Consulting
Performance, Rewards & Talent

Measuring the Business Impact of Employee Selection Systems

Aon Hewitt

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Many, if not all, business leaders readily agree that it is their employees who give them a competitive edge in the marketplace. Few, however, are able to quantify the impact of "better" employees on business performance. Only recently have business leaders begun to understand how to deploy human capital analytics to demonstrate the competitive edge gained by high-quality human capital practices.

Employee selection is a human capital discipline that is data-rich. Demonstrating its business impact can be relatively straightforward. In this white paper, we describe different ways to demonstrate the impact of employee selection systems on the business. In addition, we provide guidance on how to put these methods into practice.

Demonstrating Business Impact

Intuitively, we believe that hiring better employees—those who are an appropriate fit for the job and for the organization—will benefit the business. Exactly how much they impact the organization can be measured in terms of individual and team performance with both financial (e.g., cost savings and additional revenue) and non-financial (e.g., more satisfied customers and high engagement scores) metrics, as shown in the table. We examine each type of metric to understand how to collect and use it to communicate business impact to organizational stakeholders.

Financial and Non-Financial Performance Metrics

Types of Performance Metrics	Financial	Non-Financial Quantitative	Qualitative
Individual	■ Sales per hour ■ Average sales per week ■ Percent of quota ■ Sales of high-margin products ■ Add-on sales ■ Shrinkage/theft	■ Customer service ■ Turnover ■ Engagement ■ On-the-job accidents ■ Error rates ■ Quality scores ■ Client retention ■ Attendance	■ Willingness to rehire ■ Manager performance ratings ■ Training performance ■ Promotion potential
Team	■ Team sales ■ Unit controllable profit ■ Year-over-year store sales ■ Unit shrinkage/theft	■ Engagement scores of direct reports ■ Unit/team turnover	■ Team awards, accomplishments, or rankings ■ Team bench strength

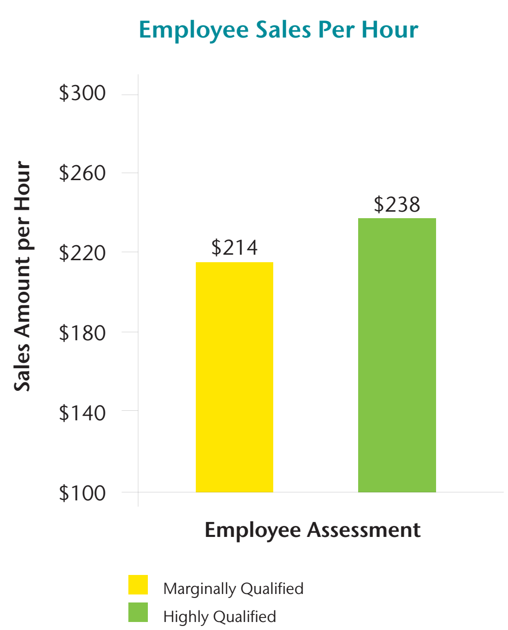
Financial Metrics

Financial impact is almost always of primary importance to leaders who must report business financial growth to stockholders, analysts, or boards on a quarterly basis. To demonstrate financial impact, HR must have access to key financial data. If the organization's leaders must review and report on financial business metrics, these data can often be provided by finance, sales, or operations functions. Sometimes these data are readily available in organizations with a data-driven culture, but that's often not the case. Usually, HR must partner with their colleagues within the business functions to gather the data needed to conduct analyses to demonstrate financial impact. Following is an example of the types of analyses and results that can be demonstrated with financial metrics.

Case Study

Hiring Highly Qualified Candidates Results in Multimillion-Dollar Increase in Revenue

Most retailers can track sales per hour for cashiers and sales people by noting which employee is logged into the point-of-sale system for each sale. One organization wanted to review the relationship between sales per hour and applicant quality. The company was able to pull sales-per-hour metrics by employee for all current employees and match that to the employees' assessment scores (the assessment had been in place for several years already). Just by using a simple comparison, the company was able to see that highly qualified candidates sold $24 more per hour than marginally qualified candidates. While this may appear to be a small difference, the financial impact of 5,000 part-time employees working an average of 20 hours a week for 50 weeks a year is $6 million. This company was able to demonstrate a multimillion-dollar increase in revenues based on an emphasis on hiring highly qualified candidates over marginally qualified candidates.



