COMPENSATION *and* REWARD MANAGEMENT

DR. M. W. SHAIKH

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Index

Chapter I

Understanding Rewards and Compensation

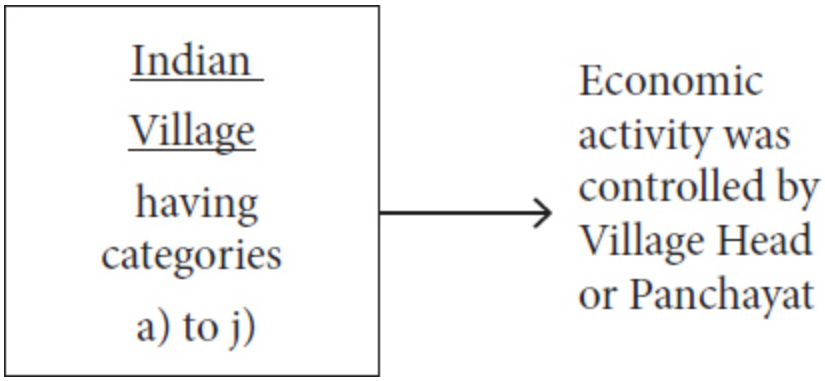
Background

Understanding rewards is important for every human being from birth, the child tries to understand the meaning of the word ‘reward’, for example, when the child cries, the mother rewards him with love or milk, based on this thinking every mother or parents teach and empower a child with different skills and knowledge and try to develop his\her competencies, as the child grows, there are three to four major players which shape the personality of a child and help the child in acquiring skills and knowledge, they are personality shapers or moulders. The first personality developer is the mother, who teaches a child yes or no, good or bad, develops moral science, culture and ethics, the father adds about discipline, courage, pain and pleasure, and a child understand the value of money at the age of 2 or 3, he understands better when he joins the school and buy his first lollipop from the school canteen. The second personality developer is the school teacher who shower different types of knowledge on the students’ mind and watch the development carefully, at this stage, acquiring of skills and development of competencies occurs and these are reflected, that some students show their expertise in Maths, some in Science, some in Drawing etc. thus, the child and the teacher start thinking about career, growth and rewards. The third developers are friends, who are responsible for starting the race of competency, skills, career and rewards i.e. in schools, students

get rank, prizes, and scholarships these are nothing but rewards for the work done or for achievements. The fourth personality developers are neighbours, society and peer group who ultimately give final touches to the basic personality of a child, at the secondary school level, the expert knowledge, skills, and competencies are well known, which are systematically assessed by the school authorities and psychologist by conducting aptitude test and advising the youngster about their career and further development growth. Each individual at this stage also starts thinking about rewards and career opportunities. At the secondary school levels, the students are clearly divided into three/four categories like those who are interested in Arts, Science, Commerce, or other professions, the young educated also think lot about career and rewards in different professions.

