

**Performance And Reward Management**  
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**Lecture – 38**

**Valuing and grading jobs, understanding pay levels, job evaluation schemes, equal pay, market rate analysis, designing of grade and pay structure (Contd.)**

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**Course Name: Performance and Reward Management**  
**Faculty Name: Dr. Susmita Mukhopadhyay**  
**Department : Vinod Gupta School of Management,**  
**IIT Kharagpur**

**TOPIC:** 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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Welcome to the topic on 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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**CONCEPTS**

- Valuing and Grading Jobs – Determining Pay levels (Cont..)
- Job Evaluation- Meaning and Schemes

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We will continue with our discussion on Valuing and Grading Jobs and Determining the Pay levels and we understand, we will try to understand job evaluation, the meanings and schemes of it.

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**Agency theory**

The foundation of the theory lies in separating managers (agents) from owners (Principals).

Owners may not or are not in a position to exercise complete control over managers and managers may sometimes act in accordance with the wishes of owners.

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In the past session we have discussed on some of the theories of pay determining pay level like; we have discussed on labour market theory, we have discussed on classical economist theory. We have looked into the Marxian theories also of like, how the worth

of the job is determined and where we see like the Marxian theories tells about like the nature of the job and how much labour goes into it.

Determines the, how that pay level should be determined and it is not the marketplace which is going to determine it. However, the classical theories tells like the marketplace and the in external equity, and also the high utility that the employees expect from the job, high utility that the employee expects from the job in terms of like the nature of the job, the security in the job, how much like time they have to invest in learning a new skills, the risk involved in the job, the advantages from this, also helps the person to determine the what should be the pay level.

When we talked of the human capital theory we found like the; there is a shift from understanding the like who determines the what would be the nature of the job. So, according to be the Marxian's maybe it is the nature of the job. And according to the classical economist theories it is the like the demand and the supply of labour in comparison to the like; whether matching of the demand and supply of the job and the people who are going to fill in the positions will determine the pay levels.

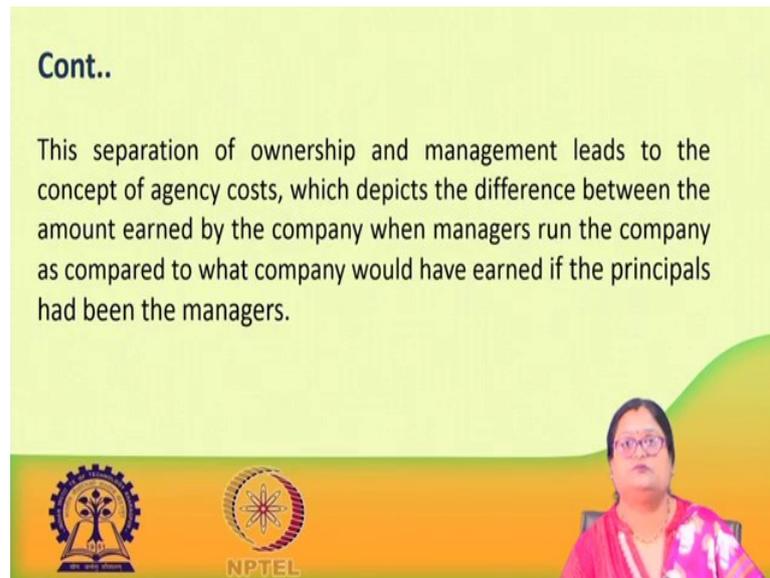
But in human capital theory it talks of the whether like; the person how much efficient the person is, what are the productive capital that the person has developed throughout the years of training, we will determine how much pay he can expect for and in line with that in efficiency wage theory. We also find like employers are maybe ready to pay the extra beyond market wage to like attract high quality employees; because they understand high quality employees will be giving like, will be doing more with respect to productivity.

So, in that way, so we can tell actually though we are like discussing these theories in a like a separate way to understand these perspectives and; but we have to understand like these are all very linked concepts. We have also seen in the earlier slide like in terms of classical job evaluation theory, its sees the following the Marxian view; it is more in terms of like the job content, and job description, or job requirements, it determines like what will be the competencies required for that job and then it is related to the pay structure.