Team or business unit financial metrics can be another great source of data to evaluate the impact of employee selection systems. While not as specific as individual impact, these measures are as valuable as most other analyses conducted on customer or market data. Two conditions must be met for business unit analyses to be reliable and valid:

1. Assessment data must be available for a vast majority of the business unit (i.e., approximately 75% or more of the target population)
2. Data must be able to distinguish between "highly qualified" and "less qualified" teams

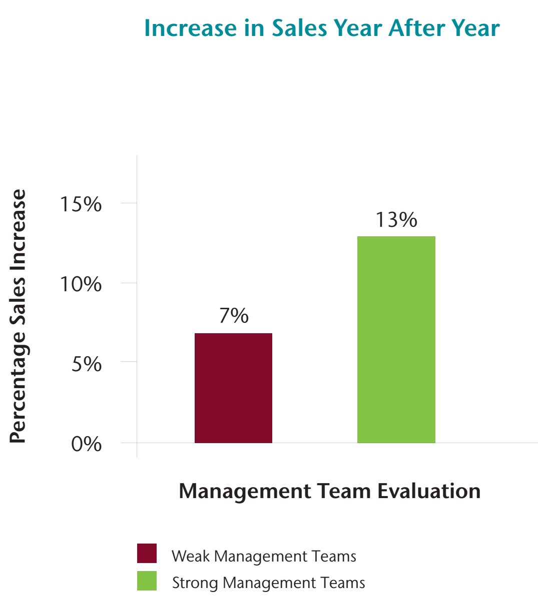
The second condition forces the analyst to make a judgment call in categorizing the business unit. For example, if a majority of the team members in the business unit scored high on the assessment, then we can say that the business unit is a highly qualified team. If a majority of the team members scored lower on the assessment, then we can say that the business unit is a marginally qualified team. Having enough data (i.e., a high enough percentage of team members with assessment scores) for enough business units is the main limiting factor with this type of analysis. However, if enough data exists for the individuals within each business unit (e.g., location, team, or store), companies can easily evaluate the financial impact of an assessment. Below is a case study that illustrates the financial impact of a business unit analysis.

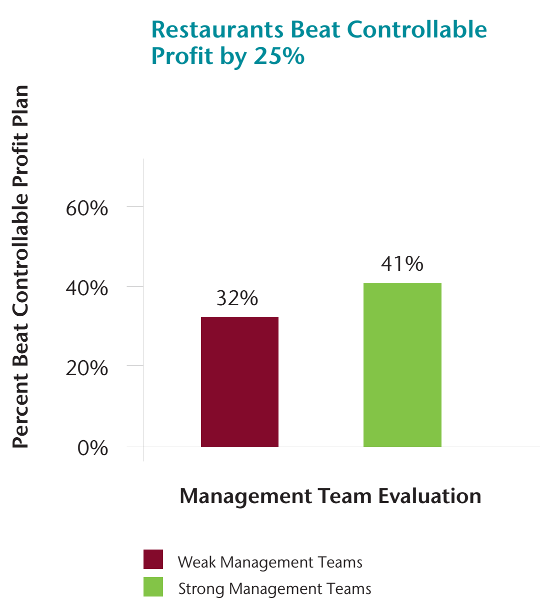
Case Study

Hiring Highly Rated Manager Applicants Equates to 50% Higher Sales, Lower Labor Costs

An organization wanted to evaluate the effectiveness of its employee selection system for manager and team member hiring. They tracked revenue and expense metrics only at the store level. We were able to evaluate the effectiveness of hiring strong management teams (i.e., assistant and general managers) by evaluating assessment scores for the entire management team. Based on this categorization, the organization was able to show that, compared to marginally strong management teams, units with strong management teams:

- Had 50% higher sales
- Were much more likely to beat their controllable profit plans by a greater margin
- Had a cost of labor that was over $5,000 less per year





