

## The Value of Assessments in Selection and Development

Increasingly, formal assessments are recognized as adding significant value to selection and development systems. This *Insight* white paper describes why this is so, and suggests ways organizations can further increase their value.

### **Historical Perspective**

For thousands of years, humans have measured work-oriented skills. As far back as the Chan dynasty in 1115 BC, civil servant candidates were subject to competitive examinations to test their proficiency in areas such as archery, horsemanship, military affairs, civil law, writing and arithmetic – the knowledge, skills and abilities (KSAs) deemed important for success in a civil servant role.

It wasn't until World Wars I and II, however, that the science of assessing people for the purposes of selection, placement and training was applied on a truly large scale. The US military used aptitude tests, among other tools, to quickly and efficiently place recruits into roles that matched their abilities. They also developed and used simulations (assessment centers) to screen and train secret agents. The value of assessment was quite evident at that time because of the large number of soldiers that needed to be quickly and effectively screened.

Today organizations spend millions of dollars on assessment tools to help attract, select, promote, train and develop their staff. The motives for assessing people are related to several criteria including productivity, retention, absenteeism, legal requirements and employee development.

### **The Value of Assessments in Selection**

Imagine the repercussions to an airline if its pilots were improperly certified, or if city administrations failed to screen the people who police our streets and protect our property. The high levels of on-the-job failure would lead to a loss of life, harm to the public, poor public image, and eventually, serious financial implications for those organizations.

While the consequences of error in such jobs could be fatal, the consequences of error in less hazardous and

less complex jobs are also significant. For example, mistakes made in hiring customer service representatives can lead to low performance, high turnover, unhappy customers, lost business and higher labor costs.

The primary reason we assess people in a selection process is to increase the probability of hiring the best candidates – people with the skills to perform well, and who are more likely to be retained. Some assessments measure knowledge, skills and abilities (KSAs), while other assessments measure personal attributes such as personality, work preferences and motivation. Both KSAs and personal attributes are important, but the latter are particularly important in reducing turnover. Call centers, for example, typically struggle with very high turnover, but it's more of a *fit* issue than a *skills* issue.

What are the costs associated with making a bad hire? It depends on the job and how the costs are calculated. The American Management Association estimates that the cost is 1.4 times an employee's annual salary. The California Strategic HR Partnership (a consortium of Fortune 500 executives) calculated that, for certain positions, the cost can be almost 10 times an employee's annual salary (approximately 1 million dollars in the case of a software engineer).

What's behind these figures? They are comprised of some obvious costs such as advertising and recruiting, administrative costs for managing the selection process, travel and relocation, and the training and development new employees need to get up to speed. However, the less obvious costs are even higher – opportunity costs and lost business, lower performance until new hires are trained, negative impact on morale, and so forth. As the complexity and level of the job increases, the cost of a bad hire also increases. In some cases, making the wrong hiring decision at the CEO level can cost hundreds of millions of dollars.

From the organization's perspective, there are huge financial benefits to including assessments in the selection process, insofar as the information will lead to better hiring and placement decisions. The individuals being assessed also benefit. Employees are more satisfied and advance further in their careers when their skills and personal attributes match the requirements of their jobs.

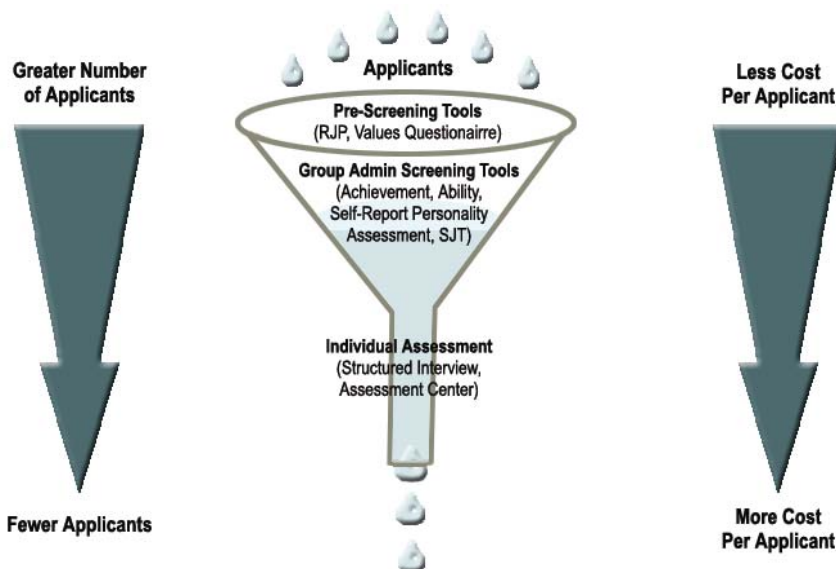
There are other benefits to selecting the right people. Jim Collins, author of “Good to Great,” talks about “getting the right people on the bus.” He notes that most people assume that great business leaders spark change by announcing to the people “on the bus” where they’re going – by setting a new direction or by articulating a fresh corporate vision. Based on his research, the companies that moved from good to great were those that began their journey by asking “with whom” rather than “where.” In other words, great companies start by getting the right people on the bus, the wrong people off, and the right people in the right seats.

