

Choosing an Assessment

How Organizations Gain the Advantage of Advanced Employee Selection Technology while Avoiding Legal, Ethical, and Financial Pitfalls

*Reliable Data That
Is Made Available
Before the Hire
Lowers the
Financial Risk*

The Problem

In most businesses, there is a core group of top performers who are the productivity engine of the company. They produce the sales, keep the customers happy, and make the innovative breakthroughs that allow a company to stay competitive. They are part of every group—they come in every race, sex, creed, shape, and size. Unfortunately, they do not walk around wearing name tags that alert you to their abilities. Their propensity for success in a particular position is often discovered after you've hired them and they have been working in your company for several months.

"It was a \$50,000 mistake," says David Sanso, CEO of Carsan Engineering Inc., a Colorado-based medical equipment engineering firm. The company was expanding quickly, and Sanso needed a high-level manager to handle the \$5 million firm's "fast forward" direction. He interviewed someone who came on good recommendation and looked good on paper. Sanso had a few gut-level reservations based on the interview, but he went ahead with the hire.

But it was soon clear things weren't working out. Sanso, 42, was a high-energy entrepreneur who interacted constantly with his 26 employees; his new manager had a corporate mentality and preferred to sit aloof in his office. It was a hiring decision gone wrong on many levels. Sanso had to let the manager go, he says, because "one person can set the tone for the whole place."¹

The Dilemma

Predicting employee performance is very difficult. And, it is becoming more difficult all the time as jobs in our economy

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Assessments Can Offer a Neutral Measuring Stick for Predicting Performance, But the Pitfalls Must be Avoided

continue to become more specialized. Most hiring managers who rely upon conventional hiring methods—resumes, references, and interviews—to select new employees experience frustration and mediocre results. And it's no wonder when you consider the following realities about hiring employees today:

- **Resume Fiction:** An employment survey cited by the U.S. Chamber of Commerce revealed that 95% of college graduates would be willing to make a false statement on their resume to get a job.²
- **Reference Checks:** In 1984, an insurance salesman successfully sued his former employer for \$1.9 million over a bad reference. Most employers will now limit reference check information to only verification of employment.
- **Interviews:** Although a necessity for hiring an employee, numerous studies show there is a poor correlation between a successful interview and a successful hire. Job candidates commonly take classes on how to perform well during an interview.

A bad hire can cost a company up to five times the person's salary, and a bad fire carries the potential for a wrongful termination suit.

The Solution

Assessments can offer a relatively neutral measuring stick when it comes to predicting employee performance. As early as the 1950s, corporations gave job candidates IQ and psychology tests to improve hiring, and this practice peaked in the 1960s. However, in 1971, the Supreme Court ruled that certain tests discriminated against minorities. Scared of lawsuits, many companies stopped using assessments.

In the last 10 years, the proverbial pendulum has started to swing back to a point of equilibrium. New technology and advanced statistical analysis allows some assessments to be quite effective at predicting performance. The same statistical techniques have been used to prove that some assessments do not violate Equal Employment Opportunity Commission (EEOC) discrimination laws. It is again becoming common for companies to use all types of assessments to gain valuable information that will help them make better hiring and employee placement decisions.

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However, like any good idea, competition quickly ensued. There are now over 4000 assessments available on the market. The choices are overwhelming to a company who has little experience in this area. Assessment vendors also know that the choices are overwhelming and will often make wild and undocumented claims to sell their tests. Much like the financial services industry, there are a plethora of people who claim to have the “silver bullet”.

This report will provide you important insight for selecting and using an assessment in your company. By asking a few simple questions, you can avoid the legal, ethical, and financial pitfalls common in this industry.

Question 1: What Are You're Trying to Measure?

From a propensity for substance abuse to how well you can do math, there is a test to measure almost everything. The first consideration is a financial one—what is it that you are trying to measure and how much is it going to cost you to measure that characteristic?

Assessments can be broken down into the following categories:

1. Employability: These assessments attempt to compliment the common battery of pre-employment screening techniques such as drug tests, background checks, education verification, motor vehicle records, etc. Typically used for low-end positions, these tests attempt to measure such things as a person's integrity (Are they going to lie, cheat and steal?), reliability (Will they show up to work on time?), and basic suitability for employment (For example, does this person have a tendency towards violence?).

2. Skills: These assessments are designed to test if a person has the skills to perform a particular job. There are basic tests that measure simple things such as verbal and mathematical abilities. There are also more complex tests that measure more advanced skills such as writing computer software code. The purpose of the assessment is to verify a candidate's claims that they are qualified to perform the required tasks for the job.