Non-Financial Quantitative Metrics

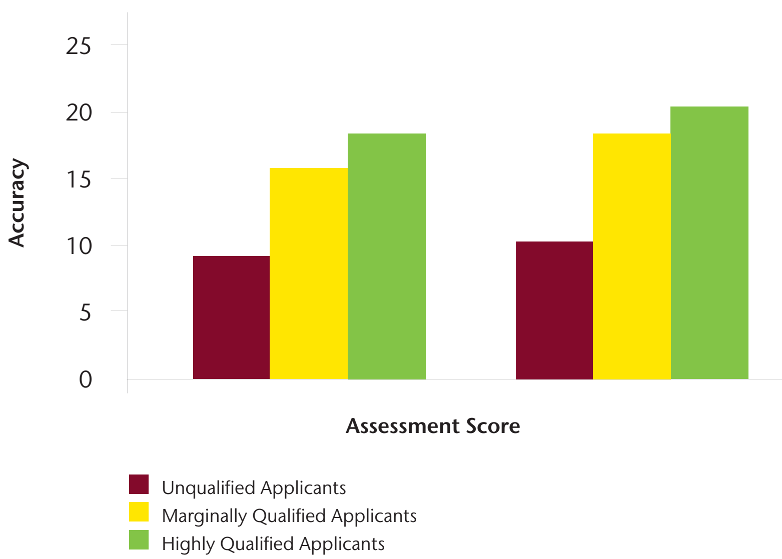
Some of the most interesting and informative results are seen when evaluating the impact of an employee selection system on non-financial quantitative metrics. These analyses clearly demonstrate how assessments and subsequent hiring of better-fit employees impact business outcomes. These metrics are often leading indicators of financial returns like sales and profitability. In addition, these metrics can usually be translated into financial impact with some understanding of how the business works. Below is a case study that illustrates the value of this type of analysis.

Case Study

High-Scoring Applicants Twice as Productive

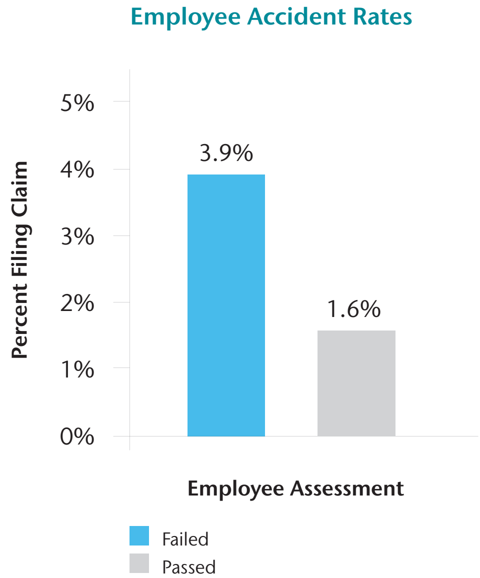
A warehouse and distribution company was able to demonstrate that applicants with higher scores on a pre-employment assessment also scored twice as high on productivity measures than low scorers.

Employee Productivity



Low-Scoring Applicants Twice as Likely to Have On-the-Job Accidents

A company in a light industrial setting was able to track workers' compensation claims on newly hired employees, and show that those with lower assessment scores were twice as likely to have a workplace accident as those who scored higher on the assessment.



Highly Qualified Applicants Create More Satisfied Customers

A retailer was able to link pre-employment assessment scores to customer satisfaction surveys and found that highly qualified employees were rated by customers as friendlier and more efficient—leading to higher overall customer satisfaction scores.

