LABOUR REMUNERATION

Labour refers to the hours worked by the employees who are taking part directly in the production process. It also refers to the payment made to the workers who are directly involved in the production process. It is normally paid as compensation of the hours worked. It includes all the monetary compensation to the employees e.g. wages, commission, overtime, bonuses etc.

Labour cost therefore is the cost of purchasing the labour from employees.

Labour is classified into two:

i) Direct labour
ii) Indirect labour

Direct labour

This is the kind of labour which is directly involved in the process of production i.e. they are the ones who produce the output of an organization. Their payment is directly linked to the number of the hours taken in the production. Their earnings are collection of the number of the hours taken and the rate per hour.

Indirect labour

This is the kind of labour which does not take part directly in the production process. They are not included in the production cost statement. They are normally referred to as production overheads. Example include:

- Factory security
- Factory manager salary
- Supervisors salary

Characteristics of a satisfactory labour remuneration system

Before deciding on a particular system in which the payment can be made, the following factors can be considered:

1. The system should produce the quantity and the quality of the work required i.e. should not produce substandard output
2. It should be clearly defined such that the employees can compute their own dues.
3. The scheme should guarantee a minimum wage for each employee (basic salary).
4. The earnings should not be affected by the factors outside the control of the employees e.g.. the shortage of materials
5. Where the payment made is based on output then there should be no maximum limit for individual earnings.
6. The system put in place should help to reduce the labour turnover and absenteeism.

7. The system should be flexible so that the changes can be incorporated where necessary.
8. The scheme should be capable of operating without excessive administration and paper work.
9. The system adopted should be in line with the legal requirements and trade union agreements.

Labour turnover

It is the rate of change in the composition of workforce during a specified period of time. i.e. it's the net departure of employees during a specified period of time.

It is a common feature in most enterprises where the employee gets opportunity elsewhere and new employee join the organization.

Causes of labour turnover

These cause are divided into two namely:

a) Avoidable causes
b) Unavoidable causes

Avoidable causes

These are the causes which an organization can prevent. They are within the control of an organization to either eliminate or reduce. It includes the following:

- Gender discrimination
- Lack of job security
- Poor remuneration
- Lack of promotion opportunity
- Trade union problems
- Lack of incentives
- Poor working conditions

Unavoidable causes

These are the causes that an organization cannot control or prevent. It includes the following:

- Death

- Retirement
- Incapacitation/ insanity
- Organizational change in structure technology etc.
- Resignation
- Personal dislike of the job or job environment
- Discharge on disciplinary ground
- Pregnancy (air hostess)

Positive effects of labour turnover

1. Motivates employees – some turnover happens due to internal promotions an excellent reason that can motivate other employees.
2. Improve talent potential – Turnover can create an opportunity for other motivated employees to prove their proficiency within a role.
3. Brings in fresh perspectives – Hiring new employee means an organization is gaining a fresh perspective and new ideas.
4. Leads to improved performance – Tracking performance ratings alongside employee turnover can help understand if the organization if losing top performers or if departing employees had performance issues.
5. Cracks are exposed – Losing high performers is not a positive effect but it can be used as system test. Any problems within the systems or workflow the departing high performer managed will quickly show themselves.
6. Refine retention strategies – Departing employees can help HR team refine retention strategies if they participate in exit interviews.

Negative effects of labour turnover

1. It can make it difficult to retain top talent- The best employees may not want to work for a constantly changing company.
2. It's expensive to train new employees constantly – with new employees come new training costs.
3. It's hard to maintain quality control because it takes time for new employees to learn the ropes and become experts in their field.
4. It can damage company's reputation because potential customers may perceive the company as being unstable or unprofessional.
5. It can lead to low morale and employees burnout – Employees may feel that they are likely lose their jobs this can lead to anxiety and stress.
6. It can increase labour cost – This is because more overtime maybe paid to cover for employees who have quit.

METHODS OF LABOUR REMUNERATION

These methods are:
Time Rate system
Piece rate system
Bonus scheme
Profit sharing co-ownership
Differential piece rate system

Time Rate system

Under this system, the workers are paid by the hour, day, week or month. The amount of wages due to a worker are arrived at by multiplying the time worked by the appropriate time rate.

