



**BHARATHIDASAN UNIVERSITY**

**Tiruchirappalli-620024**

**Tamil Nadu, India**

**Programme: M.A., HUMAN RESOURCE MANAGEMENT**

**Course Title : Compensation Management**

**Course Code : 22HRM2CC11**

**Unit-III**

**Methods of wages**

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# Methods of Wage Fixation: Compensation Management

Effectively managing employee compensation is a critical aspect of human resources. This series explores key methods and considerations in determining appropriate wage and salary structures, ensuring fair and equitable pay that aligns with productivity and organizational goals.



# Computation of Wage & Salary Structure

## Job Evaluation

Assessing the relative worth of different roles within the organization to establish appropriate compensation levels.

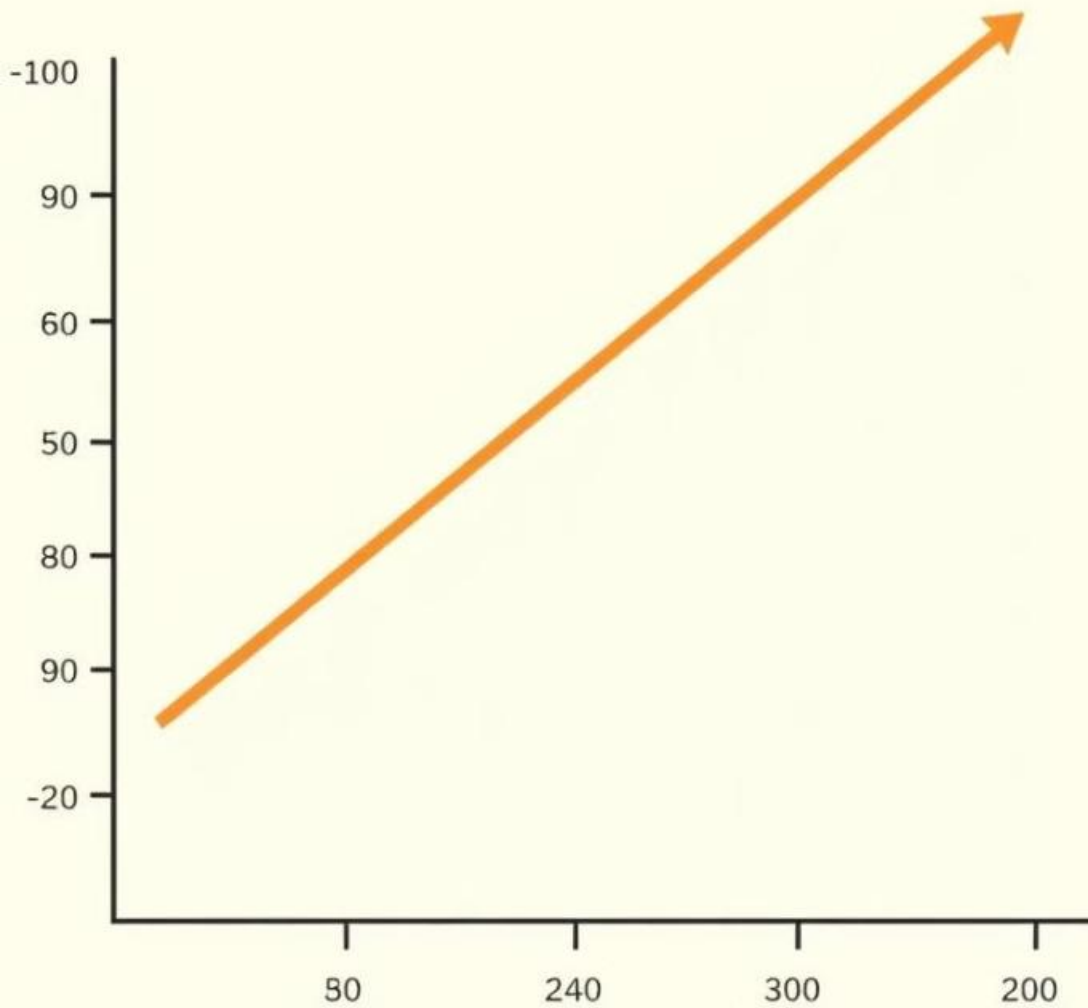
## Market Benchmarking

Analyzing industry standards and competitor pay scales to ensure competitiveness and attract top talent.

## Internal Equity

Maintaining fairness by considering factors like experience, skills, and level of responsibility within the company.