We will move forward with the other theories also to find out like maybe how the pay gets determined; and then we have a holistic discussion on the factors affecting

individual pay levels. Let us continue, in the agency theory we have the one of the major contribution of this theory; its separates the managers, the agents from the owners. So, owners may not or are not in a position to exercise complete control over managers and managers may sometimes act in accordance with the wishes of the owners.

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This separation of ownership and management leads to the concept of agency costs, which depicts the difference between the amount earned by the company when managers run the company as compared to what company would have earned if the principals had been the managers.

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So, this separation of ownership in and management it leads to the agency cost, which talks of the difference between the amount earned by the company when managers run the company as compared to what company would have earned if the principles had been the managers.

So, when, because it is not possible for the principle to run the company always, so and they have to appoint managers as agents of the owners. So, agency cost is the difference between the amount earned by the company with the managers run the company.

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This separation of ownership and management also leads to creation of the job contract in which payment offered to managers for their services as regards their jobs is specified.

The payment aspect is actually a motivation tool to make sure that agents perform their jobs to the satisfaction of the owner.

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Because this managers and the ownership, the owners are separated. So, and it is a like separation from the terms of principal and agent, what comes in between is a job contract. So, where a payment is offered to managers for their services as regards their jobs is specified as a job contract, it sets out the expectation of the managers from the owners in terms of salary and the expectation of the owners from the managers in terms of what theirs supposed to deliver in lieu of the payment given to them.

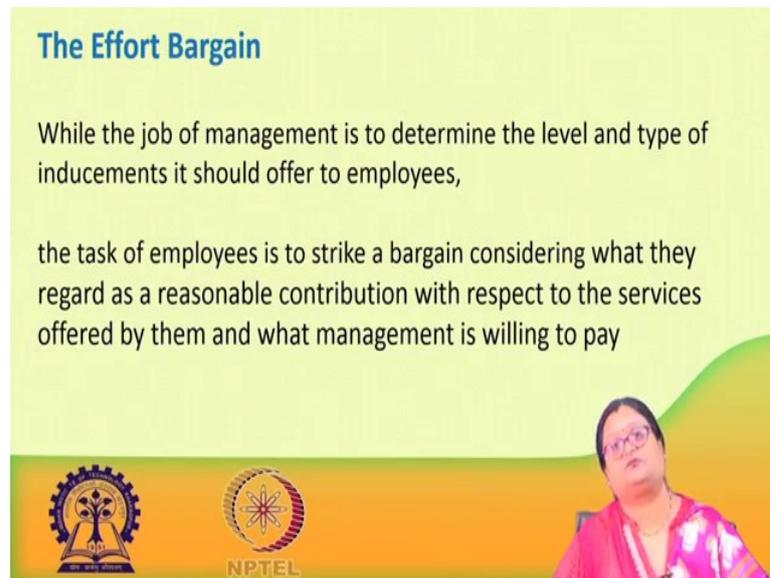
So, now here the payment aspect is actually taken as a motivation tool to make sure that the agents perform their jobs to the satisfaction of the owners. From this actually in this is the seed theory, from which like very free like if this ownership is given to some extent to the employees, managers that maybe they will identify with the organization as more of it is my organization rather than I am a mere employee working for some other people's wings and wishes.

So, when we have already discussed with you about the group incentives and organizational incentives; where we have discussed with you the profit sharing, gain sharing, employee stock ownership plans all these derive its essence, seed from this theory which talks of the separation between the ownership and the management and the cost that it goes for it. And so, and this is not only the transactional cost that we are talking of, but when we are talking of maybe thinking of the behavioural aspect of it like when I thinking of the fact like I am working for my own organization, the type of

engagement that you have in organization may be different from when I think like I am working for some organization and in return it is paying me for it.

So, the attachment that you develop may be different. So, if incentives are given which try helps you to develop this ownership towards the organization with that ownership will generate the sense of responsibility and accountability also to prove, like give the best towards improved performance.

