

Introduction

Compensation is what employees receive in exchange for their contribution to the organisation. Generally, employees offer their services for three types of rewards. Pay refers to the base wages and salaries employees normally receive. Compensation forms such as bonuses, commissions and profit sharing plans are incentives designed to encourage employees to produce results beyond normal expectation. Benefits such as insurance, medical, recreational, retirement, etc., represent a more indirect type of compensation. So, the term compensation is a comprehensive one including pay, incentives, and benefits offered by employers for hiring the services of employees. In addition to these, managers have to observe legal formalities that offer physical as well as financial security to employees. All these issues play an important role in any HR department's efforts to obtain, maintain and retain an effective workforce.

Nature of Compensation

Compensation offered by an organisation can come both directly through base pay and variable pay and indirectly through benefits.

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

Objectives of Compensation Planning

The most important objective of any pay system is fairness or equity. The term equity has three dimensions².

- 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.

- **Comply with legal rules:** Compensation programmes must invariably satisfy governmental rules regarding minimum wages, bonus, allowances, benefits, etc.
- **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.

Equity and Pay Rates

The need for equity is the most important factor in determining pay rates. This is achieved through the following steps:³

- Find the worth of each job through job evaluation.
- Conduct a salary survey to find what other employers are paying for comparable jobs.
- Group similar jobs into pay grades.
- Price each pay grade by using wage curves.
- Fine tune pay rates.

Job Evaluation

Job analysis offers valuable information for developing a compensation system in terms of what duties and responsibilities need to be undertaken. The worth of a job to the organisation is as ascertained through job evaluation. Since the whole process is largely subjective, a committee is appointed to collect information and come up with a hierarchy of jobs according to their value. The evaluation is done through the use of market pricing or through the use of ranking, point or factor comparison methods.

Wage and Salary Surveys

While job evaluation ensures internal equity, wage and salary surveys ensure external equity. A wage and salary survey provides information as to what other organisations that compete for employees are paying. The survey could cover all the jobs within an organisation (obviously costly and hence avoided) or limited to benchmark jobs, jobs that are used to anchor the company's pay scale and around which other jobs are slotted based on their relative worth to the firm. The benchmark jobs have the following basic characteristics:⁴

- Many workers in other companies have these jobs.
- They will not be changing in the immediate future in terms of tasks, responsibilities, etc.
- They represent the full range in terms of salary such that some are among the lowest paid in the group of jobs, others are in the middle range and some are at the high end of the pay scale.

Formal and informal surveys (through telephone, for example) could be undertaken to collect data on benefits like insurance, medical leave, vacation pay, etc., and so offer a basis on which to take decisions regarding employee benefits. Published sources also provide valuable information regarding industry-wise trends in salary structures in and around the country. The published sources in India include:

- Reports published by the Ministry of Labour.
- Pay commission reports.
- Reports of Wage Boards appointed by Government.
- Reports of employees and employers' organisations.
- Trade journals of specific industry groups, etc.

One of the major problems with these sources is the comparability of jobs in the survey to jobs in the organisation. To overcome the limitations of published surveys, conduct your own surveys of important jobs. The following survey methods are generally used to collect relevant wage-related information:

- **Key job matching:** Under this method, similar key jobs are identified between the organisations and the relevant wage particulars about those comparable jobs are collected.
- **Key class matching:** Similar classes of jobs are identified and the necessary data about those classes are collected.
- **Occupational method:** Certain basic occupational groups like clerks, officers managers are identified and then the necessary data is collected.
- **Job evaluation method:** All the parties participating in the survey method, use the same method and same mechanism for evaluating similar jobs.
- **Broad classification method:** Under this method, broad groups of relatively homogeneous jobs, i.e., by industry, by profession or by geographical area are grouped and the relevant information about these jobs is collected.

