

Performance And Reward Management
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Lecture - 37

Valuing and grading jobs, understanding pay levels, job evaluation schemes, equal pay, market rate analysis, designing of grade and pay structure

Welcome to the course on Performance and Reward Management.

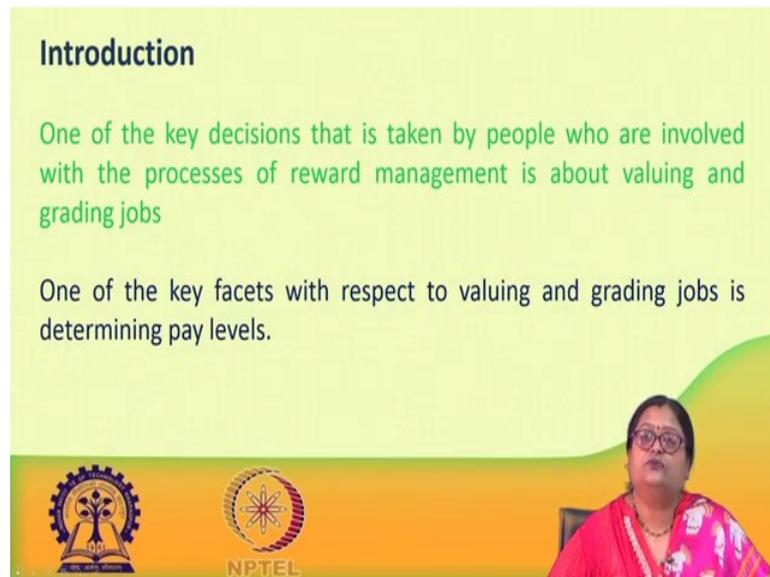
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The slide features a yellow and orange background with a white wave-like border. At the top left, the text 'NPTEL ONLINE CERTIFICATION COURSES' is underlined. In the top right corner is the NPTEL logo, a circular emblem with a stylized flower or star pattern. Below the NPTEL logo, the text reads: 'Course Name: Performance and Reward Management', 'Faculty Name: Dr. Susmita Mukhopadhyay', and 'Department : Vinod Gupta School of Management, IIT Kharagpur'. In the bottom left corner is the IIT Kharagpur logo, which includes a gear, a tree, and an open book, with the motto 'योगः कर्मसु कौशलम्' and the text 'INDIAN INSTITUTE OF TECHNOLOGY KHARAGPUR'. To the right of the IIT Kharagpur logo, the topic is listed: 'TOPIC: Valuing and grading jobs, understanding pay levels, job evaluation schemes, equal pay, market rate analysis, designing of grade and pay structure'.

The topic for today's discussion is valuing and grading jobs, understanding pay levels, job evaluation schemes, equal pay, market rate analysis, designing of grade and pay structure.

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Introduction

One of the key decisions that is taken by people who are involved with the processes of reward management is about valuing and grading jobs

One of the key facets with respect to valuing and grading jobs is determining pay levels.

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The concept that we will be covered today are valuing and grading jobs and determining pay levels. So, when we talk of; like in the process of reward management, one of the very vital topic for discussion is about valuing and grading jobs, because you have been seeing like we were talking of internal equity and external equity also in the process of reward management. So, in the process of doing that it is very important we determine the worth or the value of the job and place it in differentially with respect to the other jobs in the organization.

So, for doing that, in order to value the job and grade the jobs, it is very like determining pay levels are very important, but when we talk of determining pay levels, this are again guided by different theories which tells about the philosophy of the pay and how much it should be the paid in comparison to the work and in comparison to the demands and supply.

We have already introduced you to some of the economic theories very briefly in the module 7. Here we are going to discuss more elaborately on those theories and find out which is working or which is like taking adapted by different organizations. So, let us begin with the theories guiding pay levels.

