

## SUBJECT- BUSINESS ORGANISATION

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### PIECE RATE METHODS OF REMUNERATION

Under this method, the amount earned by the employee is based on the number of units produced. Piece rates can be examined under three headings, namely:

1. Straight Piece Rate.
2. Differential Piece Rate.
3. Piece Rate with guaranteed time rate.

#### I. STRAIGHT PIECE RATE

Under straight piece rates the payment to the employee is computed thus: No. of units produced  $\times$  Rate per unit. The worker receives a fixed rate for each unit produced which does not depend on the time taken to produce it. Earnings therefore depend on the volume of the worker's output.

#### Advantages

1. Effort is rewarded and in consequence, the employee is given the incentive to produce more.
2. Because employees are self-motivated, less supervision is required.
3. The employer benefits from a reduction in the overhead cost per unit of production.

## Disadvantages

1. There is a danger that quality will be sacrificed and in order to avoid such a situation the employer would spend more on inspection and quality control.
2. Piece workers, after earning certain remuneration during a week, might be satisfied and slacken their pace, arrive late or absent themselves. Plant is therefore left idle and capacity is under-utilised.
3. A considerable degree of time is involved in setting standard times and as these are subject to the agreement of trade-union representatives, further time is often spent in detail negotiation before piece rates are established.
4. If an error is made and piece rates are set too high, it is difficult subsequently to reduce them. This could prove to be extremely costly.

### \* Piece Rate with Guaranteed Day Rate

It is a system adopted to compensate employees on account of low production, leading to earnings according to the piece work are less than the normal Day Rate, he is paid the day rate instead of the Piece Rate.

### \* Differential Piece Rate

Under this scheme the piece work rate changes at different levels of efficiency or production. The object of this is to provide a strong incentive to reach the maximum rate of production.