

# Causes for wage differentials business essay



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Wage differentials reflect difference in the physical and mental abilities of workers, differences in productivity, in the efficiency of management and in consumer preferences, and act as sign posts for labour mobility. By providing an important incentive for labour mobility, they bring about a re-allocation of the labour force under changing circumstances. Under competitive conditions, wages are determined by conditions of demand (which reflect the productivity of workers) and conditions of supply (which reflect the attractiveness of jobs). The level of wages would depend upon the relative scarcity of supply in relation to demand. Scarcity differentials (which may be due to specific skills and mental abilities) produce wage differentials; and as long as the former is inevitable, the latter, too, would be so.

In other words, wage differentials reflect the different degrees of scarcity of the different categories of labour; and since different categories cannot be reduced to the same degree of scarcity in the market, wage differentials are inevitable.

## **DEFINITION**

The word differential means relating to, or showing a difference, or making use of a specific difference or distinction. Wage differential is an element of location selection that is a wage scale reflecting the average schedule of workers' pay in an area that takes into account the performance of related tasks or services.

Wages differ in different employments or occupations, industries and localities, and or between persons in the same employment or grade. It may

be termed as occupational wage differentials, inter-industry, inter-firm, inter-area or geographical differentials and personal differentials.

## **CAUSES FOR WAGE DIFFERENTIALS**

Wage differentials come into existence because of the following elements:

- (a) Deviations in the competency level of the manpower, which may be due to initiate quality, pedagogy level, and working environment available for the workers.
- (b) The existence of non-rivalry groups because of the hurdles in the way of the movements of manpower from low paid to high paid jobs.
- (c) Variations in the social admiration of job.
- (d) Deviations in the characteristics of employment and occupations.

The nature characteristics and the degree of wage deviations are specified by the elements like as the situations existing in the market, the degree of unionization and the absolute negotiation strength of the employers and employee. The existing rates of wages, ability to pay, amount want to retain with an industry in a developing economy, and the requirements of social justice also directly or indirectly affect wage differentials.

## **INFLUENCING ELEMENTS OF COMPENSATION DIFFERENTIALS**

Wage differentials may be present due to any one or more of the following:-

The deviations create due to the personal policy for wages of the employer

When there is no perfection in labour market to take better opportunity

Restrictive system of employment

Absolute negotiation power of employees and employers

The value of worker to the employer

The significance of fringe benefits

Level of skill or talent and training to perform a job

Nature of the job to be performed by an employee

Nature of the regulatory actions required

Degree of power in union members and their bargaining power

The degree of authorization

Centered decision- marking power

Requirement of regional growth for the national growth.

## **TYPES OF COMPENSATION DIFFERENTIALS**

The common types of compensation differentials could be classified as follows:-

Employee Based

Industry Based

Regional Based

**Skill Based****Types of Compensation Differentials****Employee Based****Industry Based****Regional Based****Gender Based****Expertise Based****Work environment****Occupation Based****Experience Based****Size****Degree of Supervision****Technology****Nature of Product****Inter- Industry Based****Intra- Industry Based****Cost of Living****Planned Economic Growth****Regional Based****(A)Employee's Character Based**

Compensation deviation also exists at personal level. There are so many people in an organization with having alike qualifications and they aren't provided with similar salaries in the same organisations. This is because they

have acquired distinct skills instead of they may have same educational background or qualification. This occurs more when skill-based compensation system is followed as against job based compensation.

Nature of job matching personality can be stated as i. e., the type of employment, level of competency, working style and degree to which he/she or an employee can do perform the job independently. They can be classified as:

Occupational Wage Differentials

Skill Based Differentials

Gender based Differentials

Work behavior Based

Extent of Supervision/Experience Based

### **(a) Deviations in Occupational Wage**

Deviations in the occupational wages are based on talent, skill, experience and training acquired by the worker. These may be inter plant, inter industries. Inter plant deviation means the deviations in pay for the similar job or task in the similar industry, on the other hand inter industry variations are for the similar jobs or task between industries in the similar position. They are the pay differences for the same kind of input.

### **(b) Wage Differentials on skill based**

The wage difference among different extent of skill of the employee's occurs under the skill based differentials. In any of the industry or organization in <https://assignbuster.com/causes-for-wage-differentials-business-essay/>

any state or in country Skilled or competent employees realize more than semi-skilled, unskilled and temporary employees. Basically organizations have noticed and make it compulsory to extent the skill or competency variations to attract the required skilled employees.

### **(c)Gender Based Differentials**

Generally need of male and female employee depends upon the nature of job some of the jobs may need a masculine role and some may need a feminine role for its effective performance. These circumstances helps to employ women and man employee as par the job requirements but the difference in the capacity or ability to perform the job the pay or wages may vary accordingly, and it may create wage differentiations

### **(d)Performance Based Differentiation**

The degree of efficiency or competency mandatory to perform any task or job also differentiated the compensation. Some of the jobs may require non automatic work, some may require semi automation efforts and some may needed fully automation which only to be supervised by a single person. Secondly, the nature of job i. e. simple or complex also creates differentiations in compensation packages.

