

CHAPTER-6- WAGES AND INCENTIVE SCHEMES

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- WAGE - "Wage is the remuneration paid under contract by an employer to an employee for the work performed by him."

→ "Wage may be defined as the payment for the use of labour."

- WAGE PAYMENT PLANS / SYSTEMS -

I) Time Rate system (Non-incentive plan)

II) Piece rate system (Incentive wage plan)

→ TIME RATE SYSTEM - is the oldest method of wage payment.

i) Under this method, an employee is paid on the basis of time worked. It must be remembered here that wages are paid after the fixed time irrespective of output.

ii) Every worker knows about his wage after a specific period.
iii) wages may be calculated by the following formula:

$$\boxed{\text{wage} = \text{Number of hours worked} \times \text{Rate per hour}}$$

For eg - If a worker is paid at the rate of Rs 50/- per

hour and he spends 100 hours for that work, then (2)

$$\begin{aligned}\text{Wage} &= \text{Number of hours worked} \times \text{Rate per hour} \\ &= 100 \times 50 = \text{Rs } 5000/-\end{aligned}$$

→ PIECE RATE SYSTEM- Under this system, an employee is paid on the basis of output i.e amount of work done.

- i) The earnings of the workers are governed by the quantity produced and wage rate per piece. The rate of wage is fixed in advance.
- ii) Though the time is not important in this system, it is assumed that the worker will not take more than average time to complete a job.
- iii) The earnings of a worker depend upon the speed of his work and his own individual skill and efficiency.
- iv) In this system, a superior worker will earn more than an inferior worker i.e higher the output of the worker, the higher his wage.
- v) wage may be calculated by the following formula:

$$\boxed{\text{Wage} = \text{Number of units produced} \times \text{Rate for unit}}$$

e.g- If the rate prescribed is Rs 50/- per unit produced

and if the worker produces 10 units, & then his wage will be as follows,

$$\begin{aligned}\text{Wage} &= \text{No. of units produced} \times \text{Rate per unit} \\ &= 10 \times 50 = \text{Rs } 500/-\end{aligned}$$

WAGE INCENTIVE PLANS:-

I) Straight Piece Rate System:- In this system, the wage payment is directly proportional to the number of pieces produced by the worker.

Let, N = Number of pieces produced

R = Rate of per piece

Then daily earning, $E = N \times R$

e.g- If a worker produces 10 pieces per day & the rate per piece is Rs 50/- then the earning of the worker is

$$10 \times 50 = \text{Rs } 500/- \text{ daily.}$$

→ Advantages- i) less supervision is required

ii) workers produce more & more automatically.

→ Disadvantages- i) increased inspection of jobs.

ii) Average worker gets no incentive & gets less than an efficient worker.

→ Applications- i) in Industries having repetitive nature of job.

i) In industries where management wants to increase total production.

II) Straight Piece Rate with Guaranteed Minimum Wage-

To overcome the disadvantages of the above system, certain modifications were made in the above system. This system guarantees a minimum hourly or daily wage. Now, let in an industry, the standard of output set by the management is 16 pieces per day. If a worker produces less than this quantity, he still gets the minimum guaranteed wage. On the other hand, if another worker exceeds this standard, he will be given the wage in direct proportion to the number of pieces produced by him at the straight piece rate.

- Advantages- i) Guaranteed minimum wage is provided.
- ii) This system takes some care of the enforced idleness which is beyond the control of the workers.
- Disadvantages-

This system does not offer sufficient incentives for a worker who exceeds the set output.

III) TAYLOR'S DIFFERENTIAL PIECE RATE SYSTEM:-

F.W. Taylor modified the piece rate system with guaranteed minimum wage. This system tends to overcome the disadvantages of the previous system to make it beneficial for both the workers and the management. In this system, the management decides the following factors:

- i) The standard production rate (hourly or daily) of the jobs.
- ii) Two wage rates such as -

R_H = Higher wage rate

R_L = Lower wage rate

In this method of wage payment, if the worker's production rate is less than the standard rate, he will be paid on the basis of lower wage rate R_L & if the worker's production rate is equal to or higher than the standard rate, he will be paid on the basis of higher wage rate R_H .

IV) MERRICK'S DIFFERENTIAL PIECE RATE SYSTEM:-

Merrick modified the Taylor's differential piece rate system. In this system, a minimum wage was assured to the workers & suggested separate differential piece rates in increasing order.

