

## Quadrant II – Notes

**Paper Code:** COC112

**Module Name:** Wage Systems

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### **Notes:**

### **Systems of Wage Payments:**

#### **Introduction:**

Wages means compensation or monetary payments made by the employer to the employees for the work done or the services rendered by them. The primary systems of Wage payments are Time Rate system and Piece Rate system. The government employees and employees in the public and private sector enterprises are paid based on these two primary systems of wage payment.

#### **(A) Time Rate System:**

##### **Meaning of Time Rate System:**

Time rate system is also called as Day work, day wages or day rate system or Time wage system, in which the employees are paid on the basis of time spent by them in the organisation or time they have worked in the factory rather than the quantity of output they have produced or the production given by workers. On the basis of the nature of work, the time period may be considered as an hour, a day, a week, a fortnight or a month and the wage rate will depend upon the actual period of time considered for final payment by the organisation. Remunerations are paid based on time spent by them for the production of output, irrespective of the amount of output or the level of completion of the work. It is fixed payment per hour, day or per month.

❖ Wages are determined by using the following **formula:**

Wages or Earnings = Number of Hours worked x Rate per Hour or Day or Month

## **Merits of Time Rate System:**

### **1) Easy and simple system of wage payment:**

Calculation of the time spent on the job and the amount of wages earned at the end of an hour, day, week, fortnight or month is very simple and is easy to understand and operate. Every employee knows how much remuneration they will get at the end of the time period for which they have worked.

### **2) Guarantee of minimum wages:**

It gives guarantee of minimum amount of remuneration to be enjoyed by the workers irrespective of their performance or the output given by them. Time Rate system gives guarantee of enjoying minimum wage payment to every employee irrespective of their individual ability to perform the assigned task.

### **3) Security to workers:**

It gives a feeling of assurance and security to the employees as the amount of wages is certain and it offers assured wages to workers on the basis of time and he knows in advance the total remuneration he will get at the end of the specific time period.

### **4) Maintain Quality of production:**

In the time rate systems as the workers are paid based on the hours of service given by them irrespective of the amount of production, workers work with care and they are not in a hurry to complete the work and thus the quality of production is maintained.

### **5) Acceptable to Trade Unions:**

Trade Unions always prefer time rate system since this form of wage payment does not make any discrimination in wage matter between efficient and inefficient workers based on the given performance, but all workers

### **6) Suitability:**

Time wage payment system is suitable in the organisation system where quality of product is more important than quantity or the materials used to produce the ultimate product are very costly and production process is continuous and integrated, where it is not possible to measure the work completed by one individual worker.

**7) Equality of wage payments:**

In case of time rate system the workers performing the similar jobs get the same rate of wages. It does not discriminate the workers. Pays the same rate of remuneration to efficient and inefficient workers, based on the time factor, irrespective of their individual performance.

**8) Less wastage:**

Under time rate wages, since the workers are paid based on the time factor rather than their individual performance, the workers need not speed up their operations with the intension of earning higher wages. They focus more on quality resulting in lesser wastage of materials.

**Limitations of Time Rate System:**

**1) Not Scientific in nature:**

As there is no direct linking between wages and production or individual performance, Time rate system cannot be considered as a scientific system of wage payment. Since the remunerations are paid based on hours of service.

**2) Absence of positive encouragement:**

As uniform rate of remuneration are paid based on the nature of job, to all the employees (Efficient and inefficient) based on the hours of service given by them. It does not act as a tool of motivation to workers.

**3) No initiative to workers:**

As the wage payments are not made as per performance, Time rate system of wage payment does not encourage workers to take more interest and initiative in the assigned work and may encourage them to follow go slow, policy.

**4) No distinction between workers:**

In time rate system distinction among employees is not made as efficient and inefficient as all are paid based on the time factor. It proves to be unfair to efficient employees as they are paid less than what they deserve.

**5) Labour cost may increase:**

Since the wages are paid based on the time factor, in the time wage system, there is a possibility of increase in the labour cost without corresponding

increase in the production. Due to low efficiency of workers, the average cost of production is generally on higher side.

