

**MANAGEMENT PROGRAMME**

**Term-End Examination      01543**  
**December, 2011**

**MS-27 : WAGE AND SALARY ADMINISTRATION**

*Time : 3 hours*

*Maximum Marks : 100*  
*(Weightage 70%)*

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*Note :*

- (i) There are two Sections A and B.*
  - (ii) Attempt any three questions from Section-A.*  
*All questions carry 20 marks each.*
  - (iii) Section-B is compulsory and carries 40 marks.*
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**SECTION - A**

1. What are the micro level considerations for evolving a compensation policy ? Explain with suitable examples.
2. Explain the purpose and applicability of the payment of Wages Act, 1936. Discuss the deductions authorised under the Act with suitable examples.
3. Explain the concepts of Basic wage, Dearness Allowance and Fringe benefits. Discuss the need and purpose of allowances and fringe benefits to be given to the employees. /

4. Explain various types of incentives. Discuss *the* prerequisites of an effective incentive scheme *citing* suitable examples.
  
5. Write short notes on *any three* of the following :
  - (a) Stock options
  - (b) Executive compensation
  - (c) Pay surveys
  - (d) The marginal productivity theory
  - (e) Employee's Deposit-linked Insurance scheme.

## SECTION - B

6. Read the following case and answer the Questions given at the end.

The National Manufacturing Company reached an agreement with its Union on a production incentive scheme to increase production. The company had an unprecedented demand for its goods and the Union agreed for the incentive scheme. The management was pleased with the assurance of the Union leader to personally undertake the task of implementing the scheme. The management promised to give him a free hand if he could increase the production.

The Union did increase production to almost double the original level. As a result the Union gained importance. Any problem could be sorted out by the Union by its direct access to the chief executive. The management staff as a result became wary of its interaction with the Union. Non-members of Union were discriminated by the union. Its members could get special favours like disposal of their grievances, promotions, and so on.

The incentive scheme benefitted primarily the Union members. The scheme' was inequitable as some workers got disproportionately large incentives, some low and some no incentive at all. The second feature was that as the incentive was linked to the Consumer Price Index (CPI) the distortion got further accentuated. However, when the Union tried to misuse its new found powers the management struck back one day by taking disciplinary actions against all the leaders

and the union found all of a sudden that it was without a leader.

Another Union arrived on the scene and the leader had established a rapport with the chief executive and this new Union faithfully followed the tenets of the management but as a price extracted some benefits for its members exclusively. It had a say on all aspects of the management function like recruitment, selection, transfers, job classification, and so on. In return the Union saw to it that production became its exclusive responsibility and it had a hot line with the chief executive for any problem resolution. Again the management became wary that their path should not cross the path of the Union resulting in a confrontation.

As the years passed, the Union started agitating for improvement in the wage scales. Because of the incentive scheme, the company found that any improvement in the basic wage would pose greater problems and the primary question before the management was to delink the CPI from the incentive scheme. The Union refused to delink the CPI from the incentive scheme as some of its members were earning an amount equal to, if not more than, the salary as an incentive itself. At the same time workmen with no incentive and being grade barred began to lose. And this resulted in discontentment amongst the workmen. But the dilemma could not be resolved and this led to an explosive situation.

A third Union emerged on the scene and this led to intense inter-Union rivalry resulting in

indiscipline, loss of production, and violence within the factory premises, as a result of which the company declared a lockout.

When the plant reopened after four months, the Union in power lost its credibility and the new Union had the complete support of the workmen. In the meanwhile, the new HR Manager who joined the company during this period of strife found that a new approach to deal with the problem was very helpful. Normally in discipline and production seemed to return when a realistic approach of meeting the workmen for resolving problems and difficulties was made by HR Manager and the Plant Manager. Simultaneously contact with workmen led to the formation of committees to look after various matters relating to the canteen, working conditions, and welfare functions. The management also withdrew at the instance of the HR Manager, charge-sheets which were in force for over two to three years. The abuse of discretion by the old Union leaders was also rectified. This had an immediate effect and the workmen responded favourably and they even, admitted that there was somebody to look into the problems of the workmen.

The new Union leaders was happy that the management could develop a rapport not only with the leader but even the workmen and hoped that it could expect the management to rectify the defect of not having revised the wage scales. But this was not an easy task as there were a lot of inequalities that the management wanted to set right.

The Union, though agreeing with the management, would not agree for a cut in the wages in any manner to set right the inequalities. The Union not only wanted to cling to the beneficial aspects of the incentive scheme but also insisted that the management somehow give an increase in the basic wages. The management was being drawn into a vicious circle of the incentive scheme being inequitable, but when the Union's attention was being brought to the high incentive categories it reverted to the low basic wage theme. The management remained in a quandry as regards how to convince the workmen, to win over the constituency of workmen, and make managers effective and regain supremacy in production.

**Questions :**

- (a) Identify the problems and their causes in the case.
  - (b) Under the given situation, how are the problems to be remedied ?
  - (c) As a human resource manager, how do you deal with this case, especially then the Union is demanding a settlement ?
  - (d) Suggest various principles and strategies the management has to keep in mind while formulating a wage incentive scheme for the employees.
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