3. Psychological: These tests are designed to detect the psychological characteristics of a candidate that may make

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Psychological Assessments Attempt to Quantify an Employee's or Candidate's "Organic Wiring" and Make Judgments Concerning their Propensity for Success

them successful in a particular position. In simple terms, the assessment is trying to quantify the innate "wiring" of a candidate and make a determination if that type of person maps well to the job for which they are being considered.

Employability/Skills Assessments

Employability and skills testing is widely available via the internet and is helpful only if the job requires such testing. For employability, pre-employment screening is generally adequate for most positions. If a candidate has a propensity for poor behavior, it is usually not an isolated event. Money spent collecting verifiable work history and other publicly available documentation will be better spent than purchasing an employability assessment. If your company is hiring a large number of entry level employees with very limited work histories, then an employability assessment may be appropriate. Employability assessments range in price from \$8 to \$15 per test.

Skills testing is a necessity for many jobs. For example, if you run a medical facility and you are hiring a nurse whose responsibilities include issuing medication, it is important that she has the proven ability to perform dosage calculations. There is an assessment that will verify the person has this skill. If your company can identify specific skills in a job position that are critical for success, then it may be of value to test for those skills. Skills tests range in price from \$20 to hundreds of dollars per test.

Psychological Assessments

An extensive research study done by the Gallup Organization in 1997 revealed a person's organic "wiring" has a significant effect upon a person's propensity for success in a particular job position. It is not the only indicator of success, but it is a more important indicator than the conventional hiring metrics of knowledge, experience, and desire.*

The purpose of a psychological assessment is to quantify a candidate's "wiring" and make a judgment concerning their suitability for a particular position. That sounds like a simple concept, but it is very difficult to accomplish. There are thousands of psychological assessments on the market and not all the products are created equal. The remainder of this report will be dedicated to helping you ask the right questions and make objective judgments concerning different psychological assessment products on the market.

*For more information concerning this research, please request Tidemark's Free Report: [Hiring for Talent: How Organizations Select Employees for Talent to Defeat the 80:20 Syndrome in Business Today.](#)

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Question 2: Is the Assessment Legal?

For many years, companies have avoided using assessments because of a the perceived legal risk. The Equal Employment Opportunity Commission (EEOC) was created in 1964 amid the United States Civil Rights Movement. By 1971, the Supreme Court declared a utility company's use of an aptitude test was discriminatory because it disproportionately affected black workers. The case ruled that any hiring test must be job-related and can't have a disparate impact on any protected groups of people. That decision cooled the use of assessments for a couple of decades.

In the late 80s, a few companies came under fire for using the California Psychological Inventory and the Minnesota Multiphasic Personality Inventory, which measures mental stability. Most notably, Target stores used a version of that test to screen security-guard candidates, who later sued on the grounds that the true / false questions such as "evil spirits possess me at times" violated their privacy. Without admitting wrongdoing, Target settled the suit for over \$1 million in 1993.

With the publicity that surrounds a few high profile cases, many people have taken the opportunity to publish misinformation regarding the legality of using assessments. A careful look at the case law creates a different picture. By asking your assessment vendor the following questions, you can reduce your risk of lawsuits to near zero:

a. Was the assessment specifically designed and developed for business and industrial use? Most assessment lawsuits involve the inappropriate use of clinically-oriented psychological assessments. If the assessment was specifically designed for business use, the case law is very supportive.

b. Is the assessment job related? As a general rule, if you can not ask something during an interview, you can't ask it on an assessment. If the grading or scoring the of assessment is based on company specific or internally validated information, this makes the assessment more legally defensible because the data being collected is being compared to very specific job related data.

*Avoid Legal Pitfalls
by Making Sure the
Assessment was
Designed for
Business Use and
Certified to Meet
EEOC Requirements*

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c. Has the assessment been certified by a third party to be in compliance with all EEOC requirements. All reputable assessment vendors will be able to provide this documentation. Keep in mind, the EEOC does not certify assessments. A qualified third party (usually an employment attorney writes an opinion based upon valid third party validation research) certifies the assessment meets the requirements of the EEOC. If your assessment vendor cannot produce this documentation, it is a major red flag.

Question 3: Is the Assessment Reliable?

