

# **Labour cost –** **Remuneration and** **Incentives**

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# Features of a good wage system.

- ❖ Fair.
- ❖ Guaranteed minimum wages.
- ❖ Payment on mail basis.
- ❖ Simple.
- ❖ Flexible.
- ❖ Should not violate any agreement.
- ❖ Distinction between skilled and unskilled workers.

# Time wage system.

- ❖ Under this system ; workers are paid according to time spent by them irrespective of quantity of work done.
- ❖ The wage rate are fixed for an hour , day , month , or even a year .
- ❖ Used when quality of product is of extreme importance.
- ❖ Used where work delays are frequent and beyond control of employees.
- ❖ Formula = Time spent × Rate per hour
- ❖ EXAMPLE ; Rate = Rs. 20 per hour ; Time spent = 100 Hours.  
wages =  $20 \times 100 = \underline{\text{Rs. 2000}}$



## Advantages.

- Simplicity.
- Quality of work.
- Less damage to plant and machinery.
- Economical.
- Liked by trade unions.



## Disadvantages.

- No incentive.
- Payment for idle time.
- Tendency to inefficiency.
- Encouraging overtime.
- Strict supervision required

# Variants of time wage system

- ❖ Flat time rate.
- ❖ High day rate.
- ❖ Measured day rate.
- ❖ Graduated time rate.
- ❖ Differential time rate.

## 2) Piece rate system.

- ❖ Under this method; workers are paid according to number of units produced.
- ❖ Fixed rate is paid for each unit produced ; payment is made according to quantity of units produced and no importance is given to time taken by workers.
- ❖ This method is also known as Payment by result.
- ❖ Formula= Units produced × rate per unit.
- ❖ Example; Rate per unit = Rs. 30 ; units produced = 100  
Wages =  $100 \times 30 =$  Rs. 3000



## Advantages

- Incentive to efficient workers.
- Lower cost.
- No payment for idle time .
- Increase in production.
- Reduction in supervision cost





## Disadvantages.

- Difficulty in fixing piece rate
- No effective use of materials.
- Injurious to health of workers.
- No reward to quality work.
- Poor quality of work.



# Variants of piece rate system.

- ❖ Straight piece rate system.
- ❖ Taylor differential piece rate system.
- ❖ Merrick's multiple piece rate system.
- ❖ Gant's task and bonus plan.

# Straight piece rate system

- ❖ This is the simplest method of payment of wages . Under this payment is made according to number of units produced .

Formula = Rate per unit  $\times$  units produced.

- ❖ Example; Rate per unit = Rs. 25 ; units produced = 250  
Piece Wages =  $250 \times 25 =$  Rs. 6250

# Taylor's differential piece rate system

- ❖ This method was introduced by F. W Taylor. This system was introduced to penalise the slow workers by paying them less and rewarding efficient workers by paying them high piece rate.
- ❖ Under this two piece rate are fixed ; high piece rate and low piece rate.
- ❖ This system does not guarantee minimum wages and is very harsh to inefficient workers.

Standard output	-	120 units
Daily working hours	-	8
Anil's output	-	100 units
Sunil's output	-	140 units
Higher piece rate	-	0.20 paise per unit
Lower piece rate	-	0.15 paise per unit

### **Solution**

	Output	Wages
Anil's remuneration	100 (below standard)	$100 \times 0.15 = \text{Rs. } 15.00$
Sunil's remuneration	140 (above standard)	$140 \times 0.20 = \text{Rs. } 28.00$

# Merrick's multiple piece rate system

- ❖ This method is improvement over Taylor's method.
- ❖ Wages are paid to workers according to their efficiency i.e according to their level of performance.

Efficiency less than 83%

- Ordinary piece rate is paid.

Efficiency between 83 % and 100%

- 110% of ordinary piece rate is paid.

Efficiency above 100%

- 120% of ordinary wages are paid.

# Gant's task and bonus plan

- ❖ This method is based on careful time and motion study . A standard time is fixed for a particular task and worker's performance is compared with standard time and his efficiency is determined. This method is also known as Progressive rate system.

Efficiency is  
below 100 %

- Wages are given according to time taken.

Efficiency is  
equal to 100%

- Wages paid according to standard time taken and a bonus of 20% of wages earned.