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**The Effort Bargain**

While the job of management is to determine the level and type of inducements it should offer to employees,

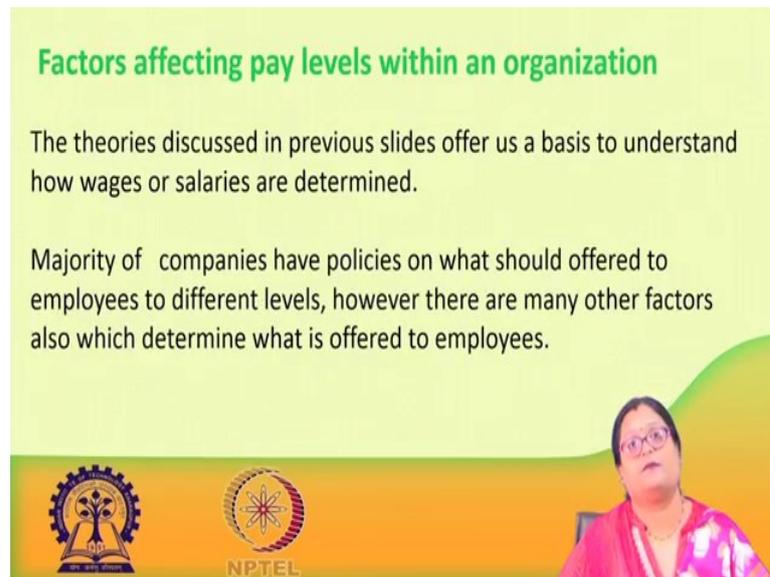
the task of employees is to strike a bargain considering what they regard as a reasonable contribution with respect to the services offered by them and what management is willing to pay

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When we talk of the effort bargain, this theory tries to focus on while the job of management is to determine the level and type of inducement it should offer to employees.

The task of employees is to strike a bargain considering what they regard as reasonable contribution with respect to the services offered by them and what management is willing to pay.

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**Factors affecting pay levels within an organization**

The theories discussed in previous slides offer us a basis to understand how wages or salaries are determined.

Majority of companies have policies on what should be offered to employees to different levels, however there are many other factors also which determine what is offered to employees.

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So, this you see, like whenever we are talking of these kind of bargaining situations. So, it happens like when we arrive in performance management we are always talking of shared vision, discussions, arriving at a common point. So, whenever like the management and the employees sit together in deciding, like everybody has their constraints and we have already discussed about the capacity to pay.

So, we may think of retaining best employee, attracting the best employee ever possible or not; but maybe there we do not have the capability to pay. Or if you are paying very high to one employee, then maybe the whole internal equity comes down. So, what they and also there should not be any unrealistic expectations from the principal side or the employer side by paying how much am I am going to get, so like what amount from the employees. So, in some of the organizations may be on the exploitative mode also and they want to like extract as much as possible from the employees in return of the salary that they are paying.

So, when we talk of effort bargain. So, it talks of a bargain between the employers and the employee regarding what they can pay and the employees side of like voice on, if given a certain amount, what is that effort that they feel like is reasonable contribution that they can make about it. But when it is a joint discussion between the employers and the employees, or the team leader, the team member, so it a common goal setting is there. So, this helps in increasing mutual understanding finding out a super ordinate goal

rather than both the parties are like fighting with each other in terms of the employers trying to extract more as much as possible and the employees try to give as much less as possible.

But if they can arrive at a common conclusion what is the realistic contribution like the, can be expected from the employees with respect to the salary that is given to them, then it is a very win-win kind of situation. And that can be done only when again a proper job evaluation is done, the market rate is kept into consideration, the human capital theory is taken into consideration, and the efficiency wage theory is taken into consideration only then this bargain can be done in such a way that it is a win-win situation.

So, the factors which are affecting pay levels within the organization are, so like the I have already discussed about the theories and indifference earlier slide and it tells you gives you a basis of how wages and salaries are determined. After that we of course, understand every majority of the companies, have policies regarding what should be offered to employees at different levels. So, beyond this; however, there are many other factors which will determine what is offered to employees.

