

SUBJECT- BUSINESS ORGANISATION

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METHODS OF REMUNERATING LABOUR- 4

Premium Bonus Schemes

Bonus schemes are intended to reward employees for their efficiency in saving cost for the organisation through the saving of time. These are therefore schemes for sharing extra profits with employees. Conceptually, bonus can only be awarded where there has been cost savings or improved performance that leads the organisation to exceed its profit target. To be able to compute bonuses, we must first appreciate the following concepts:

Time allowed: This refers to the expected time to be spent in doing some piece of work e.g. if time set for one unit is 5 hours, then 100 units shall be 500 hours.

Time allowed may therefore not be the same as the hours worked.

Time taken: This is the number of hours actually used in performing a piece of work.

Time saved: It is the difference between time allowed and hours worked, when time allowed is greater than hours worked.

Premium bonus: This is paid when time has been saved; the magnitude of the bonus therefore depends upon the time saved.

Types of Premium Bonus Schemes

These include the following:

- (i) Halsey Bonus scheme
- (ii) Halsey Weir Bonus scheme
- (iii) Rowan Bonus scheme

I. HALSEY BONUS SCHEME

According to this scheme, the time saved should be apportioned equally between the employer and the employee.

$$\text{Bonus} = \frac{1}{2} \times \text{Time saved} \times \text{Day Rate}$$

Note: $\text{Time allowed} - \text{Time taken} = \text{Time saved}$.

II. HALSEY WEIR SCHEME

Under this scheme the proportion is 2:1 in favour of the employer. Thus, the employee gets only a third of time saved at the rate per hour.

$$\text{Bonus} = \frac{1}{3} \times \text{Time saved} \times \text{Day rate.}$$

III. ROWAN SCHEME

Under this system, the bonus awarded to the employee is the proportion between time taken and Time allowed of the Time saved.

$$\text{Bonus} = \frac{\text{Time taken}}{\text{Time allowed}} \times \text{Time saved} \times \text{Day Rate}$$

It therefore follows that if the employee saves more time, he gets a greater bonus. Many business organisations determine their bonuses through negotiation with employee groups. The factors that influence the size of the bonus include the following:

- Time saved by employees
- Cost saved by employees
- Improved productivity.
- The amount of super profits made by the business organisation
- The achievements of other budgetary targets etc.