Efficiency is  
above 100 %

- Piece wages are given and bonus of 20% of piece wages.

**Example** – Standard production- 1000 units

Actual production – A – 850 Units , B – 1000Units , C –1100 units

Rate per unit- 50 paisa per unit.

A's efficiency =  $(850 \div 1000) \times 100 = 85\%$

B's efficiency =  $(1000 \div 1000) \times 100 = 100\%$

C's efficiency =  $(1100 \div 1000) \times 100 = 110\%$

**A's wages** =  $1000 \times 50 \text{ paisa} = \text{Rs.}500$

**B's wages** =  $1000 \times 50 \text{ paisa} = \text{Rs.}500$  ADD bonus = 20% of 500 = 100

**Total wages** = Rs. 600

**C's wages** =  $1100 \times 50 \text{ paisa} = \text{Rs.} 550$  ADD bonus = 20% of 550 = 110

**Total wages** = 660



# Types of premium plans

- ❖ Halsey premium plan.
- ❖ Rowan plan.
- ❖ Emerson efficiency plan.
- ❖ Bedeaux point premium plan.
- ❖ Barth plan.

# Halsey premium plan

- ❖ Under this method, a standard time is fixed for doing a job . A worker is given wages according to actual time he takes and a bonus of 50% of time saved.

Wages =  $T \times R + 50\% (S - T) R$  , Where S = standard time , T = actual time , R = rate per hour.

Example ; S = 20 hours , T = 15 hours , R = Rs. 1.50 per hour

$$\text{wages} = 15 \times 1.50 + 50\% (20 - 15) \times 1.50 = 22.50 + 3.75 = \text{Rs. } 26.25$$

## ADVANTAGES

- Simple.
- Cost per unit decreases.
- Guarantees minimum wages.
- Reduction in fixed overhead cost per unit.

## DISADVANTAGES.

- Criticism from workers.
- Difficulties in determining.
- Quality of work suffers.

# Rowan plan

❖ Under this method, workers are given guaranteed wages at an ordinary rate for time taken and a bonus of proportionate amount of time saved by them.

$$\text{Wages} = T \times R + \frac{(S - T)}{S} \times T \times R$$

T = Actual time, S = Standard time

R = Rate per hour.

S

## ADVANTAGES

- Simple.
- Cost per unit decreases.
- Guarantees minimum wages.
- Reduction in fixed overhead cost per unit.

## DISADVANTAGES.

- Criticism from workers.
- Difficulties in determining.
- Quality of work suffers.

# Emerson efficiency plan

❖ Under this , a standard time for completion of a task is fixed against which the actual performance of the worker is measured . In this plan a worker is paid bonus when his efficiency touches  $66\frac{2}{3}\%$  . If the worker takes more than standard time he will only be paid time wages . The amount of bonus payable increases progressively with increase in efficiency .

100 % efficiency means 20 % of hourly rate , beyond this additional 1 % bonus is payable for each 1 % increase in efficiency .

110 % efficiency means 30 % bonus ( 20 % upto 100% efficiency + 10 % efficiency beyond 100%

# Bedeaux point premium plan

- ❖ Under this , every job is expressed in terms of standard minutes , which are called bedeaux points or B's ( each B represents 1 minute ).
- ❖ Upto 100 % performance ( upto standard B's ) a worker is paid time wages without premium ; if actual performance exceeds standard performance in terms of B's , then 75 % of wages of time saved is paid to worker as a bonus .

Example ; Time wage rate = Rs. 2 per hour.

Standard time = 20 hours = 1200 minutes = 1200 B's.

Actual time taken = 16 hours = 960 minutes = 960 B's.

Time saved = 4 hours = 240 minutes = 240 B's .

Bonus payable = 240 B'S × Rs. 2 × 75 % = Rs. 6.

# Barth plan

- ❖ This method is used to provide incentives to beginners , trainees and unskilled workers whose efficiency is low.
- ❖ This plan does not guarantee minimum time wages
- ❖ Wages are calculated by multiplying hourly rate by square root of product of standard time and actual time.
- ❖ Wages = Rate per hour  $\times \sqrt{\text{Actual time} \times \text{standard time}}$