Mark Twain popularized Benjamin Disraeli's statement, "There are three kinds of lies: lies, damn lies, and statistics." This is the essence of evaluating an assessment. It is bad enough that the subject involves psychology, which few business people understand to a deep level, but then most of the claims that assessment companies make are based upon a statistical analysis of psychological data. It is very easy to "prove" just about anything!

Here are a couple of examples to illustrate. There is a major assessment company that has been in business for more than five years that claims to have a validated assessment. However, if you look closely at their validation data, you will notice it is based upon a sample size of just 32 people! This could be the founder's relatives for all we know. Another major assessment company that has been in business for over 50 years based the reliability portion of their validation study on a sample of 224 people. That is better than the first company, but don't forget to read the fine print. The sample was made up of elementary school children, college freshman and 42 male felons! Do you want to base your hiring decisions on this type of data?

When looking at an assessment vendor, there are two questions that help you quickly cut through the psychology and statistics and determine if the assessment is something that you want to use in your company.

a. What is the Reliability of the Assessment? In simple terms, all assessments are designed to measure something. Like any measurement, the integrity of the measurement tool is an important factor. For example, if a policeman stops you for speeding, he probably used a "radar gun" to determine your speed. His basis for issuing you a ticket rests on the reliability of his measuring device. If you can prove that his

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measuring device does not produce consistent results, then the speed number reported by his gun means nothing.

The same is true with assessments. It must be proven reliable in order for the results to have any meaning or value. The way this is commonly done with assessments is a test-retest validation process. The assessment is given to a number of people (preferably over 1000), and the results are recorded. Then the assessment is given to the same people again at differing and separate timeframes in the future, and the results are compared to the first score for each person. The salient question is: How often does the person's first score match the second score?

Reliability metrics are usually reported as a percentage that indicates a correlation between the two scores. The higher the reliability percentage, the better. A reliability metric of 100% means there was a perfect correlation between the first and second scores for all 1000 people. As a benchmark, most personality and behavioral assessments range from 50% to 80% reliable. Most companies agree, this is not good enough to be used for pre-hiring and internal hiring applications.

Assessment vendors who want to steer you away from considering the reliability of the assessment usually have something to hide or have not done any reliability validation on their assessment. It is expensive and time consuming to do validation studies. But, it is the only way for you to have confidence that the metrics produced by the assessments are credible enough to use inside your company as a basis for making employee decisions.

b. Who did the Validation Research? The reliability metric is important, but it is only as good as the validation research that was used to produce the metric. This is where things can get confusing. Do not ask "how" the reliability metric was produced unless you have the education and background to understand the answer. A better question is "who" produced the number?

It is important to have a third party validate the assessment. Many assessments are developed by a consultant or academic, who also does the validation "research" to prove it works. This is a conflict of interest, and a sign that the research is not trustworthy.

Viable assessment companies typically use reputable research institutions to perform their validation studies. There

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are over 700,000 PhDs in the U.S. alone. To make consulting fees, some of these individuals will produce research that is questionable. Institutions typically have higher standards because they have more than one reputation to protect. Be skeptical of validation studies done by independent researchers of whom you have never heard, and whose Also, credentials are not easily verified.

Question 4: Is the Assessment Burdensome to the Candidate or Employee?

Employers have learned the value of assessments, and assessments have become commonplace in hiring, job placement, training, team building and other employee-related applications. Currently, it is estimated that 90% of companies use some sort of assessment, and 40% use some sort of psychological assessment. Some employees and candidates have had about all they can stand. One employee advocate group made the following observation:

Pre-employment testing is great if you ask the basics: "Are you qualified to work in the United States? Are you over or under age 18? What's your name, position and Social Security number? Do you have a degree in this? Do you have three years of experience in that? Thank you very much." That's fine, because it gives the job seekers exactly what they need. They need to know what the job is and what you're looking for, and it gives the recruiter the basic information they need to qualify the person for an interview.

But I took one of these pre-assessment tests at a local supermarket kiosk, and they were asking me question upon question about my personality.... Look, unless you're truly desperate for a job, are you really going to spend 45 minutes online, with no feedback, taking this "test"? ³

Point well taken. Does this mean that you should stop using assessments because some employee advocates complain? No, there are still a lot of advantages for the employer. But, it's important to be sensitive to their concerns.

If all other quality factors are equal, the shorter the assessment, the better. Also, it is important to communicate with the employee or the candidate the purpose of the assessment, and how it fits into the overall hiring or developmental process.