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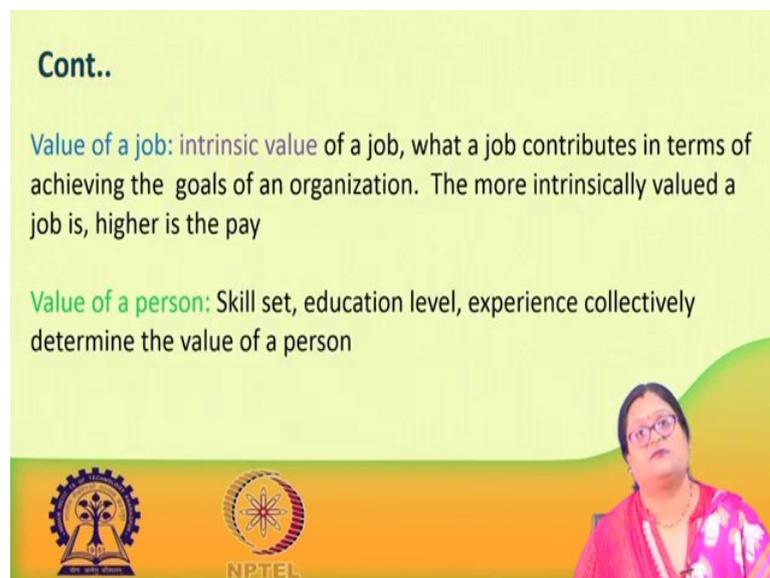
So, where we see like what are the factors which are affecting individual pay level, we will find like the different it is been like affected or by different factors; of course, you will find like the supply and demand in the labour market which comes from the classical economics theories; then internal inherent value of the job which is coming again which

is determined by the again Marxian principles; then when we talk of investment in human capital policies this is both from the this is from human capital theory perspective both from the individual side and from the organization side. So, pay chance of the organization, this is the pay policies; individual contribution like in terms of like both in human capital.

And in like previous contribution made by the organization of the individual in the organization this is speaking of the internal job like internal pay as compared to like whenever talking of external theories. Internal relativity is it is talking of internal equity like when we see like how others are getting paid with respect to what do you doing; whenever we are talking of trade union pressures it is taking into consideration the effort bargain theory.

So, all these financial circumstances of the organization and trade union pressures both of this come under the effort bargain theory. So, all these factors together will contribute to determine individual pay levels.

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**Value of a job:** intrinsic value of a job, what a job contributes in terms of achieving the goals of an organization. The more intrinsically valued a job is, higher is the pay

**Value of a person:** Skill set, education level, experience collectively determine the value of a person

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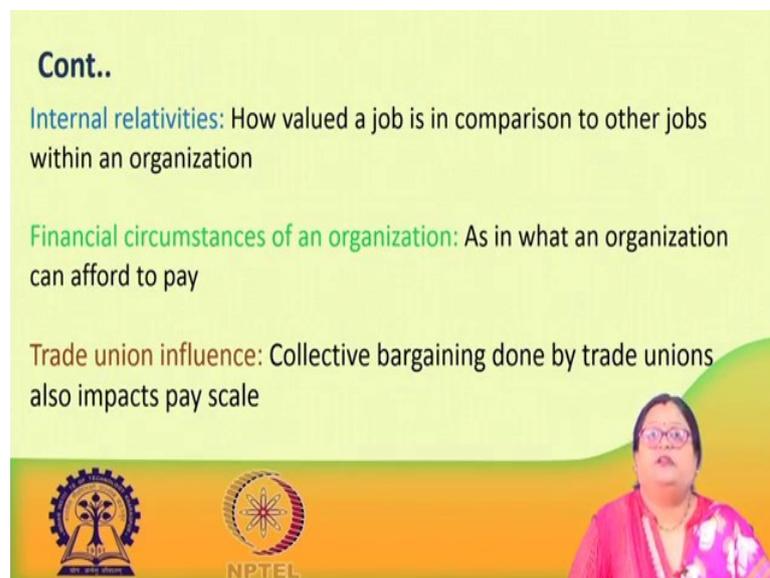
So, there could be like two things in the job whenever we are speaking of determining the individual pay levels; first is the value of the job which is the intrinsic value of a job, like what contributes in terms of achieving the goals of the organization. So, the more intrinsically valued a job is, the higher is the pay. So, where we have already told like in

performance management it is very important to determine the criticality of a job for a specific business purpose. So, and that will determine the intrinsic value of job.