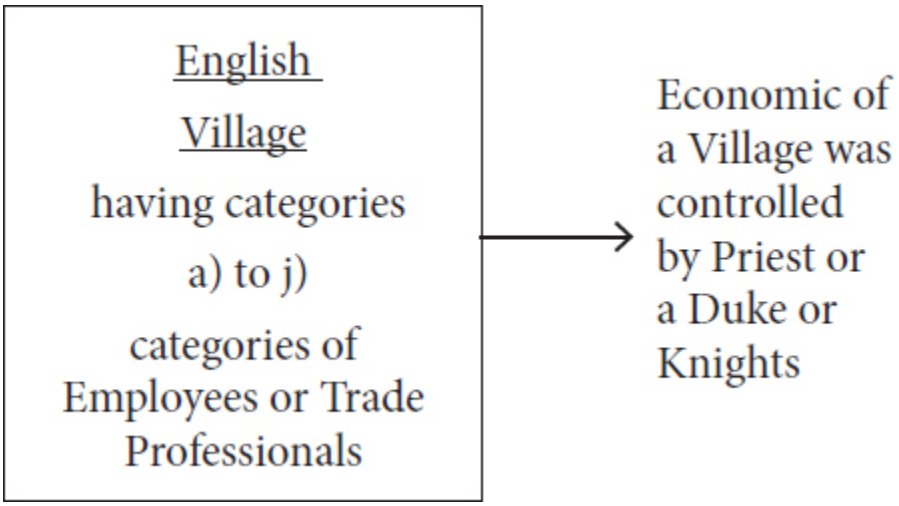
Reward is something which every individual is expecting in return for the services offered to another, could be in kind or money. The basic objective of every parent is to empower his/her child with such knowledge, skills and competence where rewards or benefits are maximum. "A reward is something that is given for good behaviour, hard work or providing help or service to the individual or community". The reward can also be expressed in terms of money for any work, help or service. Keeping in mind the rewards, the young, talented skilled people have many options, e.g. to join the Government services, to join the private sector or to become self-employed persons or a professional like Doctors, Lawyers, Chartered Accountants etc. The reward policy has to be attractive well thought. The system of rewarding is very old, ancient, the primitive humans used to reward each other by expressing happiness or gratuity, reward system went on changing with times, it is dynamic in nature and changes its form and nature, earlier precious or colored stones were given as reward, kings and dukes used to reward the courtiers with gold and silver coins. The concept of salary and rewards came into existence as soon as the master and servant relations surfaced where the masters used to reward the servants either in cash or kind for the work done or services rendered. The Modern concept of fixed salaries or wages in cash and fixation of wages for a time period or for a particular job was clear in the 13^{th} and 14^{th} century A.D. Similarly, certain trades, profession and business activities were very well defined, the subjects like Economics, Labour Economic, Agricultural Economics started

growing, and people started adopting surnames or name according to their trade or professions. A typical example of two villages one in Europe, England and one in India during Medieval Period that is 14th and 15th century, we often say in India that our villages were self-sufficient and were regarded as small business hubs. Each village in India were having following categories of skilled employees controlled by a small business man of a village.



a) Lohar
b) Sutar
c) Khumbhar
d) Sonar
e) Nayee
f) Khatik/Kasayee
g) Mistery
h) Darsi/Shimpi
i) Mocchi
j) Dhobi

In Europe, specially, England, small village also had similar type of structure and skilled categories of employees like:



a) Blacksmith
b) Carpenter
c) Potter
d) Goldsmith
e) Baber
f) Butcher
g) Mansion
h) Tailor
i) Cobbler
j) Washerman/Laundry

In India and England people were known or called by their Trade names or profession which later on became the surnames of a community. As the business went on expanding, these small trade or businesses started growing depending on the needs and requirements of society, business expansion activities required more manpower, therefore traditional rural people involved in farming and fishing activities started migrating towards villages and cities for employment and better prospects, traditional hunters, farmers started converting themselves into industrial workers, with this the master and servant relationship also came into existence and was legally defined. Master and servant is an "archaic generic legal phrase that is used to describe the relationship arising between an employer and an employee". A servant is anyone who works for another individual the master, with or without pay. The master and servant relationship only arises when the tasks

are performed by the servant under the direction and control of the master and are subject to the master's knowledge and consent. The general rule is that a master may hire and fire servants. In United States, Australia an act called Master and Servants Acts was passed in 1845. The Black's Law Dictionary (6^{th} ed.) an authoritative legal source, defines it this way. "The relations of master and servant exists where one person, for pay or other valuable consideration, enters into the service of another and devotes to him his personal labour for an agreed period". The relations exist where the employer has the right to select the employee, the power to remove and discharge him and the right to direct both what work shall be done and the manner in which it shall be done".

People or labour migrate for various purposes, one of the reasons for migration is to earn livelihood or to seek employment, therefore migrations of labour or workforce is closely related with development, growth and industrialization, to attract and retain people or labourer, attractive rewards were offered by the employers or masters, and according to ILO 2014 report at present estimated 232-million international migrants. There are number of reasons why people choose to migrate, globalization has increased the demand for workers from other countries in order to sustain national economies, known as "economic migrants".