*Long Assessments
are a Constant
Source of
Employee and
Candidate
Complaints*

Question 5: Does the Assessment Produce Measurable Business Improvement?

The previous four questions are intended to help you understand and avoid the most common risks of using an assessment. This question centers around return on investment (ROI). No risk is worth taking unless there is a potential reward, and the reward should have at least a reasonable chance of being realized. However, this is where most companies give their assessment vendors a pass. If it looks good, some other prominent companies are doing it, it must be the right thing to do. Concerning assessments, this is a quick way to waste your money.

It is important to ask your assessment vendor to prove they have produced measurable business improvements for other companies. Payroll is the largest expense category for most business units. Selecting top performers and placing employees in positions where they are wired to succeed has the potential to create significant efficiencies in payroll. These efficiencies should translate to real dollars. All business units track the metrics of revenue and profit. The most important question is whether the assessment affects the bottom line. If your vendor cannot prove they have done this for other companies, that is a major red flag.

Don't be fooled by the excuses:

"These are people, you can't really put metrics on them."

"We have no control of the candidate after they are hired."

"Companies will not give us access to that information."

"There are really many factors that affect performance and it can't be narrowed down to simple metrics."

Ask for the numbers. If the vendor cannot show you metrics that show verifiable increases in revenue, decreases in labor costs, and increases in profit, then find a vendor who can prove their claims.

a. Case Studies. The most common way to communicate business success is through a case study. A good case study

Improvements in Human Capital Efficiency Produce Real Cost Savings and Profitability Increases. A Lack of Data is a Red Flag.

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will show a “before” picture and an “after” picture, and include at least a year of performance data. The story in the case study may be interesting, but do not forget to look for the hard metrics.

Beware of anonymous case studies. It is true that many companies require their vendors to sign confidentiality agreements when dealing with employees. However, if the vendor has a number of clients, there will be some who are willing to share their story. In fact, companies love talking about big successes. Just pick up any trade journal or business magazine and you’ll find all kinds of metrics. If none of the vendor’s clients are willing to tell their story, there may be a reason.

b. Longitudinal Performance Study. This is another level of proof that the assessment actually produces the results the vendor is claiming it produces.

For example, if a drug company wants to produce a drug that reduces allergy symptoms, they first do research in a lab, and then go through clinical trials to prove it works. Ten years after the drug has been on the market, studies are often done to see how effective the drug was at producing the claims it said it could produce. This would be a type of longitudinal study—a look at actual results over many patients across a longer period of time.

A case study is good, but there may be a lot the vendor is not telling you. A longitudinal study cuts through the potentially one-sided success stories and drives towards the real metrics. With real metrics, you can complete viable ROI calculations and determine if the assessment makes financial sense for your company.

Summary

Predicting human performance is very difficult. Traditional hiring techniques such as resumes, references, and interviews often do not produce enough trustworthy data to make successful hiring decisions. Many companies are learning that assessments can provide a very effective and relatively neutral measuring stick when it comes to predicting employee performance.

But, all assessments are not created equal. With over 4000 assessments on the market today, the choices can be

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overwhelming to a company that has little experience in this area. The following questions can help you avoid the legal, ethical, and financial pitfalls of selecting an assessment for your company:

1. What Are You Trying to Measure? Detecting and quantifying a job candidate's "organic wiring" and mapping that against the "organic wiring" of the existing top performers can be an effective way of predicting future performance.

2. Is the Assessment Legal? Select an assessment that has been designed specifically for business use and certified by an independent party to meet the EEOC requirements.

3. Is the Assessment Reliable? Make sure the assessment produces repeatable results. Otherwise, the data it produces is suspect and should not be used to make employee decisions. Ask for reliability metrics, and then look carefully at who did the validation study.

4. Is the Assessment Burdensome to the Employee or Candidate? Most complaints come from long assessments. If all other quality factors are equal, choose a shorter assessment.

5. Does the Assessment Produce Measurable Business Improvements? Ask for the hard metrics like revenue, profit and cost of labor. And, do not accept excuses. Case studies are a good start, but a longitudinal study allows real ROI calculations to be made.

Citations:

¹ Pentilla, Chris. "Get Psyched." Entrepreneur Magazine 01 January 2001: 62.

² Barrier, Michael. "Hire Without Fear." Nation's Business 01 May 1999: 94.

³ McIlvaine, Andrew. "Failing the Customer" Human Resource Executive 01 April 2004: 43.

Asking the Right Questions Separates the Real Assessment Technology From the "Snake-Oil".