So, for a particular objective to be reached, so certain jobs may be more critical as compared to the other job for a different objectives to be reached, a different job could be of more critical value. So, it is very important to map, the worth of a job, importance of the job with respect to it is criticality for like achieving the organization's values like which are critical, non critical, and associated jobs. It really does not mean like no job, it is not important every job is important, every job has to contribute to the goals of the organization; but maybe some job has more to contribute with respect to other jobs.

So, this is where we need talk of intrinsically valued job; value of a person is again the skill set, education level, experience and collectively determine the value of a person where we are focusing to the human capital of the person.

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A presentation slide with a light green background and a yellow-to-orange gradient at the bottom. The slide contains three bullet points: 'Internal relativities: How valued a job is in comparison to other jobs within an organization', 'Financial circumstances of an organization: As in what an organization can afford to pay', and 'Trade union influence: Collective bargaining done by trade unions also impacts pay scale'. At the bottom left are the logos of IIT Bombay and NPTEL. On the bottom right, there is a video overlay of a woman with glasses and a pink patterned top speaking.

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**Internal relativities:** How valued a job is in comparison to other jobs within an organization

**Financial circumstances of an organization:** As in what an organization can afford to pay

**Trade union influence:** Collective bargaining done by trade unions also impacts pay scale

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When we talk of internal relativities it is yes, we are talking of how a value of a job is in comparison to other jobs within the organization. When you talk of financial circumstances of the organization, so again it is the affordability of the organization, its capability to pay based on and what is presently is balances or also maybe the strategy that it follows. Like if it follows a strategy of cost leadership, then maybe it will be thinking in a different way as it is thinking from maybe A to Z innovation focused organization.

So, there is nothing wrong like in what is your philosophy, how you want to reach it; but again this philosophy is going to affect here your decision on like the, what you can afford to pay, or what rather you would decide to pay. When talk of trade union influence it is the collective bargaining done by trade unions with respect to the effort bargain and it also impacts the pay scale.

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When we talk of wage legislations these are the laws framed by the government and it also impact pay scale. So, these are very important links, because when we talk of financial circumstances of the organization; suppose an organization tell like I can I will be paying you something very bigger amount.

So, then in that case the employee's job security may or may not be there; the person because whatever you pay the real wage is actually the goods that you can buy with that amount of pay that you have. So, in order to ensure like the real wage that the actually that is like that the employee gets is something which helps his like family sustenance, and his own sustenance, the labour legislations that we have, is really very helpful.

So, when you talk of wage legislations, the laws framed by the government also impacts the pay scale in terms of living wage, minimum wage etcetera.

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**Job Evaluation – Meaning**

Job evaluation plays a great role in determining where jobs are to be placed in an hierarchy in terms of their worth and importance

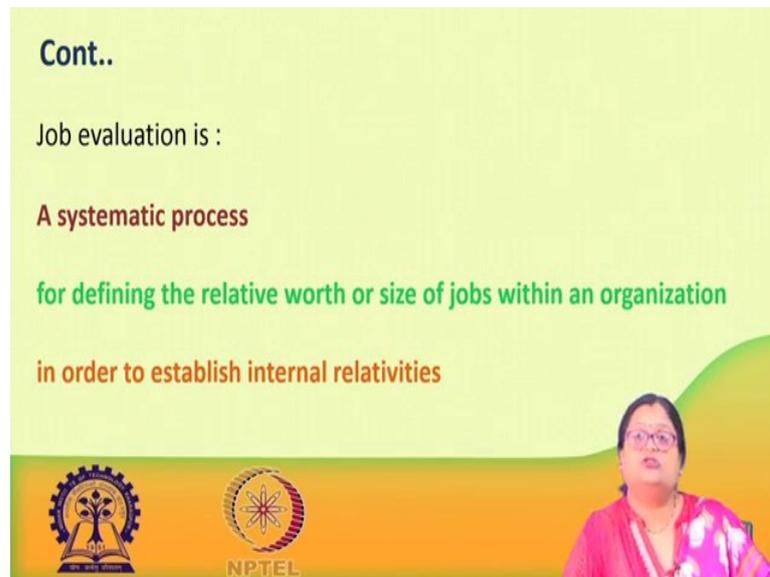
As proposed Gupta and Jenkins (1991), the whole premise of job evaluation lies in the fact that all jobs are not equally important, some play a greater role in contributing to achievement of organizational objectives and hence must be paid more

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Based on these things whenever we are talking of like the valuing a particular job, the effort taken by the organization in doing a job evaluation is it is really very helpful in understanding the relative worth of the job. So, job evaluation plays a great role in determining where jobs are to be placed in an hierarchy in terms of their worth and importance. As proposed by Gupta and Jenkins, the whole premise of job evaluation lies in the fact that all jobs are not equally important.