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Understanding important concepts and theories that affect pay levels

- ❖ Labor market
- ❖ Laws of Demand and supply – Classical economists theory
- ❖ Labor theory of value
- ❖ Human capital theory

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So, the important concepts and theories that affect pay levels are labour market theory, laws of demand and supply which is the classical economics theory, labour theory of value, human capital theory.

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- ❖ Efficiency wage theory
- ❖ Agency theory
- ❖ The effort bargain

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Efficiency wage theory, agency theory and effort bargain theory. We have already discussed to some extent very initially in module 7, here we are going to give the details of these theories.

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Labor Market

Usually markets have buyers and sellers, and labor market is like any other market where employers are buyers and sellers are employees.

Price is the rate per day required to attract the sellers

It is the transactions between these buyers and sellers which constitutes labor market.

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So, we will start with the labor market theory. Here usually markets have both buyers and sellers and the labor market is like any other market where employers are buyers and sellers are the employees. So, price is the rate per day required to attract the sellers, and in that case you understand it is the transaction between the buyers and sellers which constitutes the labor market.

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Labor Market can either be external or internal

External : Outside an organization, it could be a local, national or international market

Internal: Within an organization, vacancies are filled by promoting or transferring internal employees

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So, this labor market can be both external to the organization or internal to the organization. When we talk of external labor market it is outside an organization which

could be local, national or international market. When we talk of internal labor market, so it is within the organization, the vacancies are filled by promoting or transferring internal employees.

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Pay levels consideration in internal markets differ than those in external markets

However, external pressures may influence internal markets

Pay in the internal market majorly depends upon intrinsic value of jobs and worth and expertise of individuals rather than market rate of job

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So, when we talk of internal market and external market. So, what we understand is, when we are talking of internal markets the pay levels may vary, differ than those in the external markets, but we have to understand, because we were talking of internal equity and external equity. The equity with the external environment, the external pressures may influence the internal market.

So, pays in the internal market generally depends upon intrinsic value of the jobs and worth and expertise of the individuals rather than the market reach of the job. So, where is the vacancy in which grade, what are the competencies required for it, what is the, who is the person who can be like promoted or transferred because the competency matches with the level of the job. So, these are the considerations when we are talking of the internal market of the job.

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Classical Economic Theory

Adam Smith was the first person to propose a theory on wages.

He wrote;

“The whole of the advantages and disadvantages of different employments and stock must, in the same neighborhood, be either perfectly equal or continually tending to equality”

Source: Armstrong, M., 2010. *Armstrong's handbook of reward management practice: Improving performance through reward*. Third edition. Kogan Page Publishers, pp. 225



When we talk of classical economic theory, so Adam Smith was the first person who proposed a theory on wages. He wrote; like “The whole of the advantage and disadvantage of the different employments and stock must, in the same neighbourhood, be either perfectly equal or continually tending to equality”. So, if you can read through this it takes of like maintaining, like equity and equality in terms of like equality or equal, in terms of both advantages and disadvantages of employments in stock in the same kind of neighbourhood.

But let us see like whether how far it is practicable or whether it is followed.

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He proposed that workers not just look for high wages but they look for overall high utility

Workers aim at maximizing net advantage from a job which according to him is a function of agreeableness or disagreeableness of work, difficulty and expense of learning it, job security, responsibility and the possibility of success or failure



What he proposed, what Adam Smith proposed is that workers not only just look for high wages, but they also look for high utility. Workers aim at maximizing net advantage from a job which according to him is a function of like agreeableness and disagreeableness of work, difficulty and expenses of learning it, job security, responsibility and the possibility of success and failure. So, when we talk of the maximizing the net advantage from the job.

So, it is more concerned with the job nature, it is concerned with how much difficulty people will have in performing the job, time investment required for it and how much difficult it is for learning it, what are the responsibilities and possibility of success failure and what is the job security. Based on that the summation of this, we will determine the net advantage from a job.

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Classical wages theory states the labour market has both buyers (employers) and sellers (employees).

