Fund, Family Pension Fund and Deposit Linked Insurance Act, 1952, provides for the institution of Provident Fund for employees in factories and establishments. Provident Fund Scheme of the Act provides for monetary assistance to the employees and/or their dependants during post retirement' life.

Pension: The Government of India introduced a scheme of Employees Pension Scheme for the purpose of providing Family Pension and Life Insurance benefits to the employees of various establishments to which the Act is applicable. The Act was amended in 1971 when Family Pension Fund was introduced in the Act.

Deposit linked insurance: Employees deposit linked insurance scheme was introduced in 1976 under the EE Act, 1952. Under this scheme, if a member of the Employees Provident fund dies while in service, his dependents will be paid an additional amount equal to the average balance during the last three years in his account.

Gratuity: This is another type of retirement benefit to be provided to an employee either on retirement or at the time of physical disability and to the dependents of the deceased employee. Gratuity is a reward to an employee for his long service with his present employer.

Medical benefit: Some of the large organisations provide medical benefits to their retired employees and their family members. This benefit creates a feeling of permanent attachment with the organisation to the employees even when they are no longer in service. Fringe benefits are one of the means to ensure, maintain and increase the material welfare of employees.

Unit: 4 Collective Bargaining

1 mark Questions

1. What is meant by collective bargaining?

Collective bargaining is a procedure by which the terms and conditions of workers are regulated by agreements between their bargaining agents and employers.

2. What is the underlying idea of collective bargaining?

The underlying idea of collective bargaining is that the employer and employee relations should not be decided unilaterally or with the intervention of any third party.

3. Highlight and explain one of the features of collective bargaining.

Strength: Across the table, both parties bargain from a position of equal strength. In collective bargaining, the bargaining strength of both parties is equal. It is industrial democracy at work.

4. Traditionally what have been the primary focus areas of collective bargaining?

Wages and working conditions have been the primary focus areas of collective bargaining.

5. State the first two steps of collective bargaining.

1. Identification of the problem
2. Collection of data

6. What is meant by bargaining tactics?

Tactics are the specific action plans taken in the bargaining sessions.

7. Mention two popular bargaining tactics.

Conflict based and armed truce two popular bargaining tactics.

8. What is meant by bargaining strategy?

The strategy is the plan and the policies that will be pursued at the bargaining table.

9. What is meant by bargaining zone?

Bargaining zone which area bounded by the limits within the union and employees are willing to concede.

10. Mention two prerequisites for an effective collective bargaining process.

Unanimity among workers, strength of both the parties are prerequisites for an effective collective bargaining process

2 marks Questions

1. Mention any four features of collective bargaining.

Flexible, Strength, Collective, Voluntary are four feature of collective bargaining.

2. Sate any two objective of Collective bargaining.

1. To settle disputes/conflicts relating to wages and working conditions.
2. To protect the interests of workers through collective action.

3. What comprises the subjective matter of bargaining?

Any issue that has relevance to management and workers becomes the subject matter of bargaining.

4. Explain the concept of productivity bargaining.

Workers' wages and benefits are linked to productivity. A standard productivity index is finalized through negotiations initially. Workers do not have to perform at exceptionally high levels to beat the index.

5. What should be the qualities of effective negotiators?

Speaking and debating skills and knowledge important qualities of the negotiators.

6. Differentiate between strategy and tactics.

The strategy is the plan and the policies that will be pursued at the bargaining table. Tactics are the specific action plans taken in the bargaining sessions.

7. What is meant by 'impasse' in collective bargaining?

Impasse is a collective bargaining situation when the parties are not able to overcome their difference, usually because one party is demanding more than the other will offer.

8. How do skill negotiators avoid breakdown in bargaining?

Skilled negotiators as mentioned by Richardson, take charge of the issue through logical presentation, good manners and cool behaviour.

9. How is bargaining agreement formalized?

A formal document must be prepared expressing everything in simple, clear and concise form. After this, both parties must sign the agreement and abide by its term and condition during the entire term of the contract.

10. Write any four areas which constitute the content of labour agreement?

Arbitration, suspension and discharge cases, rate of pay, hours of work content of labour agreement.

5 marks Questions

1. List the bargaining types and explain concept of composite bargaining.

List of bargaining types

- a. *Conjunctive/distributive/bargaining*
- b. *Cooperative bargaining*
- c. *Productivity bargaining*
- d. *Composite bargaining*

Composite bargaining: it is alleged by workers that productivity bargaining agreements have increased their workload. Rationalization, introduction of high technology, and tight productivity norms have made the life of a worker somewhat uneasy. All these steps have started hitting the unions and workers below the belt. As an answer to such problems, labour has come to favour composite bargaining. In this method, labour bargains for wages as usual but goes a step further demanding equity in matters relating to work norms, employment levels, manning standards, environmental hazards, sub-contracting clauses, etc. When unions negotiate manning standards they ensure the workload of workers does not increase, this helps to maintain the status quo as far as employment level is concerned.

In companies like SAIL, Philips, Bata, GKW and even TISCO, workforce reductions have to come if they have to survive in a high-tech environment. The compulsions of a free market economy cannot be put aside just for the sake of maintaining the labour force. It is small wonder despite serious warnings from unions; companies in the recession-hit automobile sector (Hindustan Motors, Premier Automobiles, Maruti, TVS Suzuki, Hero Honda) have either reduced the work force or cut down their benefits.