# Wage Differentials & Productivity



1

## Skill-Based Wages

Compensating employees based on their unique skills and expertise, which directly impact productivity.

2

## Incentive Pay

Offering bonuses, commissions, or piece-rate pay to encourage and reward high performance.

3

## Profit Sharing

Linking a portion of employee compensation to the overall profitability of the organization.



# Dearness Allowance & Fringe Benefits

## Dearness Allowance

A cost-of-living adjustment that helps maintain purchasing power in the face of inflation.

## Health & Retirement

Fringe benefits like health insurance, retirement plans, and paid time off enhance employee wellbeing and loyalty.

## Work-Life Balance

Flexible schedules, remote work options, and other perks can improve job satisfaction and productivity.



# Theories of Wages: A Historical and Modern Perspective

This presentation will explore various theories of wages, examining their historical context, key principles, and lasting influence on modern labor economics.

# Ricardo's Subsistence Theory (Iron Law of Wages)

## Key Idea

Wages are driven by the cost of subsistence for workers, ensuring they have just enough to survive and reproduce. This creates a natural wage floor, making it impossible for wages to rise significantly.

## Impact

This theory contributed to the development of early labor movements and highlighted the challenges of low wages and poor working conditions in the Industrial Revolution.

# Adam Smith's Wage Fund

## Theory

### Key Idea

Employers have a fixed "wage fund" derived from capital, used to pay wages to employees. The size of the fund determines the level of wages, suggesting wages are a function of capital accumulation.

### Impact

Smith's theory emphasized the role of capital in setting wages and paved the way for later economic models that explored the relationship between wages, productivity, and economic growth.



# Marx's Surplus Value Theory

## Key Idea

Capitalists exploit workers by paying them less than the value they create through their labor. The surplus value, the difference between what workers produce and what they are paid, accrues to capitalists, perpetuating inequality.

## Impact

Marx's theory remains influential in understanding class struggle and the unequal distribution of wealth, driving socialist and labor movements to advocate for fairer wages and labor rights.



# Residual Claimant Theory

1

## 1. Profit Sharing

After paying for expenses like capital and materials, any remaining profit goes to those who contribute to production, including workers.

2

## 2. Productivity

Workers' wages are determined by their contribution to the firm's output. Higher productivity leads to higher wages, creating an incentive for individual effort.

3

## 3. Competition

Wages are driven by competition in the labor market, as employers try to attract and retain skilled workers by offering competitive pay and benefits.