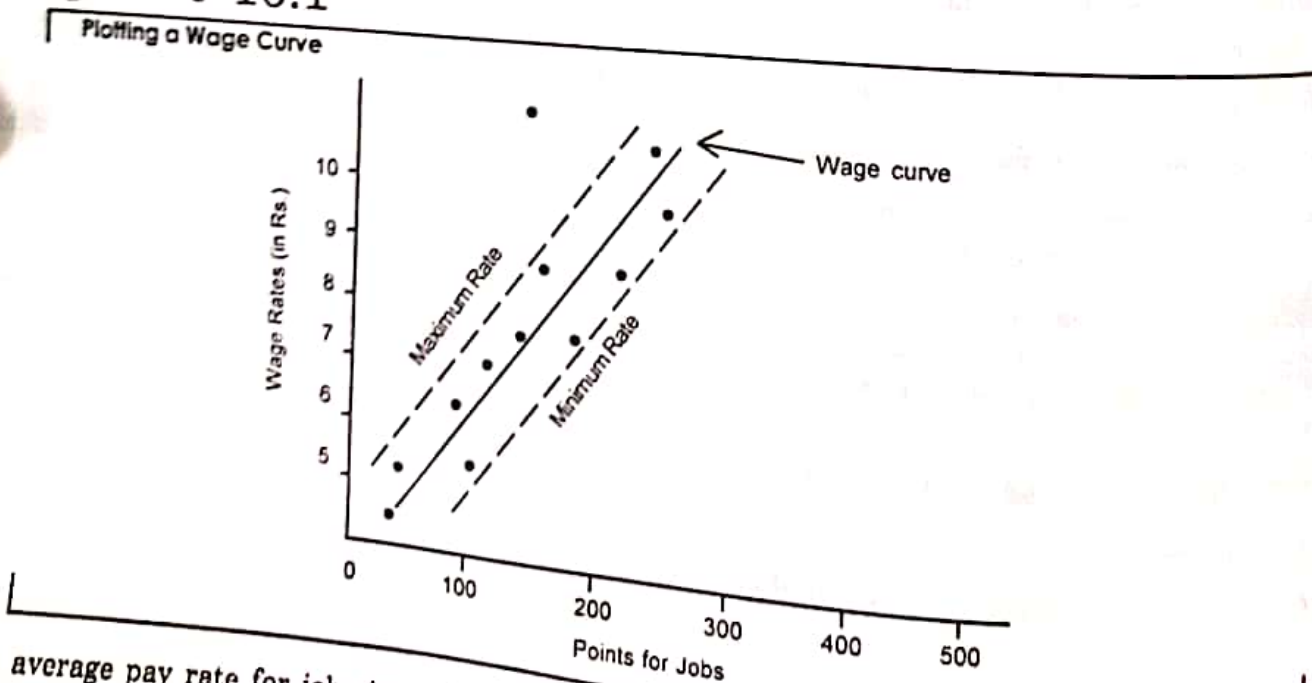
Group Similar Jobs into Pay Grades

In this step, similar jobs (in terms of their ranking or number points as ascertained by the job evaluation committee) are grouped into grades for pay purposes. The organisation can now focus on, say 10 to 12 pay grades, instead of hundreds of pay rates. A pay grade consists of jobs of approximately equal difficulty or importance as determined by job evaluation. If the point method is used, the pay grade consists of jobs falling within a range of points. Ten to sixteen grades per job cluster (factory jobs, clerical jobs) is common.

Price each Pay Grade – Wage Curves

In the next step, pay rates are assigned to pay grades through a wage curve. The wage curve shows graphically the pay rates currently paid for jobs in each pay grade relative to the points or rankings given to each job or grade, as depicted in Figure 16.1 below:

figure 16.1



the average pay rate for jobs in each grade [Grade I = 0-50 points, Grade II = 50-100 points, Grade III = 100-150 points] are plotted and the wage curve fitted in.)

A completed wage curve tells management the average relationship between the pay grade points and wage rates. It will show which pay is out of the trend line. If a job's pay rate is very high – where the current rates paid by the company fall well above or below the wage line – those wage rates are identified as 'red circle' rates. This only means that pay is frozen or below average increases are granted until the structure is adjusted upward to place the circled rate within a normal range.

Fine Tune Pay Rates and Determine Wage Structure

Here the employees fix a pay range for each grade (Officer Grade I, II and III, for example, in Banking industry). The wage structure of a company is nothing but a pay scale showing ranges of pay within each grade.

Components of Pay Structure in India

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

Wages

In India, different Acts include different items under wages, though all the Acts include basic wage and dearness allowance under the term wages. Under the Workmen's Compensation Act, 1923, "wages for leave period, holiday pay, overtime pay, bonus, attendance bonus, and good conduct bonus" form part of wages.

Under the Payment of Wages Act, 1936, Section 2 (vi), "any award of settlement and production bonus, if paid, constitutes wages."

Under the Payment of Wages Act, 1948, "retrenchment compensation, payment in lieu of notice and gratuity payable on discharge constitute wages."

However, the following types of remuneration, if paid, do not amount to wages under any of the Acts:

- i. Bonus or other payments under a profit-sharing scheme which do not form a part of contract of employment.
- ii. Value of any house accommodation, supply of light, water, medical attendance, travelling allowance, or payment in lieu thereof or any other concession.
- iii. Any sum paid to defray special expenses entailed by the nature of the employment of a workman.
- iv. Any contribution to pension, provident fund, or a scheme of social security and social insurance benefits.
- v. Any other amenity or service excluded from the computation of wages by general or special order of an appropriate governmental authority.

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. The wage structure in India may be examined broadly under the following heads:

Basic Wage

The basic wage in India corresponds with what has been recommended by the Fair Wages Committee (1948) and the 15th Indian Labour Conference (1957). The various awards by wage tribunals, wage boards, pay commission reports and job evaluations also serve as guiding principles in determining 'basic wage'. While deciding the basic wage, the following criteria may be considered: (i) Skill needs of the job; (ii) Experience needed; (iii) Difficulty of work: mental as well as physical; (iv) Training needed; (v) Responsibilities involved; (vi) Hazardous nature of job.

✓ Dearness Allowance (DA)

It is the allowance paid to employees in order to enable them to face the increasing dearness of essential commodities. It serves as a cushion, a sort of insurance against increase in price levels of commodities. Instead of increasing wages every time there is a rise in price levels, DA is paid to neutralise the effects of inflation; when prices go down, DA can always be reduced. This has, however, remained a hypothetical situation as prices never come down to necessitate a cut in dearness allowance payable to employees.

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

- **All India consumer price index (AICPI):** The Labour Bureau, Shimla, computes the AICPI (Base 1960 = 100 points) from time to time.
- **Time factor:** In this case DA is linked to the rise in the All India Consumer Price Index (AICPI) in a related period, instead of linking it to fortnightly or monthly fluctuations in index.
- **Point factor:** Here DA rises in line with a rise in the number of index points above a specific level.
- **Other allowances:** The list of allowances granted by employers in India has been expanding, thanks to the increasing competition in the job market and the growing awareness on the part of employees. An illustrative list of allowances is furnished in Table 16.1 below:

Table 16.1

List of Allowances in the Organised Sector in India

- | | | |
|----------------------|------------------|-------------|
| • Attendance | • Night shift | • Tiffin |
| • Books | • Overtime | • Transport |
| • Car | • Paternity | • Telephone |
| • Card (Credit card) | • Pension | • Uniform |
| • City Compensatory | • Provident Fund | |
| • Club Membership | • Relocation | |
| • Computer | • Servant | |
| • Deputation | | |
| • Driver | | |
| • Education | | |
| • ESIS | | |
| • Family | | |
| • Group Insurance | | |
| • Leave Travel | | |
| • Lunch | | |
| • Medical | | |

✓ Wage and Salary Administration

Employee compensation may be classified into two types – base compensation and supplementary compensation. Base compensation refers to monetary payments to employees in the form of wages and salaries. The term 'wages' implies remuneration to workers doing manual work. The term 'salaries' is usually defined to mean compensation to office, managerial, technical and professional staff. The distinction, however, is rarely observed in actual practice. Base compensation, it should be noted here, is a fixed and non-incentive payment on the basis of time spent by an employee on the job. Supplementary compensation signifies incentive payments based on actual performance of an employee or a group of employees. The term 'compensation administration' or wage and salary administration denotes the process of managing a company's compensation programme. The goals of compensation administration are to design a cost-effective pay structure that will attract, motivate and retain competent employees.

