

# Wages and Salaries



**Peter Genders**

# WAGES AND SALARIES

## Managing Pay Effectively

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Institute of Personnel Management

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First published 1981

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Printed in Great Britain by  
Lonsdale Universal Printing Ltd, Larkhall, Bath, Avon

*British Library Cataloguing in Publication Data*

Genders, Peter

Wages and salaries.

1. Wages—Great Britain

I. Title

331.2'15'0941      HD5015

ISBN 0-85292-275-2

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# Introducing the subject

γηρασκω δ'α'ει πολλα διδασκομενος  
*(I grow old ever learning many things)*

Solon

My initial encounter with pay was actually working out wages, scrap paper and a ready reckoner being the only aids to the job, and stuffing the cash into packets. It provided a useful introduction to the minutiae of the agreements and to the intricacies of piecework as well as items like premium time. It also highlighted the importance of accuracy and prompt payment as a wrongly calculated wage or delayed payment would lead to a confrontation with an aggrieved individual and a trip to the clerk-in-charge to authorize a correction. But in addition I was asked as a part-time 'devil' to clear out the correspondence files. Obsessed as we now are by the annual pay round, it is occasionally salutary to recollect that, certainly in this particular industry, basic rates remained unchanged from 1923 to 1937. When a claim for a rise was made in 1937 it was found that all the members of both sides of the Joint Industrial



Council had either died or retired, and the Council had to be reconstituted before the claim could be dealt with. I stayed just long enough to see the first tranche of war bonus (four shillings a week) negotiated, but not to be consolidated into the basic rate.

Since 1946 I have been involved continuously, though not exclusively, with pay in four large nationally-known companies in four separate industries. They have offered a diverse experience of union and non-union environments, of participation in negotiation at national as well as sectional level and of involvement in the remuneration of all grades from the junior to the executive. I have attempted in *Wages and Salaries* to offer some distillation of this experience.

Some of the subjects to which I have devoted a chapter are of sufficient importance to merit a book on their own. Therefore I have had to restrict myself to the most significant aspects of these subjects; elsewhere it has been possible to go into a little more detail.

The book is not concerned with '*what* to pay people'. For this reason I have avoided quoting current figures that would merely date it. Similarly I have tried not to highlight any present day issues of only transient importance.

A few words about terms are necessary.

Many different types of bodies employ people. Where it has been inappropriate specifically to write 'the employer' I have resorted to 'the organization', vague though that might be, since it does cover the whole spectrum of employers; public and private. Occasionally where it is clear that I am concerned only with the private sector, I have substituted 'company'

or 'business'. In some instances I have broken away from the impersonal 'the manager', 'the author', 'the reader' or 'one' into something more personal.

The word 'pay' can lead to a degree of confusion. It can mean one element in the total reward for a job or it can more loosely mean the total reward itself. The total reward I have talked of more precisely, where it has seemed clearer to do so, as the remuneration package. Where I have felt that no confusion would result from the use of the uncomplicated word 'pay' I have followed this course, eg 'pay practitioner' rather than 'remuneration package manager'. I have also tried to avoid excessive coupling of 'wages' and 'salaries' by writing 'pay'.

# Wage and salary administration

*Whate'er is best administered is best.*

Alexander Pope

## Significance of wages and salaries

Labour makes up a very large part of the cost of all the goods and services we use. Many minerals are provided by the earth but labour is involved in digging them up and transporting them to their place of use. Crops grow naturally if the ground is properly tended and water is readily available when it is pumped up. Thus the cost at the point of consumption may be quite considerable, made up largely, if not wholly, of the cost of the labour involved in the various processes.

Some products are described as not having a high labour cost content. Yet even when an organization, factory or process adds by its work only a few per cent to the value of a bought-in article, the degree of effectiveness with which the operation is carried out (especially if the bought-in article is, say, a raw

material, such as copper which is available at a standard market price) is vital to the success of the organization or factory, and all the more so if the work carried out on the article is itself labour intensive. Some industries are known as capital rather than labour intensive. Yet capital intensive activities use machinery and equipment, often constructed by individual skilled workers whose effectiveness will be reflected in the price of their product, which in its turn shows up in the size of investment the purchaser has to make. Service industries are, almost by definition, large labour users and the large element of labour cost involved is self-evident.

So far all this may seem very obvious but it serves as an introduction to stress three important points:

- 1 What employees are paid is not only a significant matter to them; it is also of considerable significance to their employer.
- 2 It is not only the amount of pay that is relevant; the work that is done in return for it needs to be thought about very carefully.
- 3 The term 'labour' as it has been used in the preceding paragraphs is not to be interpreted narrowly. We are not concerned solely with hewers of wood and drawers of water. In examining pay and all the problems associated with it, all levels of employees have to be brought into the reckoning. Although the numbers employed in the lower grades will generally have a dominating impact on the size of the pay bill, what should be paid and what should be expected in return matter just as much, if not more so, in the case of senior managers as they do for the humblest new starters.

## **Productivity**

The relationship of expenditure on pay and the work carried out in return for it brings us straight to the subject of productivity. It is being increasingly recognized that raising productivity must be one of our aims if as a nation we are to survive, let alone thrive in a competitive world. Insufficient attention in the past to the relationship between pay and output may be one reason why we have been so slow to move away from our position as a low pay, low output country. If we compare pay with pay and output with output with the standards of other industrialized countries, the United Kingdom shows up poorly. Naturally if the two are combined and the comparison is made of unit costs, the picture is rather different.

