FACTOR-COMPARISON METHOD

Authored by

mohammad looti

October 11, 2025

FACTOR-COMPARISON METHOD

Primary Disciplinary Field(s): Human Resource Management (HRM), Compensation Management, Industrial/Organizational Psychology

1. Core Definition

The **Factor-Comparison Method** (FCM) is a sophisticated, quantitative job evaluation technique utilized primarily in the field of Human Resource Management to establish the relative worth of various jobs within an organization. Unlike non-quantitative methods, such as ranking or grading, FCM assigns monetary values directly to defined job factors, thereby creating a clear linkage between job requirements and the resultant wage or salary structure. This method is fundamentally comparative, relying on a systematic process where key jobs--those considered representative, stable, and widely understood within the market--are analyzed against a common set of compensable factors. The total worth of a job is determined by summing the monetary values allocated to each of these factors, ensuring that the final pay scale reflects the organization's objective assessment of the necessary effort, skill, responsibility, and working conditions inherent in the role.

The primary objective of implementing the Factor-Comparison Method is to ensure both internal equity and external competitiveness in compensation practices. Internal equity is achieved because jobs are paid based on specific, measurable components rather than subjective whole-job assessments. External competitiveness is facilitated by basing the initial factor allocations on current market wage rates for predetermined **benchmark jobs**. Consequently, when employers establish new compensation systems or perform substantial restructuring, they frequently employ FCM to construct a robust, defensible, and transparent wage structure that minimizes pay disputes and aids in attracting and retaining qualified personnel. The thoroughness of the analysis required by FCM necessitates significant initial investment in time and organizational resources, but the resulting detailed, factor-specific data provides a strong, legally defensible foundation for long-term compensation strategy.

2. Etymology and Historical Development

The Factor-Comparison Method traces its origins back to the early 20th century, specifically being developed by **Eugene J. Benge** around 1926. Benge, a prominent figure in industrial relations and job analysis, sought a systematic approach to overcome the subjective limitations inherent in earlier job evaluation methods, such as the rudimentary job ranking system. Prior to Benge's innovation, compensation often relied heavily on historical precedent, employee negotiation strength, or broad classifications that failed to adequately differentiate between jobs requiring similar overall effort but different mixes of skills or responsibility. Benge introduced the

revolutionary concept of breaking down a job into a few critical, compensable factors and then assigning monetary values directly to those factors based on market comparisons, rather than assigning arbitrary point totals that later required complicated conversion.

The development of FCM marked a crucial step toward establishing compensation management as a scientific discipline rooted in objective measurement. It provided organizations with a powerful systematic tool to defend pay differentials against claims of unfairness or discrimination, a matter of increasing importance as labor movements gained strength and governmental regulations regarding equitable pay began to emerge. Although later superseded in widespread popularity by the highly scalable **Point Factor Method**, which uses points instead of currency for evaluation, the underlying structure of FCM--the use of defined, weighted, compensable factors for comparison--remains foundational to modern job evaluation theory. Its historical significance lies in being one of the first truly quantitative methods to tie compensation directly to the rigorously analyzed components of work, thereby professionalizing the field of wage administration and establishing a standardized methodology for achieving internal pay equity.

3. Mechanics and Implementation Process

The implementation of the Factor-Comparison Method is highly structured and typically involves five distinct phases that ensure the equitable establishment of wages across various job roles. The initial successful execution of FCM hinges on the meticulous selection of compensable factors and the careful identification of appropriate benchmark jobs. These benchmark jobs must meet strict criteria: they must be stable, clearly defined, accepted by both employees and management, and collectively represent the full range of work complexity and required skill levels present within the organization.

The core mechanic involves creating a complex comparison matrix where the established external wage rate for each benchmark job is distributed among the identified factors based on the perceived relative importance of that factor within that specific job. For instance, if a benchmark administrative job pays $30 per hour, that $30 is analytically broken down into components allocated to Skill, Effort, Responsibility, and Working Conditions (e.g., $12 for Skill, $8 for Effort, $7 for Responsibility, and $3 for Working Conditions). This distribution process establishes the foundational monetary scale.

A crucial subsequent step involves the **ranking process**, where job evaluation committee members independently rank the benchmark jobs under each factor, ensuring that the monetary allocations correspond precisely to the internal ranking of required factor levels. For example, if Job A receives $12 for Skill and Job B receives $10, Job A must genuinely be ranked higher in terms of required skill than Job B. This dual validation (ranking by importance and allocation by value) rigorously checks the factor weighting before proceeding. Finally, all non-benchmark jobs

within the organization are evaluated by comparing their required level for each factor against the monetary scale established by the benchmarks, positioning the new job along the scale to determine its appropriate wage contribution for each factor, which are then summed to find the total wage.

4. Key Compensable Factors

While organizations retain the flexibility to customize the specific factors based on their industry and unique operational needs, the Factor-Comparison Method traditionally relies on a limited and robust set of five broad, compensable factors. These factors are selected because they are universally present in most occupational settings but vary significantly in degree, thereby providing an effective and consistent framework for comparative assessment across diverse roles. Using a limited number of factors (typically three to five) is considered an inherent strength of FCM, as it maintains focus on the most salient aspects of job contribution and simplifies the necessary analytical work.

