

Q. 3. Describe briefly the various systems of remunerating labour in factories and indicate the merits and demerits of each. □

OR Distinguish between the Piece Rate System and the Time Rate System of Wage Payment. Examine the merits and demerits of each of them.

Ans. **DIFFERENT METHODS OF REMUNERATING LABOUR**

The methods of remunerating the labour can be divided into three parts; (i) Time Rate System, (ii) Piece Rate System and (iii) Incentive Wage Systems. Details are as follows :

TIME RATE SYSTEM

Under this method, the workers are paid the wages on the basis of time : per hour, per day, per week, per fortnight or per month etc. This system does not

consider the production of the employees during this time. The amount of wages under this system is calculated as given below :

Wages=Time spent by the worker x Rate of wage according to time

Suitability of Time Rate System

This system of wage payment is particularly suitable in the following circumstances :

1. When it is not possible to measure the production in terms of units or in any other terms.
2. When it is not possible to divide the production into units.
3. When the production is of the nature that it requires efficiency more than the speed,
4. When the worker is under training.
5. When the work is of high standard

Merits of Time Rate System

1. **Simplicity.** It is very easy to calculate the amount of wages under this system.

2. **Certainty of the Amount of the Remuneration.** This system of wage payment provides certainty of the amount of wage payment to the employee. It develops the feeling of confidence and certainty among them.

3. **High Quality of Production.** As this system of wage payment has no concern with quantity of production, quality of production produced by the workers under this system is very high.

4. **Proper Utilisation of the Factors of Production.** As this system is not related with speed, the workers perform their work in very confident manner. They make the best utilisation of the factors of production.

5. **Best System for Artistic Work.** This system of wage payment is most suitable for artistic work.

6. **Co-operation and Unity of Workers.** As all the employees doing the work of same nature get the same amount of wages, this system develops the feeling of co-operation and unity among the workers.

7. **Suitable for the Health of Workers.** This system of wage payment is suitable from the point of view of health of workers.

8. **Suitable for the Employees Providing Indirect Services.** This system of wage payment is very suitable for the employees who render their services indirectly as Engineers, Supervisors, Superintendent and Foreman etc.

9. **Co-operation between Labour and Capital.** This system of wage payment brings the industrial peace because it satisfies the workers and the industrialists. Thus, it develops harmony and co-operation between labour and capital.

10. **Popular Method.** This method of wage payment is very popular.

Demerits of Time Rate System.

1. **Lack of Incentive.** This system of wage payment makes equal payment to both the efficient and inefficient workers. Therefore, efficient workers do not get any incentive for more production.

2. Encouragement of Labour Unions. This system encourage labour unions. Sometimes, these labour unions misuse their powers.

3. Misuse of Time by Workers. Under this system of wage payment, the workers do not make proper utilisation by the time.

4. Need of Intensive Supervision. This system requires intensive supervision over workers. It increases the cost of supervision.

5. Fall in the quantity of production. Under this system of wage payment, the quantity of production decreases because the workers do not get any incentive for increasing the production.

6. High Cost of Production. As the production is low and the payment to the workers is more, this system increases the cost of production.

7. Increase in Cost Per Unit. This system increases the cost per unit of production. Under this system, the cost per unit of production is uncertain because the quantity of production differs from time to time.

8. Difficult to Measure the Efficiency. Under this system of wage payment, it is very difficult to measure the efficiency of workers because all the workers of equal status are paid the wages at equal rate.

9. It kills the Efficiency of Workers. As this system does not make any difference between efficient and inefficient workers, it kills the efficiency of efficient workers.

PIECE RATE SYSTEM

Under this system of wage payment, the workers are paid the wages on the basis of quantity and quality of work performed by them. Under this system, the rates of wages are determined according to quantity and quality of work and the workers are paid according to these rates. The amount of wages to be paid to a worker under this system is calculated as under :

$$\text{Wages} = \text{Units of production} \times \text{Rate per unit.}$$

Suitability of Piece Rate System

This system of wage payment is very suitable in the following conditions.