### **Increasing the Value of Assessments in Selection**

The preceding discussion made the point that including assessments in the selection process adds value. How much value depends on several actions you can take, which are outlined below.

1. **Success profile.** Build an accurate profile of the job by specifying the KSAs and personal attributes most important to success. Understand the goals of the organization and how they impact the jobs being staffed. For example, what skills are critical to the organization today, and how will that change over the next few years?
2. **Selection tools.** Based on the success profile, choose the selection tools that will provide the data needed to make sound hiring decisions. With respect to assessments, decide whether you should obtain good, valid tools from a vendor or develop your own. Aim for more assessments rather than fewer.
3. **Selection process flow.** Organize the tools in a logical way that will be effective, efficient and reduce costs. Figure 1 below shows the “selection funnel” approach to selection. Assessments are typically very fast and relatively inexpensive. Tools that are fast and low cost are used early in the process to screen out less qualified candidates. The more time consuming and costly tools, such as interviews and assessment centers, are used later in the process.
4. **Administration.** Ensure that consistent practices are followed during the selection process, particularly with respect to how assessments are administered. Inconsistent administration can lead to lower utility and legal problems. Read and carefully follow the instructions in the manual.
5. **Adverse impact.** Examine whether or not the assessment adversely impacts protected groups. (Is the minority group selection ratio less than four-fifths of the majority group’s selection ratio?) This is more often found in instruments measuring reasoning or cognitive ability. Use the instrument if it’s a valid predictor of job performance, and a better, less adverse instrument cannot be found.
6. **Follow-up validation.** After some time on the job, collect performance-related data (as well as other indices like turnover and employee attitudes) and compare it with scores from the assessment. Use the results to make any necessary adjustments to the selection process.

**FIGURE 1**  
**The “Selection Funnel”**



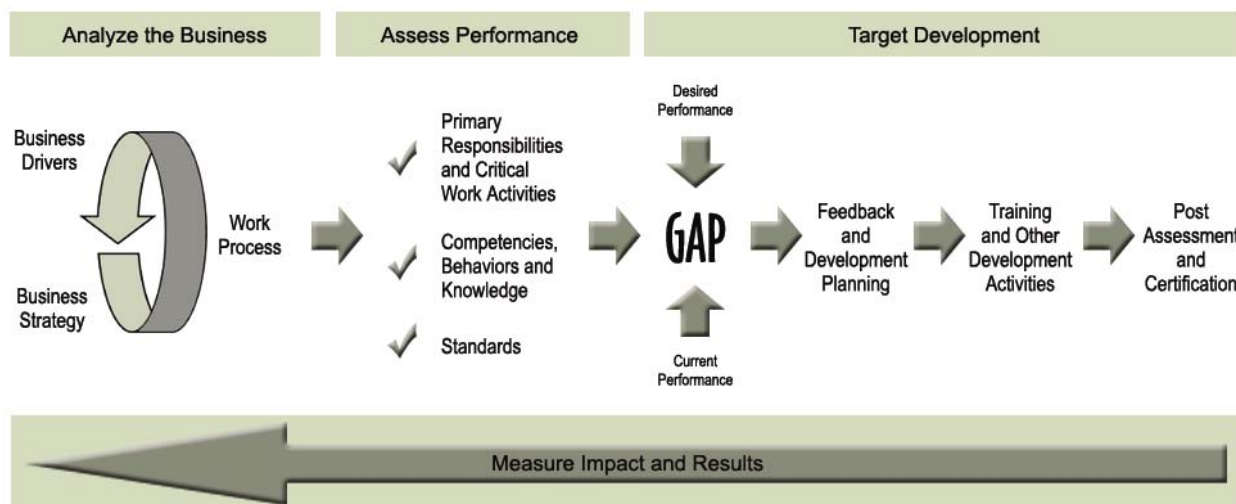
## The Value of Assessments in Development