Individuals, however, when looking at their pay compare it with other people's pay, irrespective of output. When these comparisons show it to be low, as they frequently do (management levels of pay have attracted considerable attention for this reason) pressures for increases understandably develop. If these pressures are to be responded to sympathetically, then it would seem vital that the response is supported by steps to secure appropriate increases in output. Again it is worth stressing that increased productivity is a concept that can be thought of right across the board. It is as germane to research, design, marketing, selling and administration, to clerks, technicians, supervisors and managers as it is on the shop floor, the building sites and other similar places with which many people instinctively associate productivity.

The purpose of this book is to consider pay. In doing so we shall look at various ways in which

financial incentives can hopefully stimulate efficiency. It falls outside our scope to study other methods, such as restructuring, investing in equipment, eliminating demarcations etc, which generate efficiency. It is however worth bearing in mind that what goes into the pay packet or cheque is not the total cost of employing an individual. There are associated costs of employment, such as national insurance, office or factory space and equipment and all the administrative back-up services. These add up to substantial figures and must not be overlooked when calculations about productivity are made.

Pay, therefore, should not be regarded as a rather tiresome element in administrative costs. It represents a tool of management.

## **Responsibility**

If we regard pay as a tool of management, it must not be used haphazardly; consistency and thoroughness are called for. There are different levels at which pay problems are resolved. Some national negotiations affect very large numbers in whole industries; others will relate to an organization or one site. Whatever the level there are good grounds for saying that the responsibility for formulating and implementing pay policy is a substantial one which needs to be carried out by a trained and experienced practitioner. One can add that the responsibility is both time consuming and involves the need not only to analyse and think constructively but to apply the mind to details. At national level the principal negotiators will be persons holding substantial positions, either at top level in one of the member organizations or maybe as director of an employers' body. In individual

organizations the size and shape will to a large extent determine where the responsibility is placed. It will normally be regarded as part of the personnel function; this may mean that in some small to medium sized organizations the responsibility will lie with the head of the function personally; larger organizations will have specialist staff forming an identifiable section within the personnel department; and small organizations which do not stretch to a separate personnel function will generally place the responsibility with the manager, usually the secretary or the accountant, who is in charge of administration.

Three further points emerge when we think about responsibility for pay:

- 1 The term pay needs to be taken broadly. It does not refer solely to the money in the pay packet or the credit transfer at the bank at the end of the week or month, dominating though these elements are. There are other important facets and there are strong arguments for giving the pay practitioner (the term I have opted to use) a voice in any discussions on all forms of expenditure in connection with employees. It looks inconsistent if at a time when the pay front itself is proving difficult another arm of management cheerfully emerges with plans for developing a new sports pavilion.
- 2 I referred in an earlier paragraph to the responsibility for formulating and implementing pay policy. 'Formulating pay policy' is a self-explanatory phrase. Sometimes I feel that the significance and importance of the implementation of pay policy and the demands it makes on the pay practitioner are insufficiently recognized. However

clearly agreements or instructions are written, there always turn out to be situations that have not been covered, and decisions have to be taken how to deal with them. There are queries, often by telephone at inconvenient moments, which may have to be answered urgently. When agreements are revised it will be part of the pay practitioner's normal responsibility to see that the appropriate instructions are updated and re-issued.

- 3 The third point relates to the keeping of records, the mechanics of payment and the maintenance of statistics. In a sense these are more matters of management organization than they are of pay policy itself. Considerable duplication of personal record details is often found within an organization. Quite apart from any detail held by the employing department, the same information is often to be found filed in the personnel, pay and pension departments. The necessity arises for information to be passed from one to another for action to be taken. How far it makes sense or is practicable for all this information to be collated and held in one place is a matter of judgement and opinion. The writer has a personal opinion that the segregation of the paying arm into a separate department or section, usually as part of the finance or accountancy function, may not be justified. Today the increased computerization of records with its accompanying ability to supply almost unlimited information in detail may render invalid most of the criticisms about duplication. However, whichever way 'the cookie does crumble', it is essential that the pay practitioner has easy access to statistics. Without information the job cannot be done properly. Not only must there be



access, but the pay practitioner must have the controlling voice in establishing what statistics are to be maintained.

### **Top level involvement**

What has been said above should not imply that responsibility for pay rests with the practitioner alone; it does not and neither should it. The management of pay, as we have seen, is an item of considerable significance in the management of an organization. One that is well managed will therefore ensure that pay policy, no less than the policies in other important fields, is understood and approved at the top level; this is so whether in practice it involves a chief executive, a managing director or full board of directors. It cannot be expected that the top levels will have the same grasp of the details and intricacies as the pay practitioner. Nevertheless the decisions which are likely to be sought for from 'above' are bound to relate to major matters or to hot items on which emotions are running high. It is clearly unproductive to refer an issue (eg an unhappy decision on which could, for example lead to a strike or other form of industrial action) unless there is likely to be a sensible appreciation of the background to the problem. If pay practitioners want to ensure the best decisions, which can only be made from a correct understanding of the situation, they have to accept the obligation of keeping the top levels of management regularly informed of developments and threatening clouds.

### **Managerial involvement**

Pay policy affects everyone in an organization. It is desirable therefore that it should secure the maximum