Time rate system is suitable:

1. When productivity of an employee cannot be measured precisely
2. Where quality of products is more important than the quantity produced.
3. Where individual employees do not have any control over production
4. Where close supervision of work is possible.
5. Where workers delays are frequent or beyond the control of worker.

Advantages of time rate system:

1. Simple to understand and calculate wages.
2. Reduces temptation on part of workers to increase quantity at the expense of quality.
3. It increases stability in wages.
4. Unity in labour no distinction between efficient and inefficient labour due to quality production.
5. Beneficial to the beginners –because they may not be able to attain a particular level of production on entering employment.
6. Less wastages – workers will not be in a hurry to push through production.

Disadvantages of time rate system:

1. This method does not distinguish between efficient and inefficient workers. The payment of wages is related to time and not output
2. Wastage of time- Workers may waste their time because they will not be following a target production.
3. Low production – Since wages are not related to output production rate will be low.
4. Difficulty to determine labour cost because wages are not related to output. Employees find it difficult to calculate labour cost per unit because the output will vary from time to time while wages will remain constant.
5. No monetary incentive to raise the level of production
   Factors that determine wage rate
   Ability to pay – The ability of an industry to pay will influence wage rate to be paid.
   Demand and supply – Demand and supply of the labour force in the market will determine the wage rate.
   Prevailing market rates – The wage rates paid in the industry or other concerns in the same place will form a base for fixing wage rates.
   Cost of living- Wages are linked to enterprise cost of living which ensures a fair wages

to workers

Piece rate system

Its system where workers are paid per item of work completed. This system is suitable when:

1. The tasks are repetitive
2. When the company measurers the output quantity
3. When the company measurers the output quality.

Advantages of piece rate system

1. Increased production and efficiency: Employees are aware they may get paid more if they perform their work efficiently and swiftly.
2. Minimal supervision: Employees are self-driven and work as fast as they can to increase their wages.
3. Easier wage calculation: payment is based on unit completed.
4. Less wasted time: Time wasting is avoided because if employees are not producing they are not paid
5. High production rates: employees are not wasting time and they are always working hard to achieve their target which leads to high productivity.
6. Self-evaluation by the employees : Employees always set their target and always try to achieve them

Disadvantages of piece rate system

1. Workers pay much more attention to quantity and not quality
2. Finding and fixing a reasonable piece cost is a tough task.
3. It put immense pressure on all employees
4. Discontentment – some employees may feel unsatisfied with their level of compensation per unit produced. High performing employees may also feel discontented at receiving non extra reward.

CPA NOV 2011 Q 2a,

Babycom Limited manufacturer's different types of toys. The company engages three employees. Abel, Bilha, and Charles.

The following information relates to a certain week for the three employees:

	Abel	**Bilha**	**Charles**
Units produced	300	528	120
Time allowed per unit (minutes)	15	7.5	20
Units rejected	74	126	40
Basic hourly rate (sh.)	30	50	25
Actual hours worked	48	54	
			40

Additional information:
A bonus is paid at 66 2/3% of basic hourly rate for all time saved.
Owing to faulty materials creating an abnormally high rate of rejection, it was agreed to credit all output for bonus purposes.
The eight hours worked in excess are paid at the basic hourly rate plus one –third and the next eight hours at the basic hourly rate plus one –half.
A basic week has 40 hours.
Required:
Determine for each employee:

i. The amount of bonus payable (3 marks)
ii. The gross wages payable (3 marks)
iii. The wages cost per goods unit (2 marks)

Employees	Hrs Allowed	Hrs Taken	Hrs Saved	Overtime
Abel	75	48	27	**8**
Bilhah	66	54	12	**14**
Charles	**40**	**40**	**0**	**0**

ii) Gross wage = basic rate/rate per hour x normal hours worked
Abel = 30 x 40 = 1200
Bilhah = 50 x 40 = 2000
Charles = 25 x 40 = 1000

<u>Overtime</u>
Abel = 8 x 30 x 1 1/3 = 240
Bilhah = 8 x 50 x 1 1/3 + 6 x 50 1 ½
8 x 50 x 4/3 + 6 x 50 x 3/2
= 983

