

Basic kinds of wage plans

I. Time wage

- Oldest and most common method of fixing wages
- Workers are paid according to the work done during a certain period of time at the rate of per hour, per week, per tonight, or per month
- The essential point is that the production of a worker is not taken into consideration in fixing the wages

Merits of time wage system

1. it is simple, wage can be easily calculated
2. as there is no time limit for execution workers pay attention to the quality of their work
3. same wages are paid to same kind of job, avoids jealousy among workers
4. slow and steady pace of the worker, there is no rough handling of machinery
5. this is a profitable system where output cannot be measured
6. it ensures a stable income to workers
7. it requires less administrative attention than others because the very basis of the time wage contract is good faith and mutual confidence between the parties

Demerits of time wage plan

1. all the persons are paid equally without considering ability differences
2. labour changes for a particular job do not remain constant, hence quoting rates for a particular piece of work becomes difficult
3. as there is no specific demand for the period of time of work there is possibility of systematic evasion.
4. the employees do not know the amount of work done by each other, so total expenditure on wages cannot be adequately assessed
5. as no record of workers output is maintained, it becomes difficult for the employees to determine the efficiency for the purpose of promotion.

II. Piece wage plan – [wage=no. of output*wage per output] [as output increases, wage increases]

- under this plan, workers are paid according to the amount of work done or the number of units completed, the rate at which each unit being settled in advance, irrespective of the time taken to do the work
- there is indirect implication that worker should not more than the average time, if he is not abiding to it he is at the risk of losing job.
- The worker is paid in direct proportion to output produced
- This is generally adopted in jobs of repetitive nature.
- Out its application be difficult where different shifts are employed on the same work or where a great variety of different grades of workers are employed and immeasurable in services

• Formula

$$WE = NR$$

WE =workers earnings

N= no. of pieces produced

R= rate per piece

Merits of piece wage system

1. pay is according to the workers efficiency as reflected in the amount of work.
2. Efficiency of the workers is adequately rewarded which gives him a direct stimulus to increased his production
3. supervision is less required since wage depends upon the amount of work done or output shown by the worker
4. for the continuity of the work breakdown is prevented by the worker which in turn reduces the maintenance charges
5. direct labour cost per unit of production remain constant hence calculation of cost for filling tenders becomes easy
6. not only as output increase wage increase, the method of production also increases

Demerits of piece wage plan

1. rate per piece or output is not done on scientific basis
2. rate is done by rule of thumb method
3. workers wish to perform their work at speed, may consume more power and result in high cost of production
4. excessive speeding of work may result in wear and tear
5. trade union often oppose to this system and might lead to labour disputes

Difference between time rate and piece rate system

Time is the basis of payment.	Quality/output is the basis of payment.
Does not make distinction between efficient and inefficient workers.	Gives promotion on efficiency.
Provides security of wages to workers.	No such security.
Can be used where quality is more important than quantity.	Quantity is more than important than quality.

Incentive Scheme

“Wage incentives are extra financial motivation. They are designed to stimulate human effort by rewarding the person, over and above the time rated remuneration, for improvements in the present or targeted results”

-NATIONAL COMMISSION ON LABOUR.

Objectives of wage incentive scheme:

- 1) To improve the profit of a firm through a reduction in the unit cost of labor and materials.
- 2) To avoid or minimize additional capital investment for the expansion of production.
- 3) To increase a worker's earnings without dragging the firm into a higher wage.
- 4) To use it as a tool for securing and better utilization of human resource.

Merits of incentives scheme:

- 1) Strengthens productivity
- 2) Advantages for both workers and employers.
- 3) Reduces supervision.
- 4) Low absenteeism.
- 5) Healthy industrial relations and reduces chances of dispute.
- 6) Better scheme for developing human resource.
- 7) Develops the feeling of co-operation among workers.

Demerits of incentive schemes:

- 1) There is possibility of reducing productivity.
- 2) Difficult to consider and achieve psychological and social dimensions.
- 3) Employment is uncertain.
- 4) Difficult to measure proportionate value of the extra work done.

Various types of incentive wage plans:**A. Individual incentive wage plans:****1. Halsey premium plan**

- Combination of time –speed basis of payment.
- Standard time is fixed for each job, if the worker finishes the job before this standard fixed time, he gets bonus for the time saved by him.
- Bonus rate ranges from 30% to 50% of time saved.

MERITS:

- a. Slow workers are guaranteed of fixed wages.
- b. Efficient workers get extra wages.
- c. Easy and simple device to increase efficiency.

DEMERITS:

- a. Decreased quality of work.
- b. More wastage.
- c. No scientific method of wage fixing.
- d. Standards are fixed based on past performance.

2. Rowan premium plan:

- Widely used in England
- Introduced by James Rowan, David Rowan and Sons, Glasgow in 1901.
- It is modification of Halsey plan.
- Premium is calculated on a percentage of wages for the time worked and not for the time saved.
- $\text{Bonus} = \text{time saved} \times \text{time taken} / \text{standard time} \times \text{hourly rate}$.

MERITS:

- a. There is no possibility of over speeding since bonus earned is not based on time saved.
- b. Less cost of supervision.
- c. This plan is good for beginners and learners.
- d. No rush through the work.

DEMERITS:

- a. No difference is made between efficient and inefficient worker.
- b. Difficult for the workers to understand.
- c. As the time saved is increased, the bonus will be decreased proportionately.

3. Taylor's differential piece rate system:

- Provides greater incentives to efficient workers.
- A standard task is established by techniques of time and motion study and two piece rates are set up for each job.
- High piece rate is allowed to those who can make higher than standard performance.
- Lower piece rate for those who cannot reach the standard.
- This method penalizes slow and lazy workers and pays incentive to efficient workers.

MERITS:

- a. Efficient and inefficient workers are distinguished.
- b. Rates are fixed based on scientific method.
- c. Helps in spotting and eliminating inefficient workers.

DEMERITS:

- a. More mechanical and less humane.
- b. Leads to discontentment among workers.
- c. No guaranteed minimum wages.

4. Time rate system (Refer the above notes)**5. Piece rate system (Refer the above notes)**