**6) Strict Supervision necessary:**

Due to time based payments, there arises need for strict supervision and control in order to motivate the employees to improve the quality and quantity of production. It demand close supervision to ensure better productivity, which increases expenditure on supervision.

**(B) Piece Rate System:-**

**Meaning of Piece Rate System:**

Piece Rate System also called as Piece Wage System is another primary system of wage payment. In the piece rate system wages are fixed for every unit of production and thus wages are paid as per the output or performance given by the individual worker, irrespective of the time spent by the worker in the factory. It is just opposite to the time rate system. It is also treated as an incentive wage system as it encourages workers to produce more and also to earn more. The earnings of workers depends upon the speed of his work and his own skills and efficiency. An efficient worker would earn higher wages as compared to inefficient workers.

❖ Wages may be calculated by using the following **formula:**

Wages = Number of units produced x Rate per Unit.

**Merits of Piece Rate System:**

**1) Scientific in nature:**

In piece wage system wages are linked with production. It pays the workers according to the units of output produced. Workers work with speed and use their capacity fully as the wage payment is directly related to the quantity of production given by a worker.

**2) Classify workers as efficient and inefficient:**

In the piece wage system distinction is made among the employees as efficient and inefficient based on their individual performance. Full justice is given to

efficient and skilled worker as more wages are paid to them in proportion to the production given by them.

**3) Motivates workers initiative in the work:**

As wages are linked with efficiency of the workers, higher the number of units produced higher are the wages paid to them. Piece wage system encourages workers to take more interest and initiative in the work as every worker gets full reward of his efforts.

**4) Fair to employer and employees:**

It motivates the workers to be efficient enough. The employees get wages in proportion to the actual production given by them and the employer gets good production in proportion to the wage payments. Piece wage system proves fair to employer and employees.

**5) Incentive system:**

Piece wage system serves as the incentive system of wage payment as compared to time rate system. Workers work efficiently and take interest in the assigned work due to corresponding reward or higher wage payments.

**6) Demand Limited supervision:**

Supervision and control required is less as compared to time rate system. In the piece wage system, as the workers work efficiently strict supervision on them is not necessary.

**7) Ensures cordial industrial relations:**

Piece rate system offers benefits to employer and employees and ensures cordial labour management relations. It is supported and given preference by efficient workers with the intension of enjoying higher remuneration based on their performance.

**Demerits of Piece Rate System:**

**1) No guarantee of minimum wage payment:**

Under piece rate system the amount of wages are not certain as there is no guarantee of minimum wage payment to workers. This may prove dangerous to inefficient, newly selected, un-trained and below average workers.

**2) Workers suffer even when not at fault:**

Sometime workers suffer even when they are not at fault. If there is sudden breakdown in the machinery or shut down in the power supply workers may not be able to produce and naturally they will not be eligible for better wage payment.

**3) Complicated and difficulties:**

Piece rate system demand perfect record keeping of day to day performance of every individual employee. It discriminates workers as efficient and inefficient and thus there are possibilities of disputes.

**4) Disturbs unity among workers:**

In case of piece rate system, the remunerations are paid based on the piece of work, it affects the unity among the workers, as wage payment will not be uniform to all workers. This will lead to disputes among workers and workers and management.

**5) Not fair to trainees or unskilled employees:**

Piece wage system does not proves fair to trainee or unskilled employees. The capacity of unskilled or trainee employees is less as compared to skilled and trained employees.

**6) Lack of Security to workers:**

Piece Rate System does not give a feeling of assurance and security to all the employees. The amount of wages are uncertain as are paid based on individual performance. Does not offer assured wages to workers based on time spent.

**7) May affect the Quality of production:**

Piece wage system may affect the quality of production when the workers work with high speed and are in a hurry to increase production to enjoy higher remunerations. In addition wastage and spoiled work is likely to increase.

**8) Not preferred by Trade Unions:**

Trade Unions does not prefer piece rate system of wage payments since this form of wage payment does gives guarantee of minimum remunerations. Discrimination in wage matter is made in between efficient and inefficient workers based on the given performance.