There are number of theories to explain the international flow of capital and people from one country to another.

a) **Neoclassical Economic Theory**: This theory of migration states that the main reason for labour migration is the wage difference between the two geographic locations. These wage differences are usually linked to geographic labour demand and supply. It can be said that areas with a shortage of labour but an excess of capital have a high relative wage while areas with a high labour supply and a dearth of capital have a low relative wage. Labour tends to flow from low-wage areas to high-wage areas.

b) **Dual Labour Market Theory**: This theory states that migration is mainly caused by pull factors in more developed countries. This theory assumes that the labour markets, in these developed

countries consists of two segments: tertiary, which requires high skilled labour, and primary, which is very labour intensive but requires low-skilled labourer. This theory assumes that migration from less developed countries into more developed countries is a result of a pull created by a need for labour in the developed countries in their secondary market. Migrant Labours are needed to fill the lowest level of the labour market because the native labourers do not want to do these jobs as they present a lack of mobility. This creates a need for migrant labour.

c) **The new economics of labour migration**: This theory states that migration flows and patterns cannot be explained solely at the level of individual workers and their economic incentives but that wider social entities must be considered as well. One such entity is the household. Migration can be viewed as a result of risk aversion on the part of a household that has insufficient income. The household in this case, is in need of extra capital that can be achieved through remittances sent back by family members who participate in migrant labour abroad. These remittances can also have a broader effect on the economy of the sending country as a whole as they bring in capital.

d) **Relative deprivation theory:** Relative deprivation theory states that awareness of the income difference between neighbors or other households in the migrant-sending community is an important factor in migration. The incentive to migrate is a lot higher in areas that have a high level of economic inequality. In the short run, remittances may increase inequality, but in the long run they may actually decrease it. There are two stages of migration for a worker, first they invest in human capital formation, and then they try to capitalize on their investments.

Migration of labour is a world phenomenon, people migrate for various reasons, but the root cause of migration is economic, that for better salaries, wages, improving the standard of living etc. Theories of migration helps us in understand that labourer are attracted towards better rewards and incentives for their labour and

money is the motivating factor for migration, therefore in 13th and 14th century in Europe and India migration from remote places to urban towns and cities were noticed, skills advancement, knowledge of science, new education system created new types of jobs. These so called self-sufficient villages or small business hubs got converted into commercial towns and cities and many cities in India and Europe became known for their trade specially e.g. in India Aligarh a place in U.P. became famous for locks, called "Aligarh Ka Thalla", Moradabad became famous for brass-works, Banaras in U.P. for Saris, Hyderabad in South for Bangles and food dishes.

Introduction of Factory System

In 18th century, Factory System was adopted in England, it replaced putting out systems, handicrafts etc. In India, it replaced the old village industries, workshops and gala system. "Factory system is a method of manufacturing using machinery and division of Labour", because of the high cost of machinery and factory buildings, factories were owned by capitalists, who employed labour, factory system, brought the economies of scale. A factory in Latin means 'to do'; the factories were established in 1356 onwards in the main trading centers, usually ports or central hubs. The most important features of the factory systems are mass production, mechanization, standardization, aggregation. In the factory system work was done with the help of machinery and to run the machines labour were required, machines were too large therefore the home and place of work were separated, and all the workers were brought under one roof. Ruthless competition between owners (capitalists) motivated them to reduce costs and maximize productivity, i.e. long hours of work, low wages, unsatisfactory working condition, to meet the desired productions, quite often women and children were employed. The Industrial Revolution of 1760–1830 witnessed the "rise of the factory".

https://www.boundless.com – The Armory system, or the American system, emerged in the 1820s and involved semi-skilled labour to produce standardized and identical interchangeable parts that could be assembled with a minimum of time and skill. Interchangeability of parts was achieved

by combining a number of innovations developed for textile machinery, including the invention of new machine tools and figs, for guiding the cutting tool, fixtures for holding the work in the proper position and blocks and gauges to check the accuracy of the finished parts.