If supply is more than demand, pay levels go down

If Demand is more than supply, pay levels go up



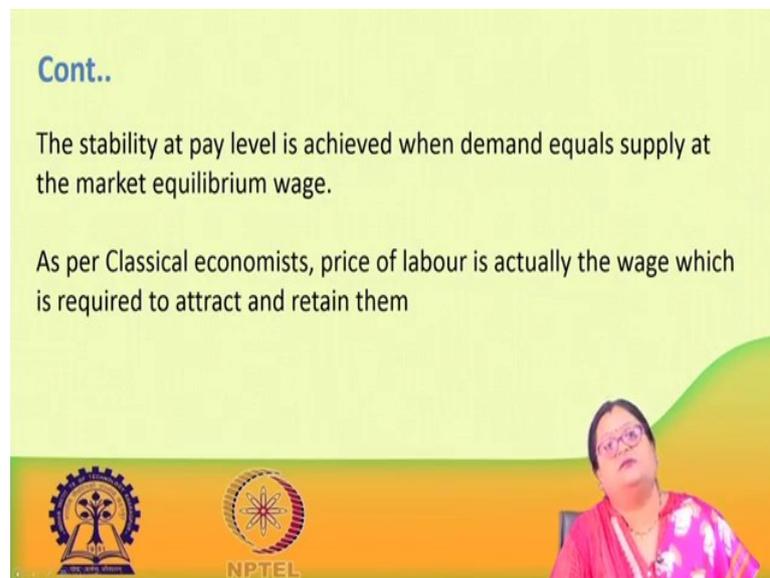
So, the classical wages theory, it takes that labor market has both buyers and sellers. So, if the supply is more than the demand, pay level will go down and if the demand is more than the supply, pay level goes up.

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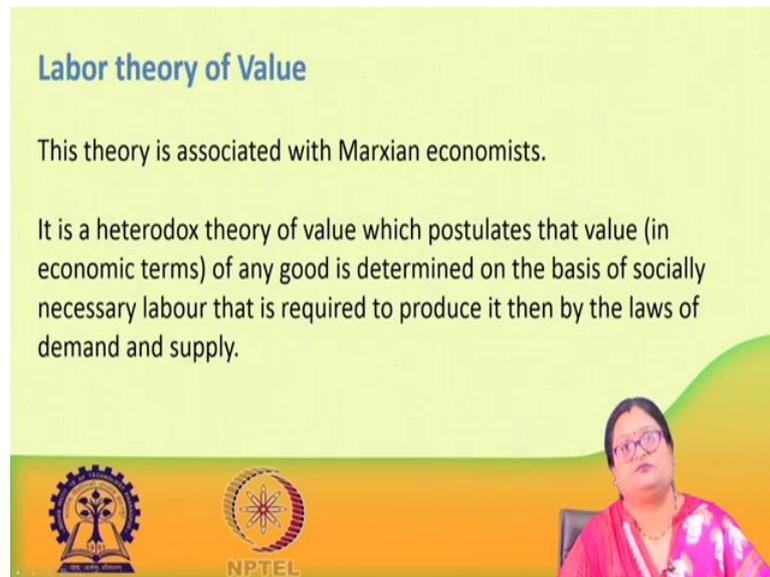
The stability at pay level is achieved when demand equals supply at the market equilibrium wage.

As per Classical economists, price of labour is actually the wage which is required to attract and retain them



When we talk of the stability at pay level, it is achieved when demand equals supply at the market equilibrium stage. As per classical economics, price of labour is actually the wage which is required to attract and retain them.

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Labor theory of Value

This theory is associated with Marxian economists.

It is a heterodox theory of value which postulates that value (in economic terms) of any good is determined on the basis of socially necessary labour that is required to produce it then by the laws of demand and supply.

The slide features a green background with a yellow-to-orange gradient at the bottom. On the left, there are two logos: the Indian Institute of Technology (IIT) logo and the NPTEL logo. On the right, a woman with glasses and a pink sari is speaking.