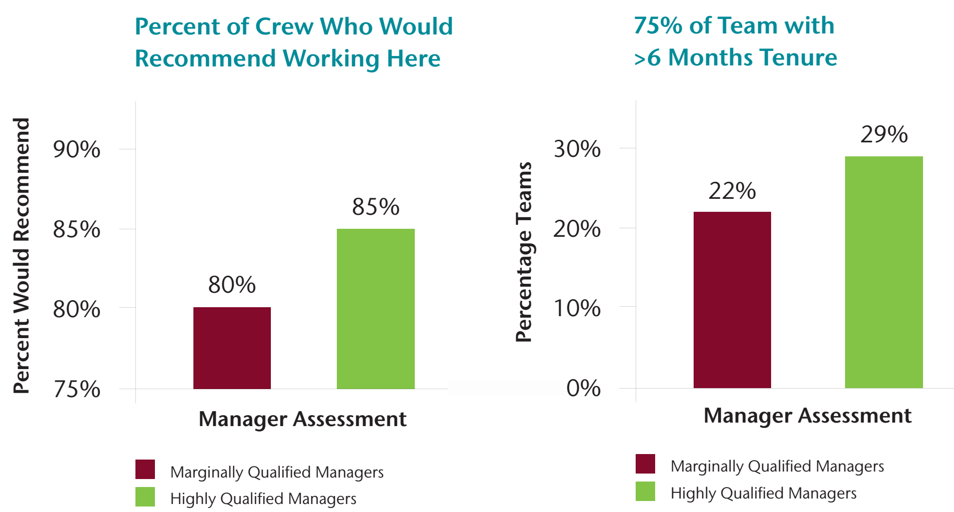
A common non-financial metric that can be linked to pre-employment assessment usage is reduced turnover. While this is an easy analysis to conduct, reduced turnover is not a convincing indicator of business impact unless the cost of turnover is clearly and reliably quantified. For example, one organization was able to detail a savings of over $9 million in reduced recruiting and training costs due to lower turnover. Other metrics that HR can easily calculate are training program performance, promotions, and transfers. While these metrics are more difficult to quantify, they are objective metrics that may speak more clearly to other business leaders.

Just as with financial metrics, companies can evaluate business impact for non-financial quantitative metrics at the business unit level. It is important to have enough data for each business unit to reliably classify each metric into highly qualified and marginally qualified groupings. Below is a case study that demonstrates the value of considering non-financial metrics at the business unit level.

Case Study

Highly Qualified Managers Inspire Engaged Teams

A quick-service restaurant company compared engagement scores and manager tenure at restaurants run by highly qualified managers versus marginally qualified managers. The results showed that the team members working for highly qualified managers responded 5% more favorably to the employee engagement survey and 7% had teams with tenure of greater than six months.



Many organizations have done extensive market research looking at the linkages among employee engagement, customer satisfaction, and sales or profitability. Similarly, many articles have been written supporting the "service-profit chain," showing that more committed and better engaged employees take better care of customers, which results in more loyal customers who spend more money, more often. Thus, HR may be able to place a financial value on non-financial metrics by partnering with the organization's marketing analytics professionals.

Qualitative Metrics

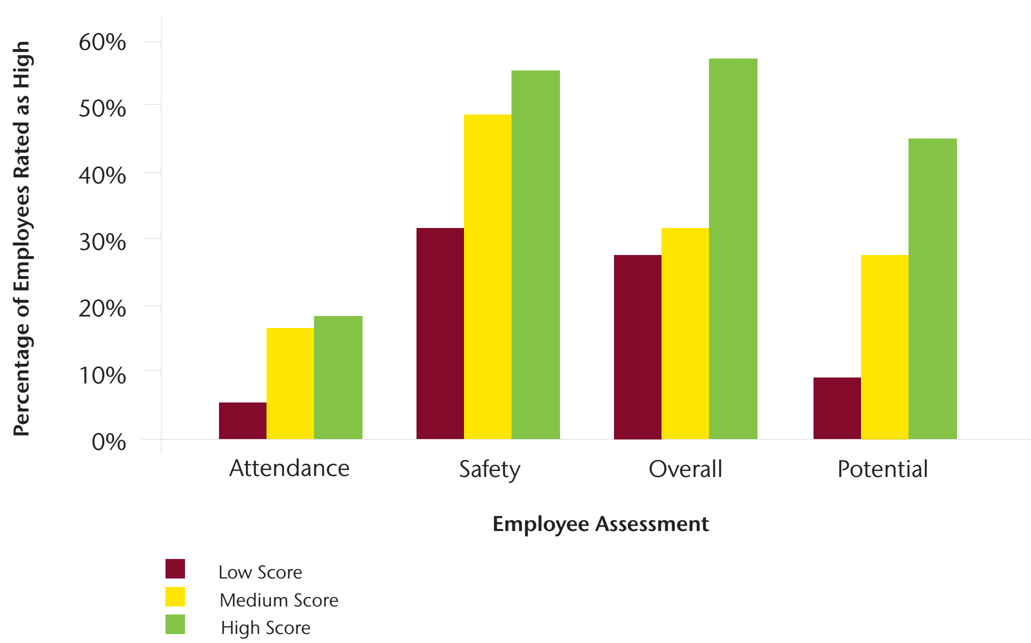
Organizations often turn to qualitative metrics when they don't believe they will be able to tie an employee selection assessment to objective metrics. (That said, it is our hope that this white paper will help organizations take a broader look at new quantitative metrics as well as analyses that allow them to show the impact of employee selection systems.) Qualitative metrics can help organizations understand early indicators of employee behaviors that support business strategy and financial results (e.g., suggestive selling, following procedures, turnover intentions). Organizations may also evaluate data on team awards or rankings. These data are the least commonly used and most difficult to use in business impact research. Following is a case study that illustrates the value of considering qualitative metrics.

