



Cost Benefits of Psychometric Testing in the Current Labour Market – How to ensure you select the best fit employees for your organisation

The employees of an organisation are often recognised as a business' most important asset, and the key to organisational success. For any company, it is essential to select, retain, and develop your talent if you are to maintain a competitive advantage in your industry. However, according to a Harvard University study 80% of turnover is due to mistakes made during the employee selection process. So why is it so easy to get it wrong?

In the current tight labour market with fewer candidates to select from, it can be easy to select candidates that do not meet all of the role requirements but may be the best potential candidate in your pool. Although this allows you to fill the position in the short-term, the long-term effects of decreasing the quality of your employees cannot be underestimated. Some of the negative consequences of bad hires include lowered employee morale, decreased productivity, lost customers and market share, and higher training, severance, and recruitment costs (Right Management Consultants, 2006).

In fact, various studies have estimated that it can cost between 1.5 to 3.5 times the annual salary of that position to replace a bad hire (Baxi, 2008; Right Management Consultants, 2006). Such costs consist of separation expenses including exit interviews and severance pay. Replacements costs involve re-advertising the position, screening and short listing, interviewing, additional administration, assessments, reference checks, and costs of the person filling in the role. Training cost comprise the cost of inducting and training the new employee. Productivity costs consist of the initial loss of productivity whilst the new job incumbent settles in, as well as

costs associated with a loss of morale, customer issues and increased mistakes. (Colombia University HR Manager Toolkit, 2008).

In a tight labour market, the costs of replacing an employee can be even more expensive as a result of the need to spend more money to source quality candidates. You also face the possibility that making the wrong hire could increase turnover in your organisation if the quality of your talent begins to decline and your employees leave to work with more talented individuals elsewhere, possibly with your competitors. Regardless, many managers believe that they cannot afford to use rigorous selection techniques, as tools such as psychometric assessments increase the already expensive selection procedure, and may uncover aspects of the candidates that they do not want to know because the candidate presented well at interview and seemed suited to the role. Consequently they tend to hire whoever is available and hope for the best!

In such circumstances a rigorous selection technique is exactly what is needed, and is actually highly cost effective. In reality, psychometric assessments constitute only 4% of the total cost of the selection process (The Talent Institute, 2008). Research has consistently demonstrated that psychometric testing offers unique and valuable predictive information about an individual's on the job performance. Cognitive reasoning tests in particular offer valuable information about an individual's verbal, numerical and conceptual skills that can be generalised across different types of jobs and situations. Personality or work styles questionnaires are also commonly used to assess job relevant behaviours and preferences in a work context. The use of psychometric testing can lead to higher employee commitment, satisfaction, and reduced turnover, as they assist in placing the candidate in a role they are well suited to where they are more likely to have a higher level of job satisfaction and consequently stay in the role for longer.

In the current labour market such measurements have an added benefit of assessing an individual's potential, which

can assist you to gain insight into what they may be capable of achieving with your organisation. Utilising psychometric assessments is an ideal way to investigate whether a candidate has the potential to develop relevant skills and how well they fit not only the role itself, but also the culture of your organisation, a key factor in determining whether individuals stay with an organisation (McCulloch & Turban, 2007) This can allow you to hire individuals who may not have the desired experience for the role, but demonstrate the potential to develop the skills to perform the role successfully with the right management, support and training. Although in the short-term this can be time consuming and may initially slow productivity, the long-term benefits for the organisation greatly offset this. Utilising valid and reliable psychometric assessments including cognitive abilities tests and personality/behavioural preferences assessments can also ensure you maintain defensible selection standards and applicant quality in a cost-effective manner, as the outlay for such tests is much less than the considerable cost associated with hiring the wrong individual for the job.

In the competitive business world, organisations are always looking for ways to get ahead. To gain a competitive edge, you need to have the right people, and to get the right people, you need to have a rigorous selection process that assesses the performance and potential of your candidates, to ensure you make the right decision for the long-term and avoid substantial costs associated with making the wrong selection decision. Psychometric assessments are a cost effective, valid and defensive addition to your selection process, and can assist you to manage the challenges of the current labour market.

Some of the psychometric assessments offered by Psylutions include:

- Cognitive Abilities (Verbal, Numerical and Abstract Reasoning)
- Personality/behavioural preferences
- Sales call reluctance
- Skills assessments (MS Excel, MS Word, MS Powerpoint, MS Access, MS Outlook)
- Motivational Preferences



Article researched & prepared by Nicole Russom, Consulting Psychologist, Psylutions
References available from Psylutions

Contact Psylutions
Prue Laurence & Nicole Russom
Suite 101B, Site One, 757 Bourke St,
Docklands, Melbourne 3008
Ph: 03 8687 9070
Email: info@psylutions.com.au
Website: www.psylutions.com.au