Objectives

- A sound plan of compensation administration seeks to achieve the following objectives:
- ✓ To establish a fair and equitable remuneration offering similar pay for similar work.
 - ✓ To attract qualified and competent personnel.
 - ✓ To retain the present employees by keeping wage levels in tune with competing units.
 - ✓ To control labour and administrative costs in line with the ability of the organisation to pay.
 - ✓ To improve motivation and morale of employees and to improve union-management relations.
 - ✓ 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.

The Elements of Wage and Salary System

Wage and salary systems should have a relationship with the performance, satisfaction and attainment of goals of an individual. Henderson identified the following elements of a wage and salary system:

- ✓ 1. Identifying the available salary opportunities, their costs, estimating the worth of its members, of their salary opportunities and communicating them to employees.
- ✓ 2. Relating salary to needs and goals.
- ✓ 3. Developing quality, quantity and time standards related to work and goals.
- ✓ 4. Determining the effort necessary to achieve standards.
- ✓ 5. Measuring the actual performance.
- ✓ 6. Comparing the performance with the salary received.
- ✓ 7. Measuring the job satisfaction of the employees.
- ✓ 8. Evaluating the unsatisfied wants and unrealised goals aspirations of the employees.
- ✓ 9. Finding out the dissatisfaction arising from unfulfilled needs and unattained goals.
- ✓ 10. Adjusting the salary levels accordingly with a view to enabling the employees to reach unreach goals and fulfil the unfulfilled needs and aspirations.

Factors Influencing Compensation Levels

The amount of compensation received by an employee should reflect the effort put in by the employee, the degree of difficulty experienced while expending his energies, the competitive rates offered by others in the industry and the demand-supply position within the country, etc. These are discussed below.

- 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.
 - 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.
 - 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.
 - 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.
 - Unions:** Highly unionised sectors generally have higher wages because well organised unions can exert presence on management and obtain all sorts of benefits and concessions to workers.
 - 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.
 - 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.
- Most employers, nowadays, are interested in paying a fair wage to all workers which is neither very high (affecting the company's profitability) nor very low (where attracting and retaining people becomes difficult).

16.1

Average Annual Earnings of Workers Employed in Manufacturing Industries

Particulars	1998	1999	2000
1. Number of employees ('000)	432	239	253
2. Total wage bill (Rs. in lacs)	62892	44437	60521
3. Average annual earnings (Rs)	14533	18582	23910

Source: Pocket Book of Labour Statistics, 2004.

Introduction

Economists have traditionally identified four factors of production, viz, land, labour, capital and organisation. The role of labour as a factor of production is becoming increasingly important in the modern society. Capital and natural resource endowments, no doubt, are vital elements in the production process but it is labour which contributes most to the wealth of a company. "Human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organisations and carry forward national development". Growing industrialisation and the rapid expansion of the services sector resulted in the galloping demand for skilled labour after 50s. The emergence of the concept of human relations, human resource management and human resource development contributed to the growing importance of labour. The issue of industrial relations arose from the issue of divorce of the workers from the ownership and management of the production process. This has brought about a sense of deprivation and loss of independence on the part of workers and is probably the primary cause of industrial disputes. Industrial work has drastically reduced the independence of workers and made them mere cogs in the machine – a kind of 'second class citizens'. The disciplinary rules for work have become quite harsh and arbitrary. The heterogeneous nature of workers, illiteracy and politicisation of trade unions made it impossible for the workers to bargain for their rights unitedly. All these factors have led to growing unrest among the ranks of workers.¹

Industrial Relations

The term 'industrial relations' refers to relationships between management and labour or among employees and their organisations that characterise or grow out of employment. Theoretically speaking, there are two parties in the 'employment' relationship – labour and management. Both parties need to work in a spirit of cooperation, adjustment and accommodation. In their own mutual interest certain rules for co-existence are formed and adhered to. Over the years, the State has also come to play a major role in industrial relations – one, as an initiator of policies and the other, as an employer by setting up an extremely large public sector.

The term 'industrial relations' has been defined by different authors in different ways. Dale Yoder defined it as "a relationship between management and employees or among employees and their organisations, that characterise and grow out of employment".²

According to R A Lester, industrial relations "involve attempts to have workable solutions between conflicting objectives and values, between incentive and economic security, between discipline and industrial democracy, between authority and freedom and between bargaining and cooperation".³

According to the ILO, "industrial relations deal with either the relationships between the state and the employers and the workers' organisation or the relation between the occupational organisations themselves". The ILO uses the expression to denote such matters as "freedom of association and the protection of the right to organise, the application of the principles of the right to organise, and the right of collective bargaining, collective agreements, conciliation and arbitration and machinery for cooperation between the authorities and the occupational organisations at various levels of the economy."

The following points emerge from a close examination of the above definitions:⁴

1. **Employer-employee interactions:** Industrial relations arise out of employer- employee interactions. These relations cannot exist without the basic building blocks, i.e., the employer on one side and the employees on the other side.
2. **Web of rules:** Industrial relations are a 'web of rules' formed by the interaction of the government, the industry and the labour. They include the relations between employer and employees and between employers' associations, trade unions as well as the State.

Multidimensional: Industrial relations are fairly multi-dimensional in nature as they are influenced, by a complex set of institutional, economic and technological factors.