When we talk of the labor theory of value, it is the associated with Marxian economists. So, it is a heterodox theory of value which postulates that, value in economic terms of any good is determined on the basis of socially necessary labour that is required to produce it then, by the laws of demand and supply. See if the value of any good is determined, on the basis of socially necessary labour that is required to produce it then by the laws of demand and supply.

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In 1865 Karl Marx wrote in Das Kapital that the value of goods and services is determined by the amount of labour that goes into them.

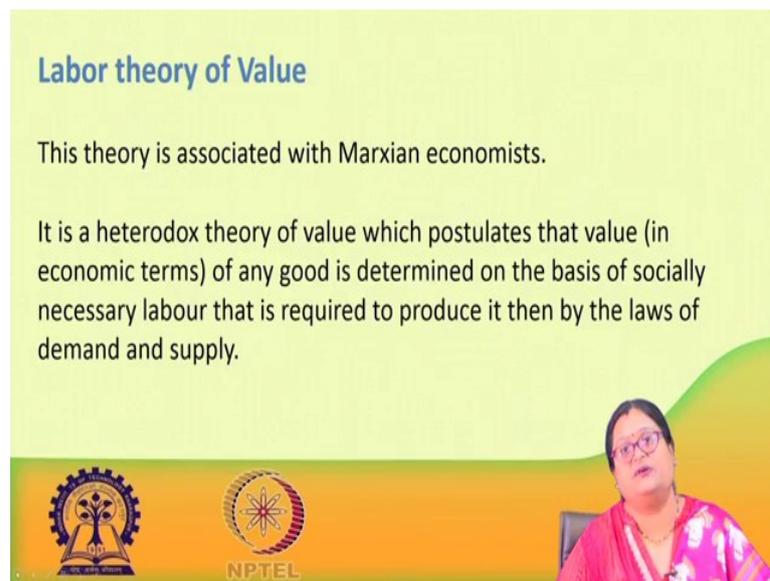
It is not the marketplace that sets prices.

However, this idea is never accepted by mainstream economists.

The slide features a green background with a yellow-to-orange gradient at the bottom. On the left, there are two logos: the Indian Institute of Technology (IIT) logo and the NPTEL logo. On the right, a woman with glasses and a pink sari is speaking.

In 1865 Karl Marx wrote in Das Kapital that the value of goods and services is determined by the amount of labour that goes into them. So, it is not the market price that place that sets the prices. However, the mainstream economist is never accepted this idea, because again like here the concept of demands and supply will come.

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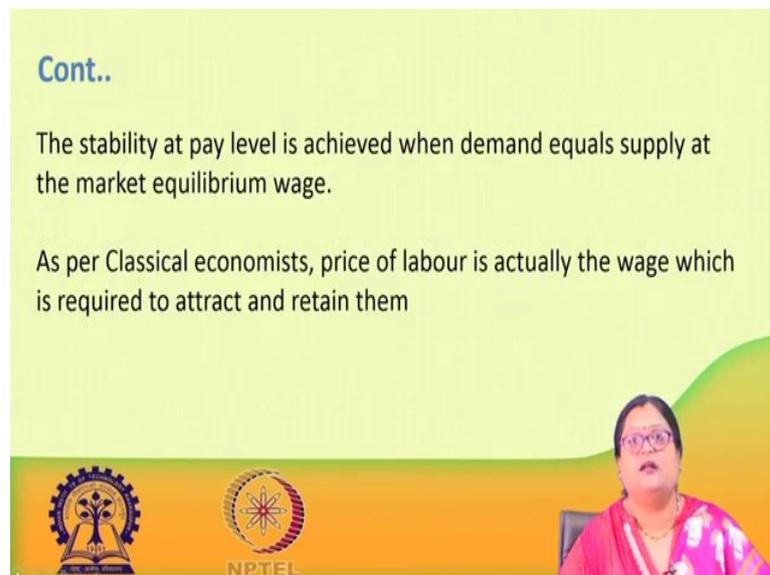
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The stability at pay level is achieved when demand equals supply at the market equilibrium wage.