While people typically associate the term “assessment” with selection, organizations are increasingly using assessments for developmental purposes. Here are a few of the ways assessments are adding value:

- Ensure employees have acquired the necessary knowledge and skills during training.** Organizations spend about \$60 billion on training each year, and a modest investment in assessments can significantly leverage those resources. The data are also very helpful in fine-tuning training programs.
- Better target training resources.** Rather than assuming that all employees need the same training, assessments can help identify the specific areas where training would be most beneficial on an individual basis.
- Promote continuous learning and development.** Good assessment programs periodically measure employees’ capabilities and provide specific feedback to help them further develop.
- Empower managers.** Managers are just as responsible for developing the talent pools in their organizations as they are for accomplishing operational goals. Unfortunately, while they get a lot of information pertaining to how they’re doing on operational goals, they get no information on the knowledge and skills of their people. Good assessment programs can provide this valuable data.
- Improve organizational effectiveness.** For example, a large financial institution Censeo works with administrators a product knowledge test every six months to all of its employees who interact with customers. Follow-up research showed very high relationships between product knowledge and a variety of financial measures. This propelled the organization to an even greater commitment to employee development.

FIGURE 2

## Increasing the Value of Assessments



*The strategies involved in increasing the value of assessments are to analyze the business, assess performance, target development, and measure impact and results. Assessments can be used strategically to build a performance-related organizational culture.*

## ***Increasing the Value of Assessments in Development***

Figure 2 on the previous page illustrates the strategies involved in increasing the value of assessments. The main point relevant to this discussion is how assessments can be used strategically to build a performance-oriented organizational culture. Here are a few suggestions on how to accomplish that:

1. Understand the business drivers and strategies of the organization. Examine what the organization is trying to achieve and what metrics will be used.
2. Identify the activities to be performed and the KSAs employees need to carry out the strategies. Set performance targets and then measure proficiency on the critical KSAs using appropriate assessments.
3. Assess the gaps between actual performance and set targets, and then implement performance feedback sessions in which employees and their managers agree on the development activities necessary for building capabilities linked to the organization's strategies.
4. Once employees have gone through training and other developmental activities targeted to improve knowledge and performance, measure their acquired knowledge and skills to ensure learning took place.
5. Finally, after an appropriate interval, measure the effect of the assessment process and all of the developmental activities on the organization. Did the metrics important to the organization significantly improve? Were customers more satisfied? Were employees more content in their jobs? The process is a continuous loop, as all the data should be used to refine the business strategies, required KSAs, targets, etc.

From the employee's perspective, this performance-oriented system ensures that their development is focused on the things that matter – things that will help them do their jobs better and faster, possibly opening the door to greater rewards and faster advancement. The value of assessment to the organization is in the cost savings and productivity gains from a targeted development process. Giving employees exactly *what* they need in development *when* they need it will make the organization that much more effective.

### ***Conclusion***

As the business environment becomes more competitive, people, not processes and technology, increasingly become the differentiators. As a result, it is more important than ever to implement the best possible assessment systems in order to select, retain and develop talented people.

The value of assessment in this kind of environment is that it gets the "right people on the bus" and the "wrong people off," thereby decreasing the costs associated with bad hires and increasing revenue potential as a result of talented employees. In addition, assessment plays a vital role in employee development as it streamlines the development process by targeting KSAs in need of development.

At the individual level, assessment systems increase the probability of job fit, provide a road map for development, and open the door for rewards and advancement.

Finally, HR needs to become more strategic in influencing the organization's decisions. Assessments can help in this regard because they quantify the value of HR programs and services. In order to demonstrate true value, HR needs to measure the impact of programs on the key metrics driving organizational success.

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