Some play greater role in contributing towards the achievement of the organizational objectives and hence must be paid more.

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Job evaluation is :

**A systematic process**

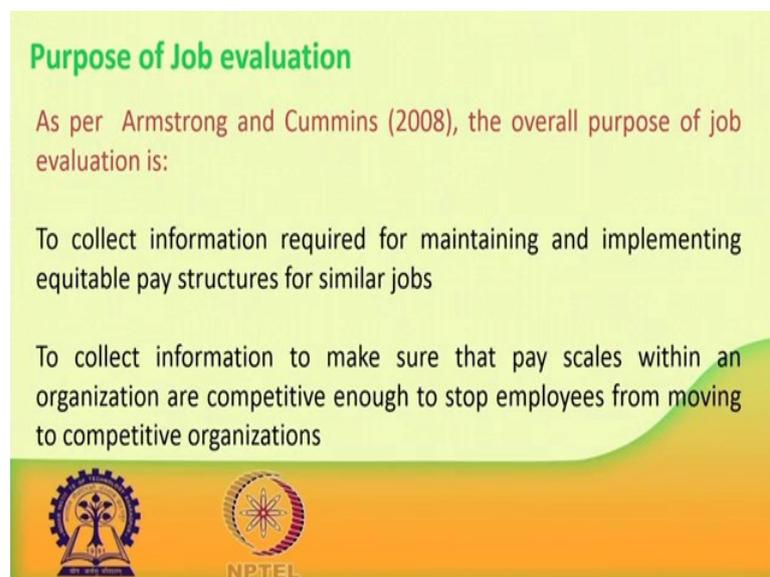
**for defining the relative worth or size of jobs within an organization**

**in order to establish internal relativities**

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We have to understand job evaluation is a systematic process for determining the relative worth or size of the jobs within an organization and in order to establish internal relativities.

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**Purpose of Job evaluation**

As per Armstrong and Cummins (2008), the overall purpose of job evaluation is:

- To collect information required for maintaining and implementing equitable pay structures for similar jobs
- To collect information to make sure that pay scales within an organization are competitive enough to stop employees from moving to competitive organizations

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The purpose of job evaluation as per Armstrong and Cummins is, to collect information required for maintaining and implementing equitable pay structures for similar kind of jobs. To collect information to make sure that pay scales within an organization are competitive enough to stop employees from moving to competitive organizations.

So, here we see in doing this job evaluation, a reflection again of whenever we are talking of classical economic theories in terms of Adam Smith's theories of understanding the demand and supply utility from the job and also the equity in terms of what others are getting paid for like, the similar kind of job, what is the again a labour market theory of what is the market rate for a particular kind of job. So, that to ensure like the market rate is like we are not below market rate, because again we have to do this because some people, some organizations may be ready to go by the concept of the efficiency wage theory where they are ready to pay more than the established market rate. Because they know like if they are ready to pay more, then the talented employees will get attracted towards them.

So, in order to do that, they need to this information collection regarding what is the market rate, what are the competitors are paying for a similar kind of job, should we go for that same structure or we should design something own innovative for our own organizations is very important. Again it is a decision where which needs to take into consideration; it is really connected with the power reward management in that sense.

Here we need to take a call about the total reward management, like should we focus only on the financial part or on the non financial parts also of the reward. And we have to take a survey about why people leave particular organizations, is it in search of more financial rewards or also because the non financial rewards, and also what makes people stay back is it only the financial rewards or the non financial rewards also has to make major contributions in order to make people stay back.

So, in while determining the, like the pay scales and we doing job evaluation all these queries need to be answered properly.