Box 26.1: Factors Influencing Industrial Relations

- Industrial relations are influenced by various factors viz., institutional factors, economic factors and technological factors
1. **Institutional factors:** These factors include government policy, labour legislation, voluntary courts, collective agreements, employee courts, employers' federations, social institutions like community, caste, joint family, creed, system of beliefs, attitudes of workers, system of power, status, etc.
 2. **Economic factors:** These factors include economic organisations, like capitalist, communist, mixed, etc., the structure of labour force, demand for and supply of labour force, etc.,
 3. **Technological factors:** These factors include mechanisation, automation, rationalisation, computerisation etc.

Dynamic and changing: Industrial relations change with the times, generally keeping pace with the expectations of employees, trade unions, employers' associations, and other economic and social institutions in a society. Apart from the legal framework, these societal forces generally influence the direction of industrial relations within a country.

Spirit of compromise and accommodation: The industrial relations system is characterised by forces of conflict and compromise on either side. In the larger interests of society, both the employer and the employees must put out fires amicably and get along with each other in a spirit of compromise and accommodation. The individual differences and disagreements must be dissolved through persuasion and even pressure. The factors responsible for conflictful situations need to be resolved through constructive means.

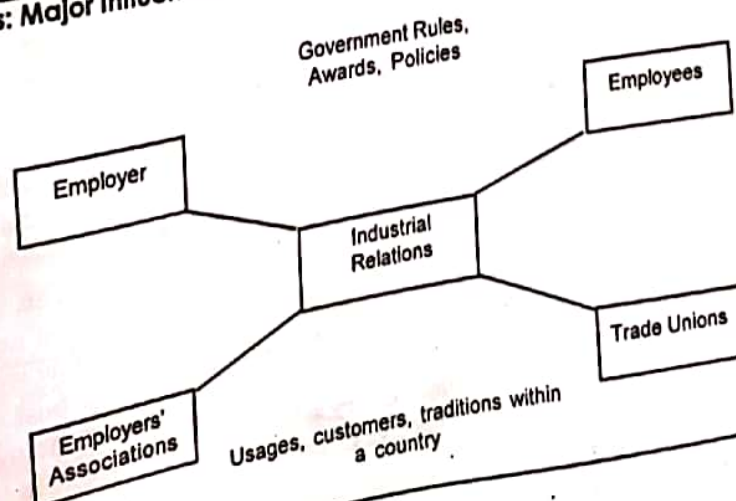
Government's role: The government influences and shapes industrial relations with the help of laws, rules, agreements, awards of courts and emphasis on usages, customs, traditions, as well as the implementation of its policies and interference through executive and judicial machinery.

Wide coverage: The scope of industrial relations is wide enough to cover a vast territory comprising of grievances, disciplinary measures, ethics, standing orders, collective bargaining, participatory schemes, dispute settlement mechanisms etc.

Interactive and consultative in nature: Industrial relations includes individual relations and joint consultation between labour, management, unions, the state etc. It pinpoints the importance of compromise and accommodation in place of conflict and controversy in resolving disputes between labour and management.

Figure 26.1

Industrial Relations: Major Influences



Objectives of Industrial Relations

The fundamental objective of industrial relations is to maintain sound relations between employees and employers. The other objectives can be drawn from this objective. They are:

1. To enhance the economic status of the worker;
2. To regulate the production by minimising industrial conflicts through state control;
3. To socialise industries by making the government an employer;
4. To provide an opportunity to the workers to have a say in the management and decision-making;
5. To improve workers' strength with a view to solve their problems through mutual negotiations and consultation with the management;
6. To encourage and develop trade unions in order to improve the workers' collective strength;
7. To avoid industrial conflicts and their consequences; and
8. To extend and maintain industrial democracy.

Approaches to Industrial Relations

Industrial relations are the result of several socio-economic, psychological and political factors. Various approaches have, therefore, been used to explain the multidimensional nature of industrial relations:

- **Psychological approach:** According to psychologists, the problems of industrial relations are attributable to the differences in the perceptions of labour and management. Both parties tend to look at factors influencing their relations – i.e. wages, benefits, working conditions etc. – in different ways. Dissatisfaction with pay, benefits, services, conditions of work compel workers to turn aggressive and resort to strikes, gheraos etc. Employers adopt rigid postures and draw the shutters down when they find the regulatory framework to be restrictive, workers to be highly demanding and market forces to be unmanageable. Apart from economic issues, motives such as the need to gain prestige, power, status, recognition also compel people to go in different directions, sacrificing the broader organisational interests.
- **Sociological approach:** A number of sociological factors such as the value system, customs, and traditions affect the relations between labour and management. Problems such as urban congestion, chronic shortage of affordable dwelling units, convenient transportation system, pollution, disintegration of joint family system, etc., add misery to the lives of workers. Accepted societal norms, traditions and customs are pushed to the wall in such a scenario. Culture pollution sets in, rubbing workers the wrong way. Such sociological changes impact industrial life significantly, forcing parties to assess, analyse and find solutions to conflictful situations on a continuous basis.
- **Human relations approach:** According to the human relations approach, individuals are motivated by a variety of social and psychological factors, not just earnings. Human behaviour is influenced by feelings, sentiments, and attitudes. Informal work groups play an important role in shaping the attitudes and performance of individual workers. People do not like the idea of being treated as machines. To reduce friction and conflict in the workplace, managers need to possess effective social skills. They must explain why a particular job is important, allow workers to participate in work processes fully, encourage work groups to flourish and try their best to keep workers happy. Economic and non-economic rewards must be used to meet the physiological and psychological requirements of workers from time to time. Every attempt must be made to integrate the individual objectives with overall organisational objectives to avoid conflict and controversy in industrial life.
- **Giri approach:** According to V.V. Giri (Former President of India) collective bargaining and joint negotiations be used to settle disputes between labour and management. Outside interference must

be avoided at all costs while resolving differences between the parties. Trade unions should use voluntary arbitration in place of compulsory adjudication to resolve disputes. Giri observed that there should be a bipartite machinery in every industry and every unit of the industry to settle differences from time to time with active encouragement of government. Outside interference should not encroach upon industrial peace'.