As per Classical economists, price of labour is actually the wage which is required to attract and retain them

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And also when we talk of like the classical economics, we find like the price of the labour is actually the wage which is required to attract and retain them.

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He proposed that workers not just look for high wages but they look for overall high utility

Workers aim at maximizing net advantage from a job which according to him is a function of agreeableness or disagreeableness of work, difficulty and expense of learning it, job security, responsibility and the possibility of success or failure



And this happens when you see like the, when the workers are looking not only for high wages, but also they look for overall high utility as proposed like when we see for by the Adam Smith theory.

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Classical Economic Theory

Adam Smith was the first person to propose a theory on wages.

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Workers aim at maximizing net advantage from a job which according to him is a function of agreeableness or disagreeableness of work, difficulty and expense of learning it, job security, responsibility and the possibility of success or failure



So, Adam Smith Theory it talks this utility, high utility and equality and maximum advantage from the job which the labour wants.

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Labor theory of Value

This theory is associated with Marxian economists.

It is a heterodox theory of value which postulates that value (in economic terms) of any good is determined on the basis of socially necessary labour that is required to produce it then by the laws of demand and supply.



In comparison where we find the Marxian economies, it talks of like the socially necessary labour that is required to produce it.

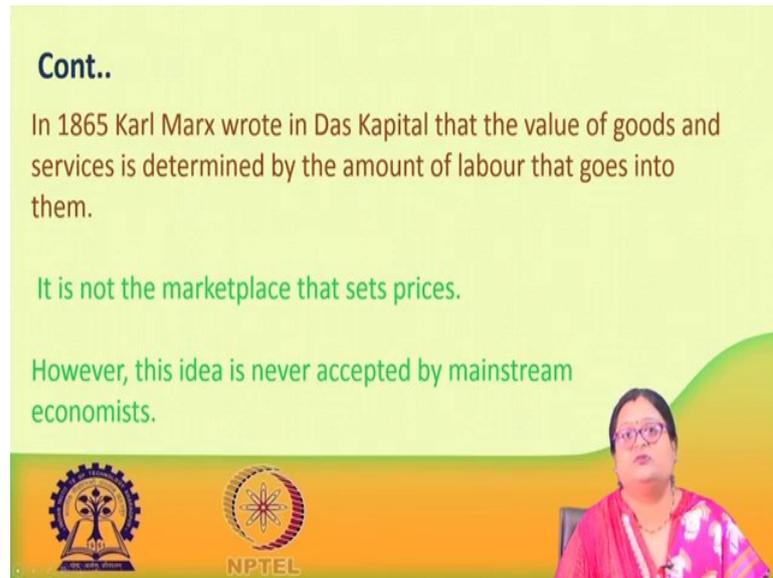
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In 1865 Karl Marx wrote in Das Kapital that the value of goods and services is determined by the amount of labour that goes into them.

It is not the marketplace that sets prices.

However, this idea is never accepted by mainstream economists.

