

SUBJECT- BUSINESS ORGANIZATION

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METHODS OF REMUNERATING LABOUR - I

INTRODUCTION

Labour is the second element of cost after materials. Labour cost represents the remuneration for employees' effort in the production process. Controlling labour cost involves complex procedure since it involves human beings and controlling human behaviour is complex. This chapter will explain the process for determining and controlling labour cost.

Labour as a factor of production

Factors of production are resources or inputs that are used to facilitate the production of goods and services. Labour is the effort of employees required to transform raw material into finished goods and services. Labour takes the form of employee knowledge, expertise and experience. Without these skills, production cannot take place. Labour encompasses all categories of the workforce of an organisation spanning from top management down through the hierarchy of responsibility to the grass root workforce.

From the perspective of cost-accounting, labour cost determination and control is very important because it has huge cost implications for the organization. Labour cost consists of: recruitment cost, cost of training and staff development, wages and salaries, employee bonuses,

overtime premium, group incentives etc. if these cost are not properly controlled, total cost may not be minimized.

* Labour recruitment process cost

Labour recruitment refers to the process of engaging employees in the organization for their services. Depending on the policy of the organization, the mode of recruitment is determined either internally or externally. The following steps are usually undertaken:

- A job analysis is done to determine the role, responsibilities, and person specification required.
- Internally - an advert is placed on company notice board and a search conducted.
- Externally, consideration is given to various search options like labour office, newspapers, outsourcing, job-fairs, executive searches and so on.
- Applicants respond to companies' invitation and the company proceeds to shortlist potential applicants.

* Selection Process.

- Interviews are conducted - whether structured or unstructured. A structured interview should have an agreed format with questions ordered to evaluate applicants.
- The right candidate is selected using pre-determined criteria.