Case Study

High-Scoring Candidates Have More Overall Potential

A distribution company asked supervisors to rate how long it took for newly hired employees to "get up to speed" and contribute to the organization. To measure this, managers evaluated attendance and safety records. They also rated the probability of the employee getting promoted in the future and willingness to rehire if the employee left voluntarily. Those who scored higher on the assessment were rated by their supervisors as having better attendance, being safer workers, having more potential with the company, and being better workers overall.

Employee Potential



Consortium Study

Study Shows High Test Scorers More Likely to Stay on the Job and Like the Work They Do

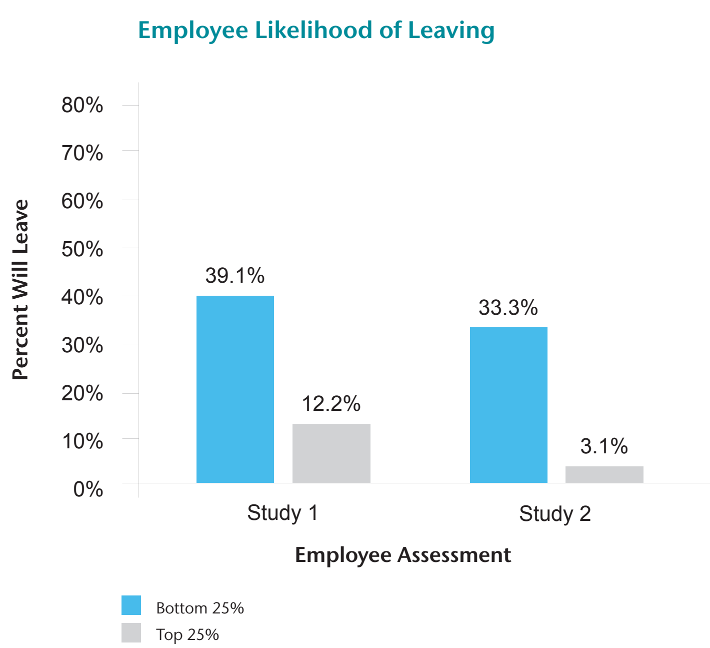
In a consortium study to develop a new employee selection assessment, we asked test takers to confidentially report if they were planning to leave their jobs within the next six months. We also asked them if they liked the type of work they did.

Low scorers on the test were between three and ten times as likely to say they were planning to leave their jobs. High scorers were between 60% and 90% more likely to say they liked the work they did.

Test Scores Compared to Staying on the Job

Study 1
Employee Assessment
Employees who scored in the bottom 25% on the test were three times as likely to say they will leave this job in the next 12 months than were employees who were in the top 25% on the test.

Study 2
Employee Assessment
Employees who scored in the bottom 25% on the test were over ten times as likely to say they will leave this job in the next 12 months than were employees who were in the top 25% on the test.