1. When the work is of standard nature.
2. When the work can be measured easily.
3. When there is a great need of increase in the production.

Merits of Piece Rate System

1. Incentive to More Work. This system encourages the workers to do more and more work because they get their wages according to their work.

2. Increase in the Quantity of Production. The system of wage payment gets more production because all the workers make their best efforts to increase the production

3. Best Utilisation of Time. As the workers are paid according to their work, they make the best possible utilisation of their time. They do not want to waste their time.

4. Proper Utilisation of Machines. Under this system, the workers use their machines and equipments with proper care because they feel that if their machine is out of order, their work will be held up and their wages will be low.

5. Decrease in the Cost of Production. This system decreases the cost of production because the maximum production is done by the workers in the minimum time. It decreases the cost per unit of production also.

6. Decrease in the Cost of Supervision and Administration. This system of wage payment minimises the needs of supervision. It reduces the cost of supervision.

7. Easy and Simple. This system of wage payment is very easy to understand and very simple to calculate.

8. Justified. This system of wage payment justified also because the workers are paid the wages according to the work performed by them.

9. Improvement in the Standard of Living of Workers. Workers get more wages because they produce more. It increases their efficiency and productivity. It increases their remuneration also which improves their standard of living.

10. Mobility of Workers. This system of wage payment increases the mobility of workers because they can change their enterprise easily.

11. Measurement of the Efficiency of the Workers. This system provides an opportunity to measure the efficiency of the workers. It makes proper distinction between efficient and inefficient working staff of the enterprise.

12. Helpful in Maintaining Industrial Peace. This system brings industrial peace also because it satisfies both the workers and the employer.

Demerits of Piece Rate System

1. Lack of Unity among Workers. This system lacks the unity and mutual co-operation among workers. They feel themselves competitor to each other.

2. Adverse Effect on the Health of Workers. This system motivates the workers to do more and more work. It affects the health of workers adversely.

3. Misuse of the Factors of Production. The workers do not pay proper attention towards the factors of production. They only want to increase the speed of production.

4. Low Quality of Production. This system of wage payment does not pay any attention on the quality of production. As a result of it the quality of production falls.

5. Unsuitable for Artistic Work. This system is not suitable for artistic work because artistic work cannot be paid only on the basis of quantity of production.

6. Loss of Workers on the Failure of Machines etc. if because of any reason, the machines fail or the power fails, the work of workers is held up and they lose their wages.

7. Uncertainty of Wages. As the amount of wages depends upon the quantity of production, the actual amount of wages to be paid is always uncertain. The workers also cannot estimate their remuneration in advance. □

Ans. **MEANING OF INCENTIVE WAGE SYSTEM**

As described in earlier questions, there are two basic systems of wage payment-time rate system and piece rate system. Both the systems have their merits and demerits. No system can be considered suitable for all times and under all circumstances. To maintain the merits of both the systems and to overcome the demerits of these systems, some experts have developed the systems of incentive wage. These systems are also known as incentive wage systems, progressive wage system and bonus schemes etc. Under these systems, both the time and speed are considered as the basis of wage payment. These systems provide incentives to the workers to produce more and more maintaining the quality as well. The workers are paid bonus or premium for the additional work. It is important to note that almost all the systems of incentive wages provide for minimum guaranteed wages to the workers.

CHARACTERISTICS OF AN IDEAL INCENTIVE WAGE SYSTEM

Important characteristics of an Ideal Incentive Wage System are as under :

1. It must be easy to calculate and to understand.
2. It must establish direct relationship between efforts and remuneration.
3. It must be in the interests of both the employers and the employees.
4. It must give a guarantee of minimum wage to all the workers.
5. It must be flexible but stable.
6. It must be framed in the manner so that it may be used widely for all the activities of the enterprise.
7. The standards of work must be determined on scientific basis.
8. It must be helpful in increasing the production as well as productivity.