Gandhian approach: Gandhi ji accepted the worker's right to strike but cautioned that this right be exercised in just cause and in a peaceful, non-violent fashion. The trusteeship theory advocated by him highlights the fact that wealth belongs to society and not to the owners of an enterprise. Owners are there to serve the interests of society. If they fail to pay minimum wages to workers, workers must appeal to their conscience. If this does not produce results, they should resort to non-violent non cooperation (*Satyagraha*). Before adopting this strategy, workers must believe in their collective strength and note the crucial point that without their active cooperation, capitalists cannot achieve results. The capitalist, in his own self interest, is expected to hold industry in trust for the society, treating workers as partners and co-trustees in a progressive venture.

HRD Approach to Industrial Relations

As rightly pointed out by Ishwar Dayal, Human Resource Development involves (i) ways to better adjust the individual to his job and environment, (ii) the deepest involvement of an employee in various aspects of his work and (iii) the greatest concern for enhancing the capabilities of the individual. The HRD approach recognises employees as the greatest assets in an organisation; believes that they can be developed to an unlimited extent with proper incentives, atmosphere and treatment. It is possible to integrate human needs with organisational requirements. If the manager has a caring, helpful attitude towards employees and creates a healthy work environment (characterised by values of openness, enthusiasm, trust, mutuality and collaboration) employees are willing to give of their best to the organisation. So managers, in their own self interest, must create a motivating climate so that employees commit themselves to assigned tasks wholeheartedly. The underlying assumptions of industrial relations and HRD may best be summarised thus:

Table 26.1

Basic Assumptions of Industrial Relations and HRD

Industrial Relations		HRD
Employee-employer relations are contractual and enveloped by economic factors	Philosophy	Employer-employee relations should be based on trust, understanding and openness
The emphasis is on extrinsic rewards	Rewards	Intrinsic rewards spur people to superior performance
The focus is not on developing the employee.	Focus	Develop the employee through HRD initiatives: caring, counselling, mentoring, helping, coaching.
Follow the code book and put out the fires as quickly as you can	Orientation	Preventive, collaborative approach where relations matter most and not rules.
Pluralist	Nature of Relations	Unitarist
Managerial task vis-a-vis labour	Monitoring	Nurturing, caring, helpful
Institutionalised, unhealthy and is at the core of industrial relations, reach temporary truces	Conflict	Conflict could be functional, stimulating and healthy if used properly, manage climate and culture.
Restricted flow	Communication	Increased flow
Division of labour	Job design	Teamwork
Negotiation	Managerial skills	Facilitation

The manager in the HRD approach wears many hats, i.e., of a developer, counsellor, coach, mentor and problem solver. He tries to integrate work, and trains and educates people, acts as a change agent and provides a conducive, healthy work environment. The traditional roles as a policeman, supervisor, appraiser, legal advisor and fire-fighter as evidenced in companies characterised by troubled industrial relations, thus undergo a radical transformation where the labour-management relations are built around mutual trust, understanding and cooperation.

HRD interventions such as work redesign and job enrichment could be used effectively to make jobs more interesting to employees. To avoid role conflicts, role analysis could be taken up, followed by a clear-cut elaboration of what the employee is supposed to do. To build cooperation among employees and between labour and management, team-building exercises could be undertaken. To tackle trouble makers, counselling and coaching sessions could be arranged from time to time. A climate of open, transparent communication would put out fires quite easily. Training and feedback sessions would help solve many other industrial relations problems smoothly. To overcome some of the troubling IR issues, managers should focus on aspects like:

- Clarify goals
- Reward performance
- Empower people at all levels
- Treat people properly
- Follow two-way communication channels
- Settle issues in an atmosphere of trust and understanding.

Essential Conditions for Sound Industrial Relations

The establishment of good industrial relations depends on the constructive attitude on the part of both management and the union. The constructive attitude in its turn depends on all the basic policies and procedures laid down in any organisation for the promotion of healthy industrial relations. It depends on the ability of the employers and trade unions to deal with their mutual problems freely and independently with responsibility. They should put their faith in collective bargaining rather than in collective action. For better industrial relations, it is also necessary that fair labour standards are laid down, a feeling of equality should be prevalent, with which the management should enter into collective bargaining with the labour, and there should be realisation on the part of management to promote workers' welfare. The existence of strong, independent, responsible, democratic trade unions, the promotion of collective bargaining – a fair and independent machinery for the peaceful settlement of industrial disputes, the existence of good human relations, and lack of any kind of discrimination are certainly the essentials for a healthy industrial relations' situation.

It is not easy to promote and maintain sound industrial relations. Certain conditions should exist for the maintenance of harmonious industrial relations. They are:

- i. **Existence of strong, well organised and democratic employees' unions :** Industrial relations will be sound only when the bargaining power of the employees' unions is equal to that of management. A strong trade union can protect the employees' interest relating to wages, benefits, job security, etc.
- ii. **Existence of sound and organised employers' unions:** These associations are helpful for the promotion and maintenance of uniform personnel policies among various organisations and to protect the interests of weak employers.
- iii. **Spirit of collective bargaining and willingness to resort to voluntary negotiations:** The relationship between an employee and the employer will be congenial only when the differences

between them are settled through mutual negotiation and consultation rather than through the intervention of a third party. Collective bargaining is a process through which employee issues are settled through mutual discussions and negotiations, through a 'give and take' approach. If the issues are not settled through collective bargaining, they should be referred to voluntary arbitration but not to adjudication, in order to maintain congenial relations.

Maintenance of industrial peace: Permanent industrial peace in an organisation can be ensured through the following measures:

- Establish machinery for prevention and settlement of industrial disputes. This includes legislative and non-legislative measures. Preventive measures include works committees, standing orders, welfare officers, shop councils, joint councils and joint management councils. Settlement methods include voluntary arbitration, conciliation and adjudication.
- Government should be provided with requisite authority for settling the industrial disputes wherever necessary.
- Provision for the bipartite and tripartite committees in order to evolve personnel policies, code of conduct, code of discipline, etc.
- Provision for the various committees to implement and evaluate the collective bargaining agreements, court orders and judgements, awards of voluntary arbitration, etc.

