

“Point-Factor Analysis: What Is It and Why Is It Necessary?”
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Does anyone remembers sitting in math class and looking at a problem that you could not find an answer to? You may have searched through the book, looked through the study guide and asked friends, but everyone you visited with was stuck on the same question. Finally, you decide that you are going to go ahead and turn in your homework without finishing that one problem. Then, when test time comes around, the majority of the questions require the formula that you never did figure out! This is a very similar situation to managing compensation without a point-factor system. Without a point-factor system, you do not have a formula for your compensation dollars.

Everyone has positions at their organizations that they experience pay issues with. Perhaps you can not find market pay data for a position, perhaps the person in the position feels underpaid or there may be a case where you are experiencing very high turnover for a particular job. These problems are all experienced when you are not using a point-factor system, or in terms of our example, when you can not figure out the formula so the problem is compounded. Not having a formula for compensation is a scary thought, and if not addressed, you can really let compensation dollars get out of hand and experience pay complaints, potentially even EEOC complaints. A point-factor system is one way to address all of the issues mentioned above.

When you are using a point-factor system for job evaluation, you have a guide as to where each position should fall throughout the organization. This is a wonderful tool to have when you are trying to assign salary ranges and grades to your positions. Those unique positions that you can not find market data for, you can use the rating system as a guide as to where that positions should fall at your organization. Identify your good benchmarks, and let the rating system do the rest.

A point-factor system also establishes internal equity at organizations, which many companies should look at but do not. Internal equity is essential for compliance. Remember, it does not matter how competitive you are paying your employees. You may not be able to retain top talent, but you will not get an EEOC claim because you were not paying to market. Internal equity is the key. Using a rating system to establish points and performing a regression analysis on all of your employees using points and current pay will allow organizations to quickly see any outliers. At that point, the organization can go in and look at why someone is being underpaid or overpaid and ensure that the reason is validated.

Transparency is another reason that a point-factor system can benefit an organization. If your employees understand the system that you are using to determine job value at a company, the employee is going to appreciate the openness of the employer and the time invested in their position to determine an objective salary range. Our organization has experienced a situation where the Personnel Committee for a client was receiving

sixty to seventy requests for individual compensation reviews annually. After we implemented a point-factor system at the client site, the following year there were five requests, and the next year there was only one request from an individual to review their compensation. Transparency is a key part to any organization's compensation structure.

If you do not have a tool that your organization is using to establish internal pay equity, now is the time. With the passage of the Ledbetter Fair Pay Act, the OFCCP focusing on compensation and with the Paycheck Fairness Act sitting in the Senate, legislation is forcing employers in that direction. Do not get caught burying your head in the sand or lagging behind because your internal job valuing formula has yet to be determined.