<u>Total pay for each employee</u>
Abel = 540 + 1200 + 240 = 2060
Bilhah = 400 + 2000 + 983 = 3383
Charles = 0 + 1000 + 0 = 1000

iii) Wage per good unit

Abel = $\frac{2060}{300 - 74}$ = 9.1

Bilhah = $\frac{3383}{528 - 126}$ = 8.4

Charles = $\frac{1000}{120 - 40} = 12.5$

CPA MAY 2005 Q 3a,

Ardhi company Ltd. Is considering the type of remuneration scheme to adopt for its employees. The following information is availed to you for your analysis

	Employees						
	Mambo		Saidi		Mbogo		Zainabu
Actual hours worked	38		36		40		34
Hourly rate of pay (sh)	30		20		25		36
Output(units) A	42		120		-		120
B	72		76		-		270
C	92		-		50		-
		A	B	C			
Standard time allowed per unit (minutes)		6	9	15			

For calculation of piecework earnings, the company values each minute at a rate of sh. 0.5

Required:

Calculate the earnings for each employee using

i) Basic guaranteed hourly rates
ii) Piecework rates
iii) Premium bonus given that an employee earns the premium bonus at the rate of two thirds of the time saved.

(b) Ushindi Ltd. Manufactures ornaments for export trade. Jobs are allocated to two operators Mbotela and Juma with bonus paid for hours saved.

In the month of February 2005 Mbotela made 186 units and Juma made 210 units for which the time allowed of 30 standard minutes and 25 standard minutes per unit respectively was credited.

The basic wage rate was sh. 18 per hour for both employees. for every hour saved a bonus was paid at 20% of the basic wage rate. Hours worked in excess were paid at the basic wage rate plus two thirds

Mbotela completed his job in 44 hours and Juma completed his job in 39 hours

A basic working week has 40 hours.

Required:

For each operator

i. The amount of bonus payable
ii. The total gross wage payable
iii. The wages cost per unit

	Hrs Allowed	Hrs Taken	Hrs Saved	Overtime
Mambo	38	38	0	
Saidi	23.4	36	0	
Mbogo	12.5	36	0	
Zainabu	**52.5**	**34**	**18.5**	

i) Basic wage

Mambo 38 x 30 = 1140

Saidi 36 x 20 = 720

Mbogo 40 x 25 = 1000

Zainabu 34 x 36 = 1224

ii) Piecework rates

Mambo 38 x 60 x 0.5 = 1140

Saidi 36 x 60 x 0.5 = 1080

Mbogo 40 x 60 x 0.5 = 1200

Zainabu 34 x 60 x 0.5 = 1020

Bonus

Zainabu 18.5 x 36 x 2/3

= 444

iii)

	Basic pay	**Bonus**	**Total pay**
Mambo	1140	0	1140
Saidi	720	0	720
Mbogo	1000	0	720
Zainabu	1224	444	1668

b. Bonus

	Mbotela	**Juma**	
Time allowed	186x30/60 =93	210x25/60 = 87.5	
Time taken	= 44	= 39	
Time Saved	= 49	= 48.5	
Bonus	49x0.2x18 = 176.4	48.5x0.2x18 = 174.6	

Gross wage = Basic pay + Bonus due + Overtime premium

	Mbotela	**Juma**
Basic Pay	18x40 = 720	**18x40 = 720**
Bonus	= 176.4	**= 174.6**
Overtime	44 -40 = 3/5x18 =120	**-**
	= 1016.4	**= 894.4**

Wage cost per unit 1016.4/186 = 5.46 894.4/210 = 4.26

Group Bonus Scheme

These are the schemes developed by the employees to reward their employees as a group. This normally happens where the work done is to affect a number of employees in a given section. Although in the long run each individual employee will benefit from the group.

In this system the bonus for the whole group is determined and distributed to individual employee based on the time taken or the salaries.

Advantages

1. It always encourages co-operation between the employees.
2. It enables employees to produce quality items which could not have been produced in the absence of incentives.
3. It reduces the number of rejection i.e. the spoilt items

Disadvantages

1. Employees who are not hard working will benefit from the input from the hardworking employees.
2. It is not easy to determine the basis of apportioning or sharing the bonus.

Factors to consider when designing the group incentive

1. It should be designed in such a manner that only employees making the extra effort should receive the incentives.
2. The profitability level of the enterprise should be taken into account so as to ensure the incentives does not lead to the loss making.
3. The scheme should have rules and regulations.