### **(e)Experience Based Differentiation**

There is a great difference in the compensation package of any fresher and experienced employee. Wages at the starting level gets an increment or increased as per the organizational rules of considering the experience of any employee. Experience propound expertise and employee can improve the quality and productivity. This increase may change the level of

excellence acquired, level of extent of supervision needed, and the number of years of experience. Such differentiations are stated as the experience or expertise based differentiations.

## **(B) Differentiations Based on Industry and Organization**

Industrial differentials also can be stated as the occupational differentials comes in existence due to the requirement of different competency level and instability in demand and supply of manpower having such kind of competency or skills. Compensation package usually determined on the basis of skills required to complete a specific job. So highly specified jobs needed higher degree of competency and pay higher for this, and vice versa. Linked with this, scarcity of labour supply also induces the higher wages and salaries. Presently, in India, various occupations based on the salary structure in descending order may be arranged as follows:

1. Consultancy
2. Financial services
3. Investment banking
4. Information technology
5. Fast-moving consumer goods
6. Advertising
7. Pharmaceuticals
8. Chemicals



9. Consumer durables

10. Electronics

11. Electricals

12. Automobiles

13. Other engineering

Similarly, differences occur in terms of various specialities-management, information technology, Accounting, engineering and others in that order.

## **Organisational Differentials**

Different organizations lies within the same industry and at the same location provide different compensation to employees having same background. Organizational differentials occurs due to the organizational policies followed for the recruitment and the ability to pay of any organization For example, most of the multinational organizations working in India provides higher salaries to their employees as compared to their counterparts of Indian origin. Similarly, larger organizations provide higher salaries as compared to smaller organisations.

Industry and organization based differentiations states that payment of compensation as per the nature of the job or task, industrial types, technical knowledge or expertise required, organization capacity to pay according to the size of the organization, these can be discussed as follows:

Nature of the organization and job

Size of the organization

Technology required

Inter Industry based differentials

Intra industry based differentials

### **(a) Nature of the organization and job**

The compensation packages may differentiated or depends upon the nature of the organization, whether organization using a Hi-Tech process for operation, non-automation technique, automation in operations, manufacturing, repairing or machining shop, process industry, service industry, software or IT industry etc. Compensation is provided according to the performance and skill level required for performing a effective job

### **(b) Size of the organization**

The Size of the organization specify its paying capacity, span of control, budget on personnel and relative strength to specify the compensation packages. Larger the organizations provide higher salaries as compared to smaller organizations.

### **(c) Technology required**

As per the nature or requirement of job organization used the technology, and for the using of this technology required skilled, competent and experts which becomes the element for fixing the differential compensation packages.

### **(d) Intra Industry (inter plant) based differentials**

In the similar plant or industry, the employer may provide different-different compensation packages, based on deviations in the quality of job, competency level of employee, imbalance in the demand and supply of employee in labour market, and differences in efficient utilization of plant or machinery. Other factors, which reflect wage differences, could be (a) Technology up gradation (b) Managerial efficiencies (c) capacity to pay and (d) Age and size of organization.

### **(e) Inter industry based differentials**

These differences comes in existence when the similar occupation worker charged differentially at the same location and at the same time but in the different industries Inter industries compensation deviation generally occurs because of the degree of unionization, their negotiation power, financial capacity of organization to pay. Some other components also effects such as advancement in technology, managerial efficiency, financial strength and age of the organization effects inter industry differentials.

### **(C) Regional Differentials**

Apart from industrial lifeless differentials, there may also deviations in compensation on the basis of region. Such kind of differences are existed in different countries of the world as well as different regions within a country. Such differences occurs due to the differences in cost of living as per the location of survival , and lack of mobility of manpower from one region to another, it means the employees are rigid in nature. For example, wages and salaries are higher in metropolitan cities as compared to other cities; higher in cities as compared to rural areas.

## **Implications of Wage/Salary Differentials**

Wage/salary differentials have a number of implications both at macro and micro levels. At the macro level, these differentials determine the allocation of human resources and non-human resources. This allocation determines the growth pattern in the economic system. When a particular industry or occupation offers higher wages and salaries, the economic resources are geared to develop such personnel. For example, in India, educational activities have increased in the areas of management and information technology because these areas offer higher salaries and better job opportunities.

At the micro level, wage/salary differentials show that some organisations use proactive strategy to attract better talents as compared to others. They become trend-setters rather than play the role of followers. These trend-setters set pattern not only in relation to recruitment of better personnel but in terms of other human resource management practices too.

### **QUESTIONS:-**

Q1. What do you understand by the term compensation differentiation? Why it is required?

Q2. What are the factors considered for compensation differentiation? Discuss their significance.

Q3. Enumerate the difference between Intra industry differentiation and Inter industry differentiation.

Q4. What are basis of regional and occupational differentiation. Explain.