www.historylearningsite.co.uk/britain – Richard Arkwright is the person Credited with being the brains behind the growth of factories. After he patented his spinning frame in 1769, he created the first true factory at Cromford, near Derby, this factory employed over 300 people. Nothing had ever been seen like this before. The domestic system only needed 2 to 3 people working in their own home, by 1789, the Cromford mill employed 800 people. Edmund Cartwright's power room ended the lifestyle of skilled weavers. In the 1790's weavers were well paid. Within 30 years many had become labourers in factories as their skills had now been taken over by machines. In 1813 there were only 2,400 power looms in Britain by 1850, there were 2,50,000. Factories were run for profits.

ISBN-81-7035-058-1H. Sadhak-1989 Daya Publishing House, New Delhi

Name of Book: "The Role of Entrepreneur in Backward Area"

In India, the factory system started developing in 18th and 19th century. In Calcutta, Jute Industry was well known and in Mumbai, "The Bombay Spinning Mill" was opened in 1854 by Cowasji Nanabhai Daver. Mumbai earlier Bombay was known as "Manchester of the East". By 1870 there were 13 mills in Bombay and by 1895 there were 70 mills, growing to 83 in 1915, the demand for cotton increased, cotton exports grew during the American civil war. The Textile Mills in India specially in Mumbai, the labourer migrated from the nearby districts of Konkan area, and even from the far off places from U.P., Bihar due to factories the demand for labour increased in Mumbai, Ahmedabad, Kolkata, the requirement for these factories were unskilled and semiskilled workers, job opportunities increased thus increase in the population of these cities. The other industries in India which required manpower were coal, mining etc. With increase in factory system in India, the traditional business hubs, village industry and handicraft and the self-sufficient village economy changed the village

industry which started shrinking in 19th and 20th century and the migration of labour was towards big cities having factories, agriculture and traditional industries were not of much attraction, workers started skilling themselves for employment purpose, this change brought in the new method of paying employees, it also develop the subjects viz. labour economic and labour markets. The demand and supply theory of labour also came into existence. Industry/Factories generated demand for labour which was supplied by rural India or by villages. With this happening an interesting though prevailing in factory system of employment was the workers employed as servants or slaves, because the distinguished between the two is important as in the beginning of factory system and earlier exploitation of labourer exist. Few differences between slaves and servants in New Testament times.

1. Servants were workers that were paid, slaves were not paid but owned.
2. Servants could quit if/when they desired; slaves could not.
3. Servants could have more than one job; slaves solely worked for their master as he/she saw fit.

To both Romans and Greeks, making a living as a servant was one thing, but to be a slave was a fate worse than death, because slaves have no identity, no autonomy. Slaves have no right to personal preference and individual choice.

In factory system, the wages, working hours, working condition were decided and dictated by the employer, it was more like slavery, except the employers had a right to fire and remove the workmen. Wages were imposed on labour and the employer or the master had upper hand in fixing the wages, therefore the Government had to interfere and had forced the workers/labourers to get United, Form Associations or Unions. In most of the unorganized sector, the labour was a slave or a bonded labour with minimum wages because the definition of slavery is “the brutal practice of forcing someone to work hard without paying them a fair wage, sometimes without paying them at all”. In the modern times, domestic servitude, trafficking, forced labour, bonded labour, child labour are all the new avatars of slavery or can be called as “Modern-Day-Slavery” where wages are minimum. The modern slavery operates in shadows, concealing the