Significance of Industrial Relations

Good Industrial Relations implies peaceful, harmonious, fruitful relations between labour and management. In such a situation, both labour and management realise their mutual obligations toward each other and resort to actions that promote harmony and understanding the following benefits accrue from such a productive relationship:

- Industrial peace:** Unilateral actions disappear; both parties consult each other before initiating any action; they primarily focus on goals that are realisable without overstepping their territories. This leads to peaceful co-existence.
- Industrial democracy:** The process of joint consultation paves the way for industrial democracy. This motivates workers to give of their best to the organisation and share the fruits of progress jointly with management.
- Improved productivity:** Cordial relations between labour and management ensures uninterrupted production and single-minded pursuit of pre-determined goals. It becomes easy to realise even difficult targets in such an atmosphere. The excellent track record of Sundaram Fasteners (A TVS Group company which won the prestigious GM award for the fourth successive year in 1999 as a quality supplier of radiator caps) is worth mentioning here. It is known for zero breakdowns, zero accidents and zero defects. Not a single day has so far been lost due to a strike in the company. It is the first company to get the ISO certification (in 1990). The per-employee productivity is comparable to the best in the world. One study rates the company among the 20 most competitive companies in Asia. (The Week, May 28, 2000). Another group company, Sundaram Clayton received the Deming prize in 1998 – making it the only Indian company that has ever received the award outside Japan. The 45-year-old CEO, Venu Sreenivasan hires every worker for both companies but allows manager to be appointed by his chief operating officers. During 1998-99 he has taken a 10 per cent cut in his salary in order to avoid having to layoff workers! (Business Today, Nov 22- 6 Dec, 1998).
- Benefits to workers:** Cordial labour-management relations ensure higher productivity. The company would be in a position to offer fair economic and non-economic incentives to its employees. This, in turn, would spur people to realise targets and get ahead productively. It becomes easy for management to initiate needed changes quickly, in line with market demands and improve the lot of workers.

Introduction ✓

Before the Industrial Revolution, the employer, more or less, enjoyed unquestioned powers on matters relating to wages, working conditions and other matters affecting employees. The weak bargaining strength of employees tempted them, on occasions, to exploit the vulnerable situation to their advantage. Workers as a result became restless and widespread protests followed. Governmental intervention was of little help. Workers realised the importance of fighting jointly on all work-related matters. This collective fighting spirit is at the back of collective bargaining.

Concept ✓

Bargaining is the process of cajoling, debating, discussing and even threatening so as to arrive at an amicable agreement for those being represented. Collective bargaining is a procedure by which the terms and conditions of workers are regulated by agreements between their bargaining agents and employers. The basic objective of collective bargaining is to arrive at an agreement on wages and other conditions of employment. Both the employer and the employees may begin the process with divergent views but ultimately try to reach a compromise, making some sacrifices. As soon as a compromise is reached, the terms of agreement are put into operation.

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. Both parties must reconcile their differences voluntarily through negotiations, yielding some concessions and making sacrifices in the process. Both should bargain from a position of strength; there should be no attempt to exploit the weaknesses or vulnerability of one party. With the growth of union movement all over the globe and the emergence of employers' associations, the collective bargaining process has undergone significant changes. Both parties have, more or less, realised the importance of peaceful co-existence for their mutual benefit and continued progress.

Features ✓

Some of the important features of collective bargaining may be listed thus:¹

- a. **Collective:** It is collective in two ways. One is that all the workers collectively bargain for their common interests and benefits. The other is that workers and management jointly arrive at an amicable solution through negotiations.
- b. **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.
- c. **Flexible:** It is a group action where representatives of workers and management expend energies in order to arrive at a consensus. It has sufficient flexibility, since no party can afford to be inflexible and rigid in such situations. The unique feature of collective bargaining is that usually the parties concerned start negotiations with entirely divergent views but finally reach a middle point acceptable to both. It is therefore not a one-way street but a give and take process.
- d. **Voluntary:** Both workers and management come to the negotiating table voluntarily in order to have a meaningful dialogue on various troubling issues. They try to probe each other's views thoroughly before arriving at an acceptable solution. The implementation of the agreement reached is also a voluntary process.
- e. **Continuous:** Collective bargaining is a continuous process. It does not commence with negotiations and end with an agreement. The agreement is only a beginning of collective bargaining. It is a continuous process which includes implementation of the agreement and also further negotiations.
- f. **Dynamic:** Collective bargaining is a dynamic process because the way agreements are arrived at, the way they are implemented, the mental make-up of parties involved keeps changing. As a result, the concept itself changes, grows and expands over time.

- Power relationship:** Workers want to gain the maximum from management, and management wants to extract the maximum from workers by offering as little as possible. To reach a consensus, both have to retreat from such positions and accept less than what is asked for and give more than what is on offer. By doing so management tries to retain its control on workplace matters and unions attempt to strengthen their hold over workers without any serious dilution of their powers.
- Representation:** The chief participants in collective bargaining do not act for themselves. They represent the claims of labour and management while trying to reach an agreement. In collective bargaining the employer does not deal directly with workers. He carries out negotiations with representatives of unions who are authorised to bargain with the employer on work-related matters.
- Bipartite process:** The employers and the employees negotiate the issues directly, face to face across the table. There is no third party intervention.
- Complex:** Collective bargaining is a complex process involving a number of procedures, techniques and tools: preparation for negotiations, timing, selection of negotiators, agenda, tedious negotiations, make up of agreement, ratification, enforcement etc.

Objectives

The main objectives of collective bargaining are given below:

- To settle disputes/conflicts relating to wages and working conditions.
- To protect the interests of workers through collective action.
- To resolve the differences between workers and management through voluntary negotiations and arrive at a consensus.
- To avoid third party intervention in matters relating to employment.