Mental Requirements (Skill and Judgment): This factor assesses the intellectual demands placed upon the employee, encompassing necessary cognitive attributes such as educational background, specialized conceptual training, analytical ability, the complexity of problem-solving required, and the inherent quality and difficulty of the decision-making processes involved in the role. Highly strategic or complex technical roles receive a substantial monetary allocation here, reflecting the intellectual capital required.

Physical Requirements (Effort): This element evaluates the degree and sustainability of physical exertion, muscular effort, stamina, and manual dexterity required to perform the job successfully. This includes lifting, carrying, repetitive motion, sustained physical focus, or exposure to physical strain. Jobs requiring heavy material handling, continuous physical labor, or highly precise, sustained manual tasks would be rated highly and receive a larger portion of the total wage allocation for this specific factor.

Skill Requirements (Learned Proficiency): Distinct from Mental Requirements, this factor measures the specific practical knowledge, technical abilities, trade knowledge, interpersonal communication skills, and verifiable prior experience necessary to execute the job duties effectively. This factor focuses specifically on learned application and specialized proficiency acquired through training or experience, which is critical for specialized trades or technical professions.

Responsibility: Responsibility is the measure of the accountability associated with the job, particularly concerning the potential impact of errors, the scope of supervision over others (staff or contractors), the management of organizational assets (financial, physical, or proprietary data), and the degree of independent decision-making authority granted to the position holder. Roles with high fiduciary duty or broad managerial oversight typically demand the largest monetary allocation for this critical factor.

Working Conditions (Environment): This factor addresses the environment in which the work is performed, encompassing safety hazards, exposure to temperature extremes, persistent noise or vibration, contact with pollutants, and the general unpleasantness or difficulty of the location. Compensation allocated to this factor serves as an environmental differential or hazard pay, recognizing and compensating employees for undesirable or dangerous working environments that require additional tolerance or coping mechanisms.

5. Comparison to the Point Factor Method

While both the Factor-Comparison Method (FCM) and the Point Factor Method (PFM) utilize compensable factors and are classified as rigorous quantitative techniques, they exhibit fundamental differences in their unit of measurement and their direct relationship to monetary compensation. FCM is unique because it integrates monetary units (currency) directly into the evaluation process. The established benchmark jobs' wages are analytically distributed across the factors, and subsequently, all non-benchmark jobs are positioned on this established monetary scale. This direct integration ensures that the evaluation is immediately reflected in the resulting pay structure, making the connection between job input and wage output highly transparent and immediate.

Conversely, the Point Factor Method utilizes abstract, non-monetary points as its primary unit of measurement. PFM requires defining specific degree levels for each factor (e.g., Level 1 Skill = 10 points, Level 5 Skill = 50 points). Jobs are evaluated by assigning points based on the required degree level for each factor, and the cumulative point score determines the job grade or pay band. A critical, separate step--requiring extensive market data analysis and statistical regression--is necessary to convert the final point totals into a corresponding monetary compensation structure. Historically, PFM gained wider organizational acceptance than FCM due to its greater flexibility and scalability, as points are easier to manage and adjust internally without the immediate need to realign with external wage fluctuations. However, FCM is often praised for its inherent simplicity in linking effort directly to reward, thereby avoiding the potentially confusing and often subjective intermediate step of point conversion, which can sometimes dilute the perceived objectivity of the evaluation process for non-HR specialists.

6. Significance, Advantages, and Criticisms

The Factor-Comparison Method offers several distinct advantages, particularly for organizations seeking highly customized and easily understood wage structures that strongly adhere to market rates. Its greatest strength lies in the seamless integration of job evaluation with market pricing, resulting in a compensation system inherently aligned with both internal equity (fairness among jobs within the organization) and external competitiveness (alignment with prevailing market wages). Because the benchmark rates are broken down into specific dollar amounts per factor,

employees and managers can easily understand and justify why one job earns more than another based on the quantifiable monetary value of the differing required factors. This transparency enhances employee trust and provides robust data for management to defend pay decisions in legal or union contexts.

However, the primary disadvantages of FCM often limit its application in large, geographically diverse, complex, and rapidly changing organizations. The method is highly dependent on the initial stability and accuracy of the benchmark jobs and their current wage rates. If the market rates for these key benchmark jobs fluctuate significantly or become obsolete, the entire underlying factor scale must be rigorously recalibrated, potentially disrupting the established pay rates for all non-benchmark jobs linked to that scale. Furthermore, FCM is notably complex and time-consuming to implement initially; it requires specialized analytical expertise, high statistical validity, and careful consensus among evaluators to accurately distribute the benchmark wage among the factors. Finally, adapting the method to include new or highly specialized jobs that lack clear comparable benchmarks can be administratively cumbersome, as the addition of a new factor or a major change in the existing scale requires fundamental recalculation across the entire existing job structure, making it less flexible than other methods.

7. Further Reading

Job Evaluation (General Overview)
Compensation Management
SHRM Guide to Job Evaluation Methods