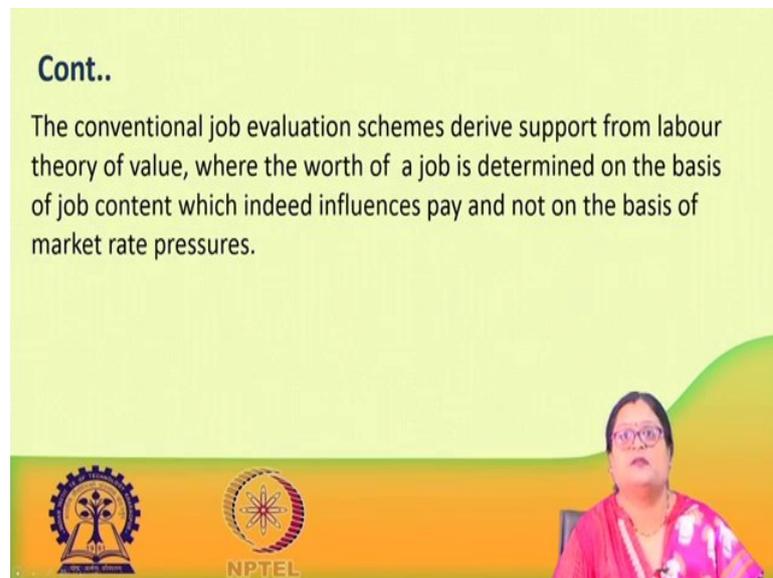


And then you see the amount of labour that goes into producing a particular goods and services.

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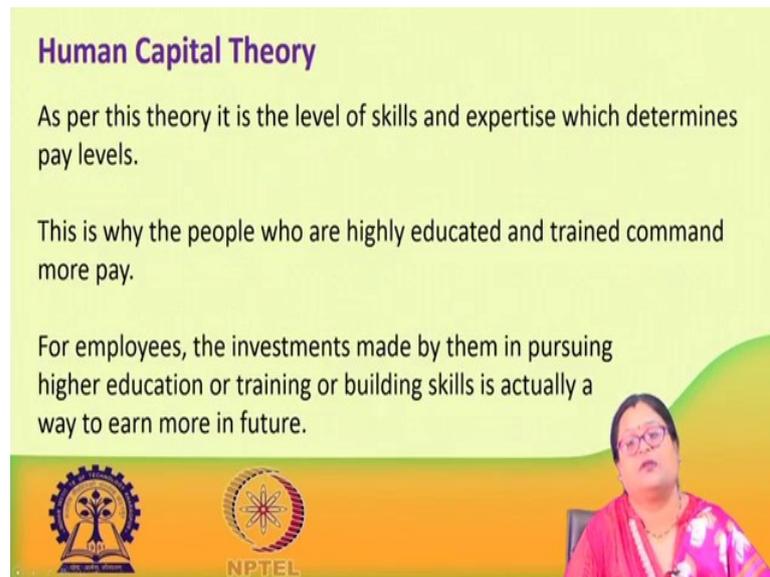
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The conventional job evaluation schemes derive support from labour theory of value, where the worth of a job is determined on the basis of job content which indeed influences pay and not on the basis of market rate pressures.



The conventional job evaluation schemes derive support from labor theory of value, where the worth of the job is determined at the basis of the job content which indeed influences pay and not on the basis of the market rate pressures.

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Human Capital Theory

As per this theory it is the level of skills and expertise which determines pay levels.

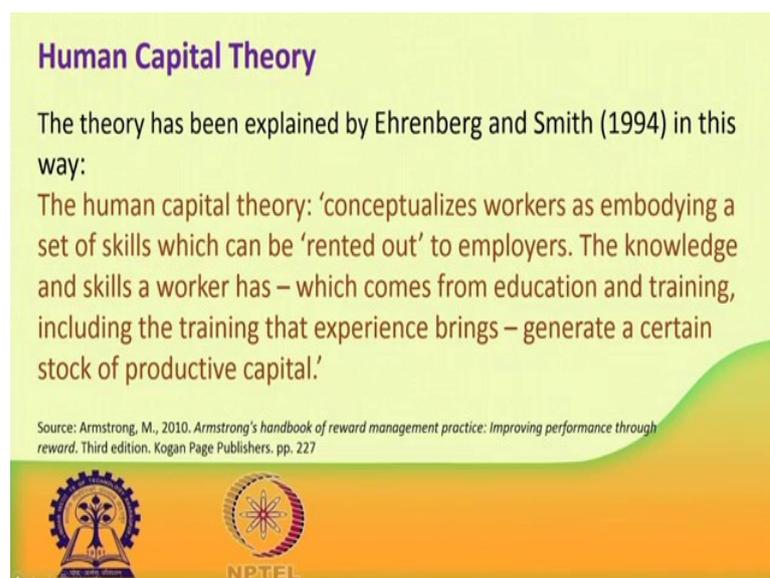
This is why the people who are highly educated and trained command more pay.