Bargainable Issues

Which are the issues that could be bargained across the table? Practically speaking any issue that has relevance to management and workers becomes the subject matter of bargaining. However, in certain specific cases both management and workers are reluctant to yield ground. Traditionally, management is not willing to negotiate work methods, arguing that it is management's exclusive right to decide how the work is to be done. Likewise unions do not want negotiations on production norms and disciplinary matters, because any agreement in this regard would put limits on their freedom. However over the years, the nature and content of collective bargaining has changed quite dramatically, thanks to the pulls and pressures exercised by the bargaining parties.

Traditionally, wages and working conditions have been the primary focus areas of collective bargaining. However, in recent times, the process of bargaining has extended to almost any area that comes under the employer-employee relations, covering a large territory. (See Table 23.1)

Types of Bargaining

Four distinct types of bargaining have evolved over time, namely conjunctive, cooperative, productivity and composite bargaining. These are discussed below.²

- Conjunctive/distributive/bargaining:** The parties try to maximize their respective gains. They try to settle economic issues such as wages, benefits, bonus, etc., through a zero-sum game (where my gain is your loss and your gain is my loss). Unions negotiate for maximum wages. Management wants to yield as little as possible – while getting things done through workers.
- Cooperative bargaining:** When companies are hit by recession, they cannot offer the kind of wages and benefits demanded by workers. At the same time they cannot survive without the latter's support. Both parties realise the importance of surviving in such difficult times and are willing to

Figure 23.1

The Substance of Bargaining

1. Wages and working conditions
2. Work norms
3. Incentive payments
4. Job security
5. Changes in technology
6. Work tools, techniques and practices
7. Staff transfers and promotions
8. Grievances
9. Disciplinary matters
10. Health and safety
11. Insurance and benefits
12. Union recognition
13. Union activities/responsibilities
14. Management rights

negotiate the terms of employment in a flexible way. Labour may accept a cut in wages in return for job security and higher wages when things improve. Management agrees to modernise and bring in new technology and invest in marketing efforts in a phased manner. In India, companies like TELCO, Ashok Leyland resorted to cooperative bargaining in recent times with a view to survive the recessionary trends in the automobile sector.

- c. **Productivity bargaining:** In this method, workers' wages and benefits are linked to productivity. A standard productivity index is finalised through negotiations initially. Workers do not have to perform at exceptionally high levels to beat the index. If they are able to exceed the standard productivity norms workers will get substantial benefits. Management gains control over workplace relations and is able to tighten the norms still further in future negotiations. Without such productivity bargaining agreements, workers may not realise the importance of raising productivity for organisational survival and growth. Backed up by powerful unions, they may fail to read the danger signals from the market and respond quickly.
- d. **Composite bargaining:** It is alleged by workers that productivity bargaining agreements have increased their workload. Rationalisation, 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. By negotiating sub-contracting clauses, unions prevent management from farming out business to ancillaries. If permitted, such an action may result in lower employment in some other plant diluting the bargaining powers of unions substantially. Workers are no longer interested in monetary aspects to the exclusion of work related matters. There is no doubt that wages, bonus and other monetary aspects continue to occupy the centre-stage in bargaining sessions. But there is a definite shift towards composite bargaining. Without such a proactive stand, workers may not be able to withstand the forces of liberalisation, automation, farming out business to outsiders and survive. Through composite bargaining unions are able to prevent the dilution of their powers and ensure justice to workers by putting certain limits on the freedom of employers. For the employer this is a lesser evil when compared to strikes and lockouts. Apart from periodic wage hikes and day-to-day tussles over productivity norms and other related issues there is at least no danger of workers striking work every now and then. Of course, even this situation may not continue for long. 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

3. **Power bargaining:** Each party accepts the other party with the knowledge that a balance of power exists. It would be nonproductive to pursue a strategy of trying to eliminate the other party in the relationship.
4. **Accommodation:** Both parties adjust to each other. Positive compromises, flexibility, and tolerance are used, rather than emotion and raw power. It is claimed that most managers and union leaders have engaged in accommodation for the bulk of union-management bargaining issues.
5. **Cooperation:** Each side accepts the other as a full partner. This means that management and the union work together not only on everyday matters but in such difficult areas as technological change, improvements in quality of work life, and business decision making.

Generally each side tries to find how far the other side is willing to go in terms of concessions, and the minimum levels each is willing to accept. "Take it or leave it" kind of extreme positions would spoil the show and hence parties should avoid taking such a rigid and inflexible stand initially. Successful negotiations, after all, are contingent upon each side remaining flexible. Each party should be willing to concede up to a certain extent depending on one's own compulsions and pressures, with a view to win over the other party. This is popularly known as "bargaining zone" which is the area bounded by the limits within which the union and employees are willing to concede. If neither party is willing to concede a little bit, negotiations reach a deadlock or impasse, which can eventually result in a strike on the part of the union or a lockout on the part of management.

Box 23.2: Bargaining Limits

Reed Richardson has the following advice for bargainers:

1. Be sure to set clear objectives for every bargaining item, and be sure you understand the reason for each.
2. Do not hurry.
3. When in doubt, caucus with your associates.
4. Be well prepared with firm data supporting your position.
5. Always strive to keep some flexibility in your position.
6. Don't concern yourself just with what the other party says and does; find out why.
7. Respect the importance for face saving for the other party.
8. Be alert to the real intentions of the other party—not only for goals, but also for priorities.
9. Be a good listener.
10. Build a reputation for being fair but firm.
11. Learn to control your emotions and use them as a tool.
12. As you make each bargaining move, be sure you know its relationship to all other moves.
13. Measure each move against your objectives.
14. Pay close attention to the wording of every clause negotiated; they are often a source of grievances.
15. Remember that collective bargaining is a compromise process; There is no such thing as having all the pie.
16. Try to understand people and their personalities.
17. Consider the impact of present negotiations on those in future years.