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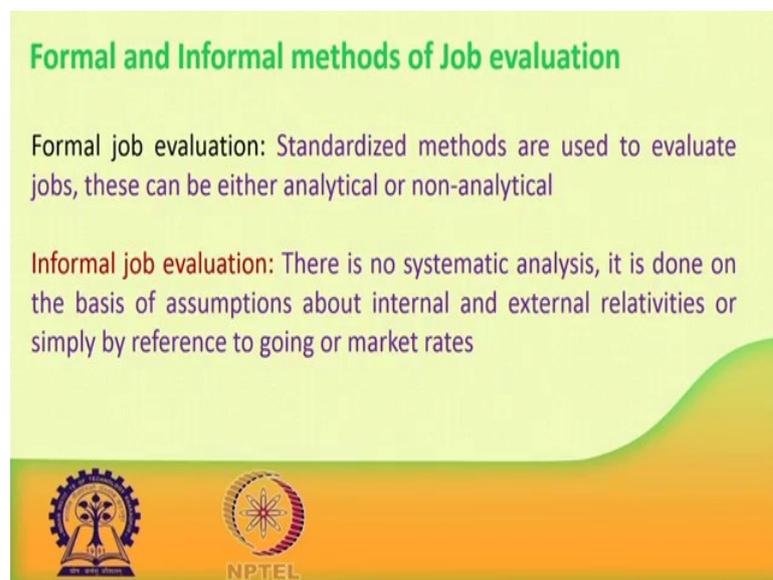
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To ensure transparency regarding pay structures and promote clarity among employees

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And also like the one of the major thing like objective of doing job evaluation is to ensure transparency regarding pay structures and promote clarity amongst the employees.

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**Formal and Informal methods of Job evaluation**

**Formal job evaluation:** Standardized methods are used to evaluate jobs, these can be either analytical or non-analytical

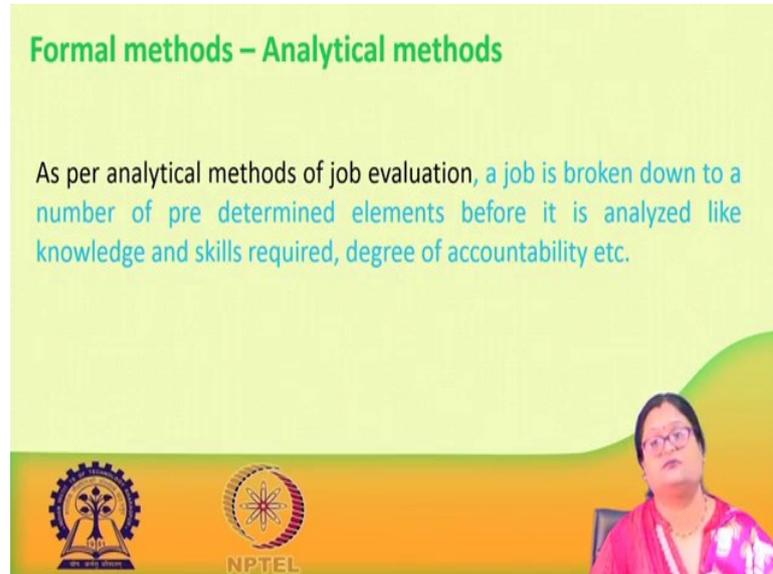
**Informal job evaluation:** There is no systematic analysis, it is done on the basis of assumptions about internal and external relativities or simply by reference to going or market rates

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There are various formal and informal methods of job evaluation. Formal job evaluation is, standardized methods are used to evaluate jobs; these are either analytical or non-analytical. Informal job evaluation it is now systematic analysis, it is like the done on the

basis of assumptions about internal and external relativities or simply by reference to going or market rates.