# Purchasing Power

## Theory

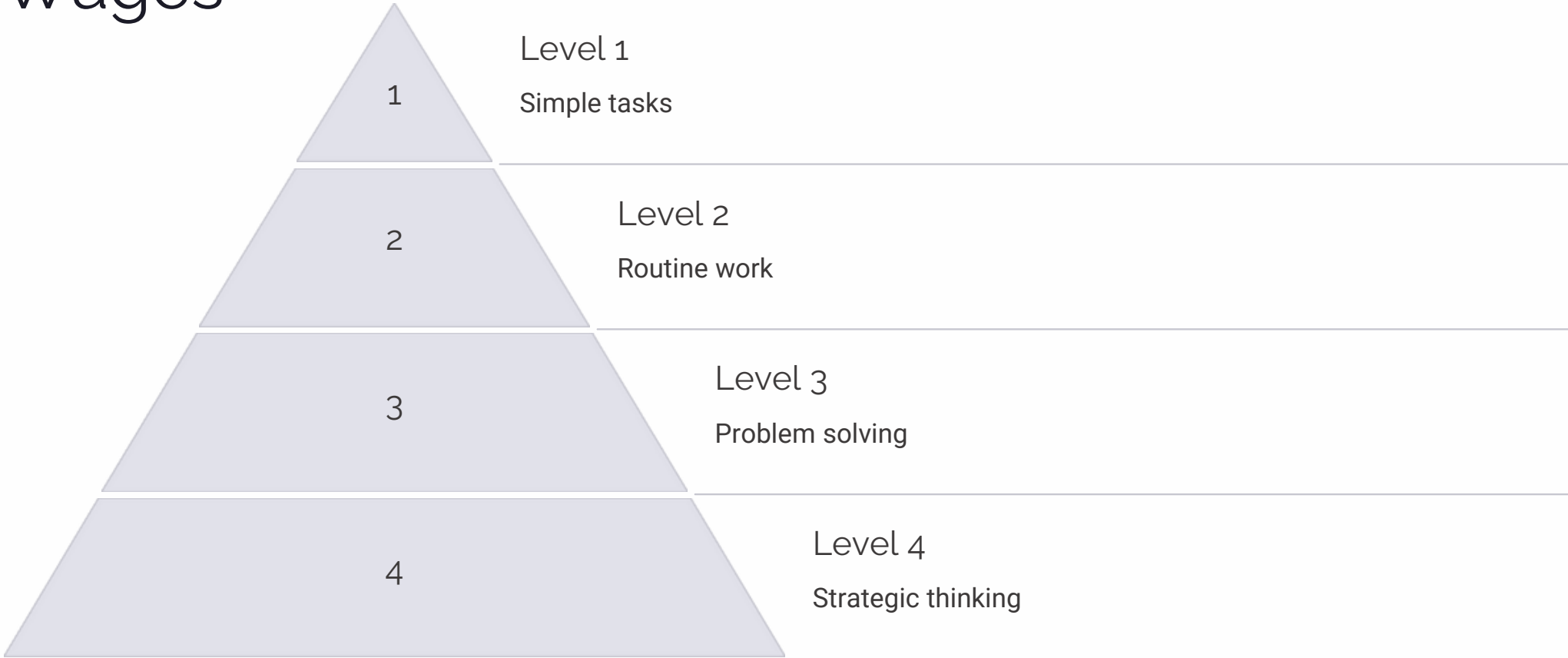
### Key Idea

Wages need to be sufficient to allow workers to purchase the goods and services needed for a decent standard of living, accounting for the cost of living and inflation.

### Impact

This theory connects wage levels to consumer spending and economic activity, highlighting the role of wages in supporting overall demand and economic growth.

# Elliot Jacques Theory of Wages



## Wages Policy: Concept and Importance

What is it?

A framework of rules and guidelines that set wage standards and ensure fair compensation for workers.

Why does it matter?

Promotes social justice and economic stability by ensuring fair wages, protecting workers' rights, and promoting productivity.

# Wage Policy Framework





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## ILO on Wage Policy



### Minimum Wage

ILO advocates for minimum wage standards to ensure basic living standards for all workers.



### Equal Pay

ILO promotes equal pay for work of equal value, eliminating gender and other forms of discrimination.

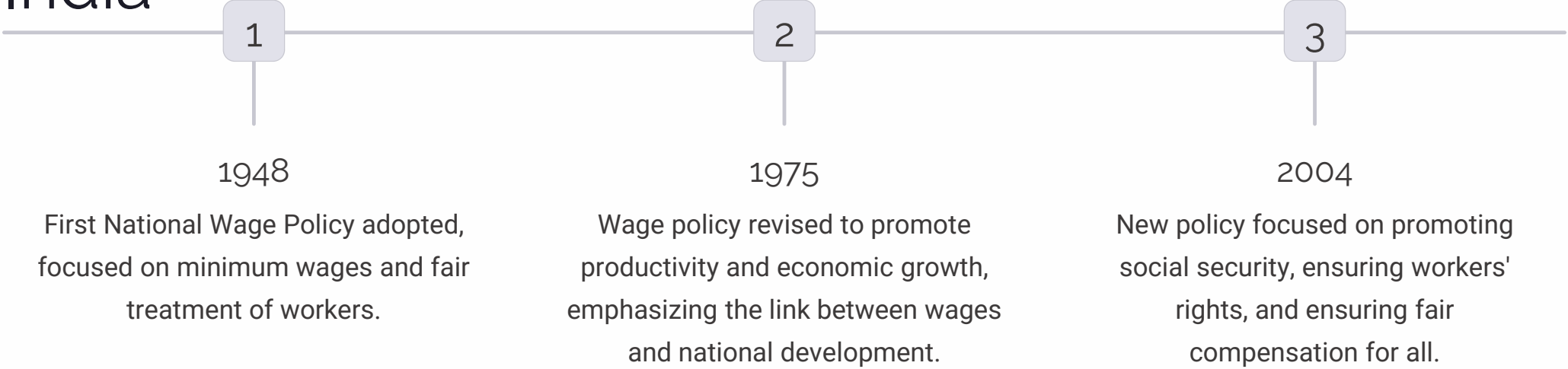


### Collective Bargaining

ILO supports collective bargaining to ensure workers' voices are heard in setting wage and working conditions.



# National Wage Policy in India



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