Reed Richardson

Impasse, thus, is a collective bargaining situation when the parties are not able to overcome their differences, usually because one party is demanding more than the other will offer. One way to avoid impasse is to postponement of difficult issues to a later stage and take up easier ones first with a view to have a smoother passage initially. Another way to avoid breakdowns is for each side to be prepared to offer propositions and to accept alternative solutions to some of the more controversial issues. Skilled negotiators as mentioned by Richardson, take charge of the issue through logical presentations, good manners and cool behaviour.

- **Formalising the agreement:** When a solution comes through what is popularly known as 'good faith bargaining' (Both parties are making every reasonable effort to arrive at agreement, proposals are being matched with counter proposals), a formal document must be prepared expressing everything in a simple, clear and concise form. After this, both parties must sign the agreement and abide by its terms and conditions during the entire term of the contract.

Introduction

The word 'participation' means sharing the decision-making power with the lower ranks of the organisation in an appropriate manner. Participation has a unique motivational power and a great psychological value. It promotes harmony and peace between workers and management. When workers participate in organisational decisions, they are able to see the big picture clearly, i.e., how their actions would contribute to overall growth of the company. They can offer feedback immediately based on their experiences and improve the quality of decisions significantly. Since they are involved in the decisions from the beginning, they tend to view the 'decisions' as 'their own' and try to translate the rhetoric into concrete action plans with zeal and enthusiasm. Participation makes them more responsible. They are willing to take initiative and contribute cost-saving suggestions and growth-oriented ideas. The feeling of being treated as equals, forces them to repose their confidence in management and accept plans of rationalisation, expansion, etc., without raising serious objections. Since they are treated with respect now, they begin to view the job and the organisation as their own and commit themselves to organisational activities wholeheartedly. Bilateral decisions help in bringing out radical changes in organisational systems, plans and procedures more easily. Employees do not feel threatened by such moves, as they understand and appreciate the reasons behind such 'strategic shifts'.

The implications of workers' participation in management have been summarised by the International Labour Organisation thus:

- workers have ideas which can be useful.
- upward communication facilitates sound decision making. Workers may accept decisions better if they participate in them.
- workers may work more intelligently if they are informed about the reasons for and the intention of decisions that are taken in a participative atmosphere.
- workers may work harder if they share in decisions that affect them.
- workers participation may foster a more cooperative attitude amongst workers and management thus raising efficiency by improving team spirit and reducing the loss of efficiency arising from industrial disputes.
- workers participation may act as a spur to managerial efficiency.

Definition and Objectives

The concept of workers' participation in management (WPM) is a broad and complex one. Depending on the socio-political environment and cultural conditions, the scope and contents of participation may change. In any case, a common thread running through all interpretations is the idea of associating employees in managerial decision-making. The view expressed by The International Institute for Labour Studies (Bulletin 5) is worth quoting here. WPM has been defined as, "the participation resulting from practices which increase the scope for employee's share of influence in decision-making at different tiers of organisational hierarchy with concomitant assumption of responsibility".

- In the words of Gosep, workers' participation may be viewed as:
- an instrument for increasing the efficiency of enterprises and establishing harmonious industrial relations;
 - a device for developing social education for promoting solidarity among workers and for tapping human talent;
 - a means for achieving industrial peace and harmony which leads to higher productivity and increased production;

a humanitarian act, elevating the status of a worker in the society;
 an ideological way of developing self-management and promoting industrial democracy.
 The major objectives of the scheme of workers' participation are:
 to improve the quality of working life by allowing the workers greater influence and involvement in work and the satisfaction obtained from work; and
 to secure the mutual cooperation of employees and employers in achieving industrial peace, greater efficiency and productivity in the interest of the enterprise, the workers, the consumers and the nation.

Forms of Participation

The word 'participation' is a glamorous term. Workers welcome it because it enhances their status in the company. Employers use it to exhibit how 'progressive' they are. Unions want it because it brings about a new power equation between labour and management. Irrespective of these interpretations, participation is welcomed at all levels, because it has a 'tonic effect' on the psychology of an individual. The term 'workers' participation' in management, is generally interpreted in four different ways:

- i. It is a way of sharing information with workers. Management keeps the workers informed about what is going on within the organisation. The final decisions are taken by the management. Workers are allowed to express their opinions regarding various organisational matters.
- ii. It is joint consultation prior to decision-making. Workers are taken into confidence, invited to share the information, participate in discussions, suggest alternatives to solve an issue and enjoy a greater say in the decision-making process.
- iii. Mere sharing of information and influencing decisions through discussions in a limited way will not enhance the status of workers. To be meaningful, participation should mean active involvement of workers, where they are treated as members of a decision-making team with equal voting rights. It is a kind of joint decision-making where workers are formally involved in resolving work-related issues.
- iv. In the final analysis, workers' participation may involve workers in all strategic, policy and operational issues, treating them as active members or even partners with equal voting rights. Workers' participation here implies self management or self control.

Mhetras (1966) while reviewing the progress of joint management councils of thirteen enterprises belonging to different industries spread over in eight states identified five levels of participation. Box 24.1 reveals the picture more clearly:

Box 24.1: Five Interpretations of Participation: Mhetras'

- **Informative participation:** It refers to sharing of information with workers regarding economic position of the firms, state of the market, production and sales programme, work methods, balance sheet, expansion plans, etc. Here the workers have no right to scrutinise the information provided by management.
- **Consultative participation:** This involves a higher degree of sharing of views of the workers and giving them a chance to express their views on various issues concerning work, workplace, working conditions, market standing, financial status, etc. Here the joint council of workers and management works as an advisory body only. Management may or may not accept the suggestions.
- **Associative participation:** Here the council is not purely advisory. The management is under a moral obligation to accept and implement the unanimous decisions of the council.
- **Administrative participation:** Here there is a greater degree of sharing authority and responsibility of managerial work, allowing workers a little more autonomy in exercising administrative and supervisory powers in respect of welfare, safety, benefits, rewards, etc.
- **Decisive participation:** This is the highest form of participation where decisions are taken jointly on matters relating to production, safety, welfare, etc.