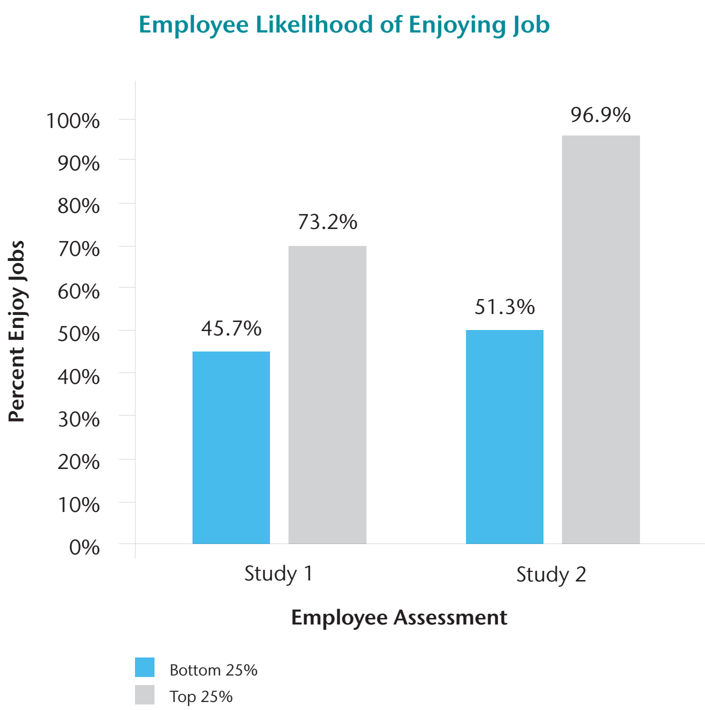
Test Scores Compared to Liking Your Job

Study 1

Employees who scored in the top 25% on the test were 60% more likely to say they like the kind of work they do than were employees who were in the bottom 25% on the test.

Study 2

Employees who scored in the top 25% on the test were 89% more likely to say they like the kind of work they do than were employees who were in the bottom 25% on the test.



A Note about Cost Savings from Increasing Talent Acquisition Efficiency

This white paper has intentionally focused on how companies can demonstrate improvement on operational business results, rather than decreasing the costs of the talent acquisition function. Of course, use of assessments can make the recruiting process much more efficient and likely to yield substantial cost savings. Other Aon Hewitt white papers have demonstrated that the recruiting process can be made more efficient by using short, efficient pre-screens early in the hiring process with more costly assessments (such as resume reviews and interviews) later in the process. Typically, companies do not measure the cost of recruiter and hiring manager time to review resumes and interview candidates. Using valid, job-relevant assessments allows recruiters and hiring managers to spend time with only two or three pretty good candidates, rather than five to eight candidates of whom some are patently unqualified. While these cost savings are valid and often substantial, business partners tend to discount these "soft-dollar" savings estimates. Our recommendation is to use these only in conjunction with other hard-dollar savings estimates explained earlier in this white paper.

Conclusions and Recommendations

As demonstrated, there are strong returns realized by investing in selecting higher-quality talent. These returns can be quantified with relative ease with the right data. Selecting the right employee, however, is only one of many ways to drive greater results through talent. A strong pipeline of applicants is a prerequisite for being able to select the best talent. Candidate communications, pay, and benefits are important to ensuring an attractive employee value proposition. In addition, those candidates who are hired will need to be trained, directed with proper goals, given performance feedback, and coached to higher levels of performance. These and other talent strategies, when aligned with the organization's business strategy, will ensure results that are equal to or even better than those examples presented here.

About Aon Hewitt

Aon Hewitt is the global leader in human resource solutions. The company partners with organizations to solve their most complex benefits, talent, and related financial challenges, and improve business performance. Aon Hewitt designs, implements, communicates, and administers a wide range of human capital, retirement, investment management, health care, compensation, and talent management strategies. With more than 29,000 professionals in 90 countries, Aon Hewitt makes the world a better place to work for clients and their employees.

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