For employees, the investments made by them in pursuing higher education or training or building skills is actually a way to earn more in future.

The slide features a video inset of a woman in a pink and white patterned sari speaking. At the bottom, there are logos for IIT Bombay and NPTEL.

When we talk of the Human Capital Theory, so it is the its level of skills and expertise which determines the pay levels. So, when people, that is why people who are highly educated and trained command more pay, for employees the investment made by them, in pursuing higher education or training or building skills is actually a way to earn more in future.

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Human Capital Theory

The theory has been explained by Ehrenberg and Smith (1994) in this way:

The human capital theory: 'conceptualizes workers as embodying a set of skills which can be 'rented out' to employers. The knowledge and skills a worker has – which comes from education and training, including the training that experience brings – generate a certain stock of productive capital.'

Source: Armstrong, M., 2010. *Armstrong's handbook of reward management practice: Improving performance through reward*. Third edition. Kogan Page Publishers, pp. 227

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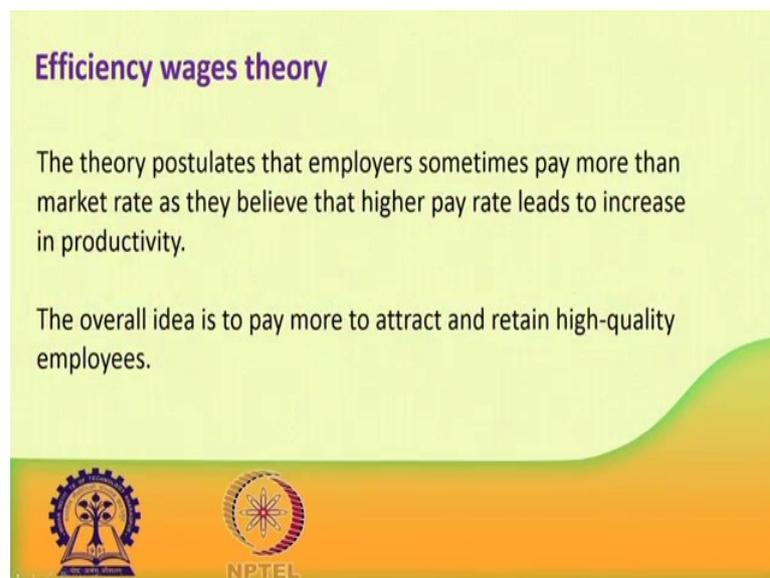
Human Capital Theory has been explained by Ehrenberg and Smith in this way. The Human Capital Theory conceptualizes workers as embodying a set of skills which can be

rented out to employers. This word is very important that when you are talking of rented out to employers, we find like as different from the earlier theories of wage and pay, determining pay prices, where you find like the it is the more power to pay and is more in or the whether to hire you or not is more in the hands of the employers and the in the power structure, the employer is in the higher side as compared to the employees.

In the human capital theory it is on the other side, it is taken to be the workers are embodying a set of skills which can be rented out to employers, and whether to rent it out or not to rent it out to a particular employer that decision lies with the employee himself or herself.

The knowledge and skills, so worker has which comes from education and training, including training that experience brings, generate a certain stock of productive capital.

