


FACTORS AFFECTING WAGE DETERMINATION



© Regional Management Services Inc



DEFINITION



It is the process of setting wage rates or establishing wage structure in particular situations.

- ❑ It is linked to a pay scale and pay policy
- ❑ Wages paid for different jobs
- ❑ Salary scales – pay grades





PURPOSE

The purpose of the wage determination process is to ensure that wages are appropriately applied.





FORCES INFLUENCING WAGE DETERMINANTS

- ❑ Economic: labour market forces / competition in product market
- ❑ Profitability: large organizations as opposed to small business operations
- ❑ Institutional
- ❑ Equity considerations





ORGANIZATION WAGE DETERMINATIONS

Considerations include:

- ❑ Employers ability and willingness to pay
- ❑ Employee expectations
- ❑ The use of Concession Bargaining by trade unions





PRODUCTIVITY MEASUREMENTS

Productivity refers to a comparison between the quantity of the goods or services produced and the quantity of resources employed in the turning of the goods or services.

- Productivity is based on output per hour (hours of work)
- Efficiency with which labour and capital are used
- The average quality of labour

Down side of wages that are tied to Productivity: reduction of efficiency





Labor productivity and market forces determining wage rates

Factors affecting labor productivity

1. Quality (health, education, etc.) of the work force
2. Quantity and quality of capital supporting labour
3. Use of technology
4. Management efficiency
5. Business, social and political climate
6. Cost and availability of natural resources





PAY POLICY

- Pay freeze
- Pay rise
- Equal pay
- Minimum pay
- Monthly pay
- Incomes policy
- Austerity measures





Pay Freeze

- Price Freeze – a freeze on prices at a given level
- Price Control – restriction on maximum prices that is established and maintained by government





AUSTERITY MEASURES

- Control Cost – reducing public spending, controlling incomes and prices





Incomes Policy

It focuses on Wages and Price Control

- Measures through which a Government attempts to control escalation of incomes (wages, salaries, rents) to restrain escalation in prices that leads to inflation, without increasing unemployment.





INFLATION

- It refers to rising prices : i.e a general and progressive increase in prices that impact on the real income of employees.
- The application of the cost of living as a determinant presupposes that there is a constant standard of living for every one





MINIMUM WAGE

A minimum wage is a price floor put on wages to stop them from falling below some legislated level.





A Sliding Scale

- A set of rates that apply based on the cost of living index.

Eg. The income tax for example, is levied on a sliding scale, with the rich paying a higher percentage than the poor.





WAGE DETERMINANT MODELS

Competitive Model:

Many buyers and sellers acting independently
such as the market for unskilled workers

- A. Many buyers and sellers, from a few to tens-of-thousands of workers and a proportionate number of buyers (companies).
- B. No single company has high enough demand to affect wages (price).
- C. Workers (supply) act independently.
- D. Industry supply is up sloping as companies must pay higher wages to induce more people to work.





WAGE DETERMINANT MODELS

Monopoly Power Models

. **Monopsony model:**

A firm is able to influence the wage rate.

Complete monopsony means only 1 employer of labor

Characteristics:

- The firm employs a large percentage of total labor for a particular labor market (e.g., a particular kind of work)
- -the mobility of workers is limited either geographically or in sense that new work would require new skills





UNION MODELS

There is one seller of labor

- **Exclusive craft model:** electrical workers
- **Inclusive industrial model:** auto workers

Bi-lateral monopoly: one buyer and one seller which occurs when unionized workers such as major league baseball players negotiate with one buyer such as major league baseball.





THE TRADE UNION MODEL

Background:

- A union is an organization of workers selling their services collectively
- Unions have many goals.
 - a. Higher income.
 - b. Employment security





JOB EVALUATION

It is not concerned with the volume of work, or with the person doing it, or with determining pay. It is used in order to provide the basis for an equitable and defensible pay structure, particularly in determining equal pay for equal value.

- Job Content / demands
- Job Value





PERFORMANCE-BASED PAY

- *Merit pay*
- *Alternative pay*
- *Incentive systems*
- *Pay-for-performance.*

The major goal of a compensation programme should be to motivate employees to perform their best.





EXTERNAL FACTORS

- ❑ Outside wages / labor market trends
- ❑ Employment and unemployment statistics
- ❑ prevailing economic conditions and the cost of living
- ❑ legislative factors





SUMMARY

- Wages - price paid for a unit of labor time. It broadly refers to salary work, commission work, bonuses and royalties.
- Wages rates are determined by many factors including supply and demand, influence by trade unions, professional organizations and interventions by government.





SUMMARY

Discrimination in the Labour Market:

- ❑ Workers being treated differently in the same job in terms of pay, promotion, training and working conditions.
- ❑ Negative: Young workers, people with disabilities, less skilled, and those with racial backgrounds are paid less
- ❑ Positive: Better pay for those with higher output and productivity rate