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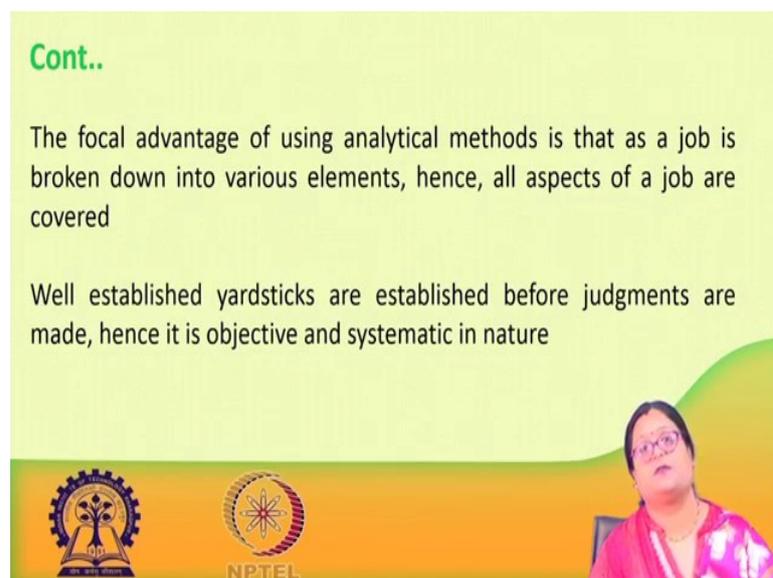
**Formal methods – Analytical methods**

As per analytical methods of job evaluation, a job is broken down to a number of pre determined elements before it is analyzed like knowledge and skills required, degree of accountability etc.

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Now, we will focus on the formal methods which are the analytical methods of job evaluation. So, as for the analytical method of job evaluation, a particular job is broken down into a number of predetermined elements before it is analyzed like knowledge and skills required, degree of accountability etcetera.

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The focal advantage of using analytical methods is that as a job is broken down into various elements, hence, all aspects of a job are covered

Well established yardsticks are established before judgments are made, hence it is objective and systematic in nature

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The focal advantage of doing in analytical method is that, the job is broken down into different elements facets and in that way all the aspects of the job gets covered. So, well first it is very important to determine like the well established yardsticks before we take a call a judgement on, so how to place a particular job, how to rate a particular job with respect to certain yardsticks.

So, first the job is broken down like analytically into different like the contents of the job, the competencies required in the job, so that we are not going to miss on any facet of it, then we develop proper yardstick for measuring it. In the terms like what if done, will show like we have performed this job well or this is where, this is the criticality of the job and this is again contributing in the best way. So, these, this if taken care of this is done, then this if this job is critical then it should contribute this to the organizational objectives.

So, clearly written yardsticks before we take a call on life; where to place the particular job.

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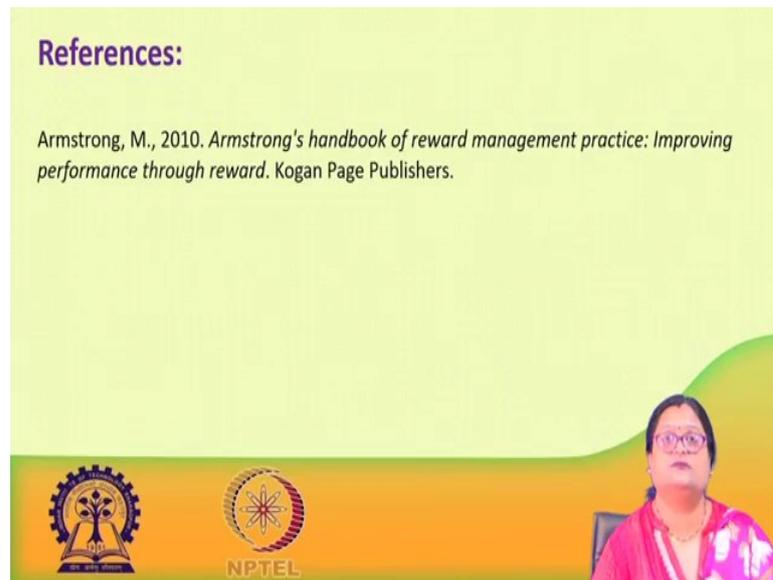
The main analytical methods are

- Point-factor rating*
- Analytical matching*
- Factor comparison.*

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There are analytic different analytical methods, we will discuss here on the main analytical methods. The main analytical methods are point factor rating, analytical matching, factor comparison.

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**References:**

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

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In the next module to come up, we will discuss in details about the different analytical methods of job evaluation, stay tuned.

Thank you.