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In this system,

- i) standard wage rates are decided for different jobs.
- ii) wage rates say R_1 , R_2 & R_3 are fixed for each type of job in increasing order.
- iii) upto 83% of the standard production rate, the worker is paid at the rate of R_1 , which is the lowest rate.
- iv) Between 83% to 100% of standard production rate, the worker is paid at the rate of R_2 .
- v) Above 100% of standard production rate, the worker is paid at the rate of R_3 , which is the highest rate.

The workers are divided into three categories & the rates are paid accordingly.

- Below average - wage rate is R_1
- Average worker - wage rate is R_2
- Superior worker - wage rate is R_3

This system could not become popular because of its complex nature of wage calculations.

E) GANTT'S PLAN:-

This is an improvement over the Taylor's differential piece rate system. In this plan,

A guaranteed minimum wage is provided.

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- ii) standard time for each job is established
- iii) wage is calculated on hourly basis.
- iv) The workers get bonus, while completing the job in standard time.
- v) The system is the combination of guaranteed time rate & a high piece rate system.

VI) HALSEY PLAN :-

In this plan,

- i) Minimum wage is guaranteed.
- ii) Additional bonus for a worker is given who exceeds output standard.
- iii) Standard time is fixed for each job.
- iv) When a worker takes less time than the standard time in completing the job, he is paid extra on time saved.

Wage for a worker is given by,

$$W = R \times T + \left(\frac{P}{100} \right) (S - T) \times R$$

For 50-50 Halsey plan,

$$W = R \times T + \left(\frac{50}{100} \right) (S - T) \times R$$

$$= R \times T + \frac{(S - T) \times R}{2}$$

where, R = Hourly wage rate

T = Actual time taken to complete the job

s = Standard time to complete the job

- Advantages -

- Guaranteed minimum wage
- It is simple to operate & understand

- Disadvantages -

- Workers don't feel good on the point that management shares the percentage of bonus on the time saved by their efforts only.
- Output standards are based upon previous production records & may not be fair or accurate to the workers.

VII) ROWAN PLAN :-

- Like Halsey plan, it provides guaranteed minimum wage.
- Like Halsey plan, it relies upon output standards based upon previous production records.
- Unlike Halsey plan, it gives bonus on $\left(\frac{s-T}{s}\right)$ rather than on $(s-T)$.

In Rowan plan,

$$W = R \times T + \left(\frac{s-T}{s}\right) \times RT$$

where, W = Wage earned

R = Hourly wage rate

T = Actual time taken to complete the job

$S =$ standard time taken to complete the job.

- Advantages-

- It can be employed even if the output standard is not very accurate.
- It provides a guaranteed minimum wage

- Disadvantages-

- workers do not like that management shares their bonus.
- it is not easy to understand & operate.

- * INCENTIVES FOR INDIRECT WORKERS:-

workers are of 2 types:-

- i) Direct workers: are those who operate the machines & turn out production. A milling machine operator is a direct worker. All the wage incentive plans explained above relate to direct workers.
- ii) Indirect workers:- are those who assist, guide & supervise direct workers. Indirect workers may be classified as follows:
 - i) material handlers, setup men, maintenance man etc
 - ii) shop inspectors, supervisors, foremen etc
 - iii) Managers

INCENTIVE SCHEMES FOR INDIRECT WORKERS:-

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I) For Material handlers, Setup men, Maintenance men etc-

- i) They can be given bonus at the flat rate say 10%.
- ii) They can be given half of the incentives applicable for direct workers.

II) For Supervisory staff - A supervisor may be given bonus depending upon the following factors-

- i) Number of work hours saved in achieving the same output,
- ii) Number of satisfactory units produced by his section in one day.
- iii) Reduction in scrap & wastage
- iv) optimum utilization of workers.
- v) Net cost saved for the organisation &
- vi) Number of orders in whose case delivery dates were met.

III) For Managerial staff - Incentives to managerial staff may be in the form of -

- i) Bonus - may be given to the managerial staff in proportion to the salary drawn by them.
- ii) Issue of shares - company shares may be issued to the managerial staff. The shares get accumulated year after

year & this induces a sense of discipline in the managers who start realising that they are partners in the company & they have to work sincerely.

iii) Profit sharing- As per the mutual agreement between the employer & the indirect workers, a portion of the company profits may be shared by the indirect workers in addition to their normal wages.

iv) Fringe benefits:- include-

- a) free accommodation
- b) subsidized children education
- c) financial assistance at the time of difficulty
- d) provision of conveyance etc.