2. Narrate the steps involved in collective bargaining process

Identification of the problem: The nature of the problem influences whole process. Whether the problem is very important that is to be discussed immediately or it can be postponed for some other convenient time, whether the problem is a minor one so that it can be solved with the other party's acceptance on its presentation and does not need to involve long 'process of collective bargaining process, etc. It also influences selection of representatives, their size, period of negotiations and period of agreement that is reached ultimately. As such it is important for both the parties to be clear about the problem before entering into the negotiations.

Collection of data: Both labour and management initially spend considerable time collecting relevant data relating to grievances, disciplinary actions, transfers and promotions, lay-offs, overtime, former agreements covering wages, benefits, working conditions (internal sources) and current economic forecasts, cost of living trends, wage rates in a region across various occupations, competitive terms offered by rivals in the field etc.

Selection of negotiators: The success of collective bargaining depends on the skills and knowledge of the negotiators. Considerable time should, therefore, be devoted to the selection of negotiators with requisite qualifications. Generally speaking, effective negotiators should have a working knowledge of trade unions principles, operations, economics, psychology, and labour laws. They should be good judges of human nature and be able to get along with people easily. They must know when to listen, when to speak, when to stand their ground, when to concede, when to horse-trade, and when to make counter proposals. Timing is important. Effective speaking and debating skills are essential.

Climate of negotiations: Both parties must decide an appropriate time and set a proper climate for initial negotiations. At this stage the parties must determine whether the tone of the negotiations is going to be one of mutual trust with 'nothing up our sleeves', one of suspicion with lot of distortion and misrepresentation, or one of hostility with a lot of name calling and accusations.

Bargaining strategy and tactics: The strategy is the plan and the policies that will be pursued at the bargaining table. Tactics are the specific action plans taken in the bargaining sessions.

3. Summarize the collective bargaining scenario in India.

In most industrialised economies, company unions and centralised bargaining is giving way to decentralised bargaining carried out at the plant level. Local factors have become more important to unions than political ideology or nation-wide worker solidarity across several industries.

In India also the role of national level federation of unions and employers' organisations is limited in collective bargaining. Strictly speaking, the process is centred around a handful of employers' associations and trade unions. For example, the Confederation of Indian Industry till the early 90s represented the claims of member employers from the Engineering Industry. In traditional industries such as Jute the entrepreneurs themselves conduct the negotiations with unions. In places like Bangalore and Hyderabad unions and employers have preferred to set up joint coordination committees to deal with collective bargaining. In sectors like coal, steel, ports and docks such coordination committees are quite common while carrying out the nation-cum-industry-wide bargaining.

Public sector collective bargaining in India refers to collective bargaining in industrial and commercial undertakings owned by Central and State Governments including those in finance and banking sector. Employees in departmental undertakings (Railways, Post and Telegraphs, etc.) are governed by pay commission awards. The average wages and benefits bargained at the national level for lower level public sector employees were found to be higher when compared to the employees in the organised private sector.

The bargaining process in public sector especially has become quite coercive and demanding so as to appease the claims of different sections of workers having ties with different unions. Due to recession, computerisation, cut-throat competition many large firms have resorted to productivity bargaining to a limited extent and unions had to yield ground owing to their own helplessness in fighting till the end in a fruitless battle. Some of the drastic measures 'mutually agreed' as essential for survival in recession-hit companies (Jaipur Metal and Electricals Ltd, Kamani Tubes, Kirloskar Oil Engines, Bata India Ltd, Philips, Walchandnagar Industries, Metal Box, etc.) included:

- cut in pay and allowances;
- freeze in DA, changes in incentive payments;
- layoff/retrenchment;
- early retirement;
- change in work norms;
- Retraining, relocating, etc.

4. What recommendations were made by national commission on labour on collective bargaining?

In 1969, National Commission on Labour made the following recommendations after considering the problem.

1. Government intervention in industrial relations, particularly in the settlement of industrial disputes, should be reduced gradually to the minimum possible extent. Compulsory adjudication of disputes should be used only as a last resort.
2. Trade unions should be strengthened both organisationally and financially by amending the Trade Union Act of 1926 to make registration of unions compulsory, enhance the union membership fee, reduce the presence of outsiders in the union executive and among the office-bearers and increase the minimum number of members in respect of the union applying for registration.
3. Legal provision may be made either by a separate legislation or by amending an existing enactment for:
 - Compulsory recognition of trade unions and certification of unions as bargaining agents.
 - Prohibition and penalisation of unfair labour practices.
 - Bargaining in good faith by both employers and unions.
 - Conferring legal validity and legitimacy on collective agreements.

There are such provisions in the Maharashtra Recognition of Trade Unions and Prevention of Unfair Labour Practices Act of 1972, but as this Act is applicable only to Maharashtra, there is the need for making such legislation applicable to the whole country.

4. Intensification of worker's education for building up internal union leadership and making workers more knowledgeable and conscious about their rights and obligations. This may help to de-politicise unions and also reduce union rivalry.
5. The idea of one union for one plant or one industry should be popularised and made a reality.
6. The Government should declare its policy to allow and encourage the parties to settle their conflicts and disputes through bipartite consultation and negotiation consistent with public safety and interest of the society in general.