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Efficiency wages theory

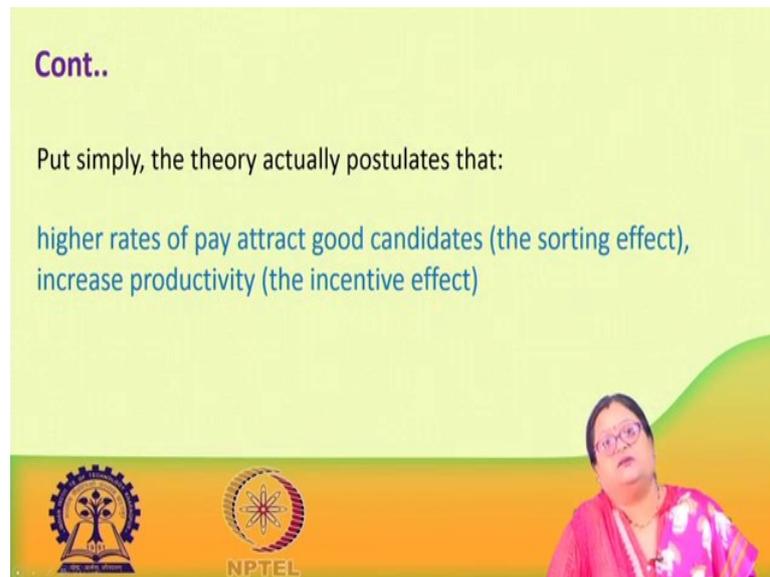
The theory postulates that employers sometimes pay more than market rate as they believe that higher pay rate leads to increase in productivity.

The overall idea is to pay more to attract and retain high-quality employees.

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Efficiency wages theory; this theory states that the employers sometimes pay more than the market rate as they belief that the higher pay rate leads to increase in productivity. The overall idea is to pay more to attract and retain high-quality employees.

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Put simply, the theory actually postulates that:

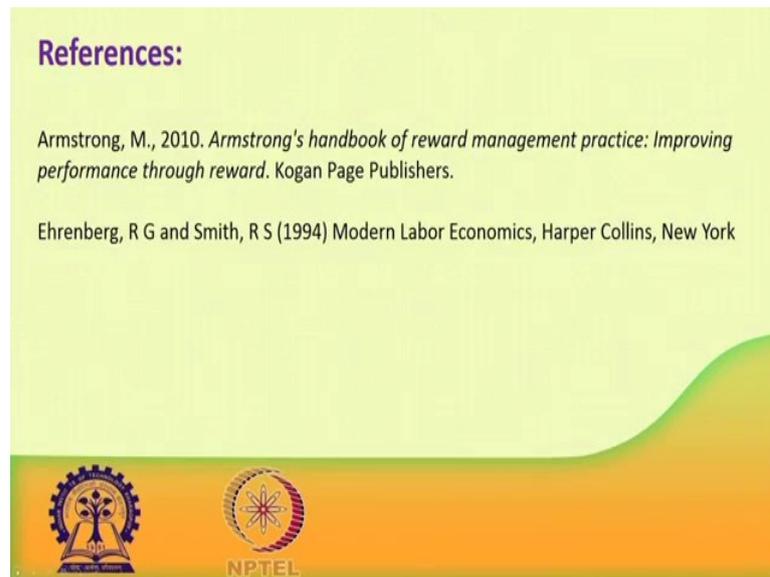
higher rates of pay attract good candidates (the sorting effect),
increase productivity (the incentive effect)

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Put simply, the theory actually postulates higher rates of pay attract good candidates; the sorting effect and increases productivity the incentive effect. So, if you can link it with the human capital theory, you find like in human capital theory the, it is the decision of choice is given to the employees who are going to rent out their set of like precious skills which they have like developed through years of experience, education and training to the employers who are going to give proper worth to it.

If you link that with the efficiency wages theory, you find like the employers are ready to pay something more than the market rate as they belief like it is only higher pay rate which leads to increase in productivity, because by paying a higher pay rate they can attract and retain high quality employees who will be again contribute, because and because this high quality employees have is assumed to have high set of skills they will be able to produce more and increase the productivity.

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So, with this we come to the conclusion of this session. We will discuss more about the different continued our discussion with the different theories in the next module.