nature of slavery, agriculture, unorganized sectors, i.e. petty employers like Garages, Tea Stall, Small Bakery's shops, small commercial establishment contract labour, domestic servants are good examples. However, the focus of this book is to discuss on compensations and wages paid to Industrial Workers. The system of reward an employee is ancient; it existed during Egyptian civilizations Sumeria, Babylon. In Babylon, some 40 centuries ago, the code of Hammurabi, the first of the great written law codes, imposed a rigid system of controls over wages and prices. E.g. If a man hires a field-labourer, he has to give him 8 gur per annum or if a man hires a workman, then from the beginning of the year until the 5th month he has to give/pay six grains of silver per diem. The pay of a potter, tailor was five grains of silver. In ancient India, a renowned political philosopher known as Kautilya wrote Arthasastra, in chapter entitled "Protection Against Artisans", he explained the just wages for a number of occupations, ranging from musicians to scavenges and conclude as by saying "wages for the works of other kinds of artisans shall be similarly determined.

Another system prevailed earlier in the Medieval Period was guild system, there were in Medieval cities, associations based on trades, confraternities of textile workers, masons, carpenters, carves, glass workers, each of whom controlled secretes of traditionally imparted technology the mysteries or arts of their crafts. Usually the founders were free independent master craftsmen who hired apprentices. A guild was defined as an "association of artisans or merchants who control the practices of their craft in a particular town". There were several types of guilds, including the two main categories of merchant guilds and craft guilds. The trade guilds came in the 14th century to protect their common interest. The Guild system reached a mature state in Germany, circa 1300 and held in German cities into the 19th century. Hamburg had 100 guilds, cologne 80, not all economies were controlled by guilds, some cities were 'free', where guilds were in control, they shaped labour, production and trade, they had strong controls over the instructional capital and the modern concepts of a life time progression of apprentice to craftsmen, journeyman and eventually to widely recognized master and grandmaster began to emerge.

The guild system became a target of much criticism in the 18th and 19th century, they were believed to oppose free trade and hinder technological

innovation, technology transfer and business development.

Two of the most outspoken critics of the guild system were Jean-Jacques Rousseau and Adam Smith, Karl Marx in his Communist Manifesto also criticized the guild system for its rigid gradation of social rank. Another system existed in India and played a role in payment of wages or salaries to the labourer was the Indian feudalism which refers to the feudal society that made up India's social structure until Independence 1947. The term Indian Feudalism is an attempt to classify Indian history according to a European model. Feudal Lord were the landlord they were normally referred in India as Zamindar, Jagirdar, Deshmukh, Chaudhary, Mankari- the title and land was given to them by the rulers. In the 20^{th} and 21^{st} century, the thinking on salary/wages changed. In the 20^{th} century, the organized labour unions took up the course of wages with the Government and the Industry, the entire thinking on wages changed, wages were not just money paid to a worker or labourer, but was something more than that. Apart from money a worker was entitled for some non-monetary benefits in the form of medical facilities, holidays and improved working conditions, bonus, incentives but still the problem of exploitation of labour and migration of labour continues. In modern era, migration of labour is not only because of economic reasons, but the reasons are different viz.

a) Political instability in the country
b) Economic crisis in the country
c) Natural calamities like earthquakes, frequent floods, drought and outbreak of epidemic diseases.

The above migration could be temporary or permanent in nature. Migrants are always exploited as far as jobs and wages are concerned. Migration can be local or domestic e.g. workers from villages migrate to nearby town or city for employment purpose. Migration can be at national level where workers from all the parts of the country migrate to certain places, could be for employment, business or other purposes e.g. the city of Mumbai, 90% of the population of city of Mumbai are migrants. Similarly, all the major metropolitan cities in India have migrants e.g. Delhi, Kolkata, Chennai, Bangalore, Hyderabad. The third type of migration is International, i.e. people from one country migrating to other for various purposes. Many

Indian migrate to U.A.E. and Middle East for employment, some migrate to U.S.A, Europe for education, this type of migration is referring to as brain drain. We can conclude this topic by saying mobility leads to success and attractive wages or compensation forces people to migrate and take up employment, wages change with time and skills, the value of rupee or currency appreciate and depreciate which changes the rate of wages, therefore, wages are dynamic in nature and is also subject to changes.