

IMPLEMENTING ASSESSMENTS IN SMALL AND MEDIUM SIZED BUSINESSES

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Report Highlights

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53% of companies indicate that their biggest HR challenge is overcoming the shortage of required skills available in the labor pool.

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SMB businesses are 43% more likely than enterprises to utilize assessments more consistently throughout the talent lifecycle.

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SMBs are 29% more likely than enterprises to have budget constraints that keep them from being able to implement any kind of assessment.

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Best-in-Class companies that use assessments are 2X as likely as All Others to have employees who exceed performance expectations.

While businesses of all sizes benefit from better understanding their talent, whether incoming or already in place, small and medium sized businesses (SMBs) often have a significantly smaller window for mistakes. That's why it's a necessity for SMBs to utilize pre-hire and post-hire assessments to make more informed decisions wherever possible. This report will explore how assessments can best be utilized and what the return on investment is for successfully using them.

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53% of companies indicate that their biggest HR challenge is overcoming the shortage of required skills available in the labor pool, down from 79% as of just last year.

Aberdeen Definition:

Small and medium sized businesses (SMBs) are defined as companies with 1,000 or fewer full-time employees.

What Can Assessments Do for You?

Most companies are well aware that finding the right employees with the specific, desired skill sets is quite difficult. Sure, the percent of companies who indicate that their biggest HR challenge is overcoming the shortage of required skills available in the labor pool has [decreased from 79% down to 53% of companies](#). That doesn't mean sourcing, recruiting, and hiring employees is much easier though. In fact, to complicate matters further for HR, [75% of the fully employed workforce consider themselves passive candidates](#) (i.e., they're not looking for new roles). These are just two major roadblocks that slow down effective recruitment, and these challenges are even harder to overcome for SMBs (sidebar).

This is where planning ahead can really pay off for the ongoing success of the business. Smart organizations are always weighing what their hiring and promotional needs will be for the future, and taking action accordingly. For instance, per Aberdeen's [Best Practice: Use Modern Recruiting to Stay Cutting Edge](#) (January 2016), Best-in-Class organizations (sidebar, page 3) are 55% more likely than All Others (68% vs. 44%) to proactively build and expand the candidate pipeline, regardless of current hiring needs. Such a strategy is called active hiring, rather than reactionary hiring. Just as of two years ago, per Aberdeen's [Talent Acquisition 2014: Reverse the Regressive Curse](#) (June 2014), 60% of companies had regressed to a reactionary approach. This means they only recruit when there are open job requisitions, instead of actively recruiting no matter the openings. By pairing active hiring with pre-hire assessments, organizations can better determine the specific skill sets that the organization will need going forward and can take action accordingly.

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Another tactic for planning ahead is by ensuring you've identified future management and leaders. More specifically, per Aberdeen's [*Best Practice: Identify High Potentials Before You Lose Them!*](#) (July 2015), Best-in-Class companies are 51% more likely than All Others (59% vs. 39%) to have a process in place to identify high potential employees. Such members of the workforce might not necessarily be obvious or apparent at first, which is why there needs to be strategies around identifying and supporting them as much as possible. By pairing high potential efforts with post-hire assessments, organizations can have a better pulse on what employees struggle with, what interests them, and what the future of their workforce could look like.

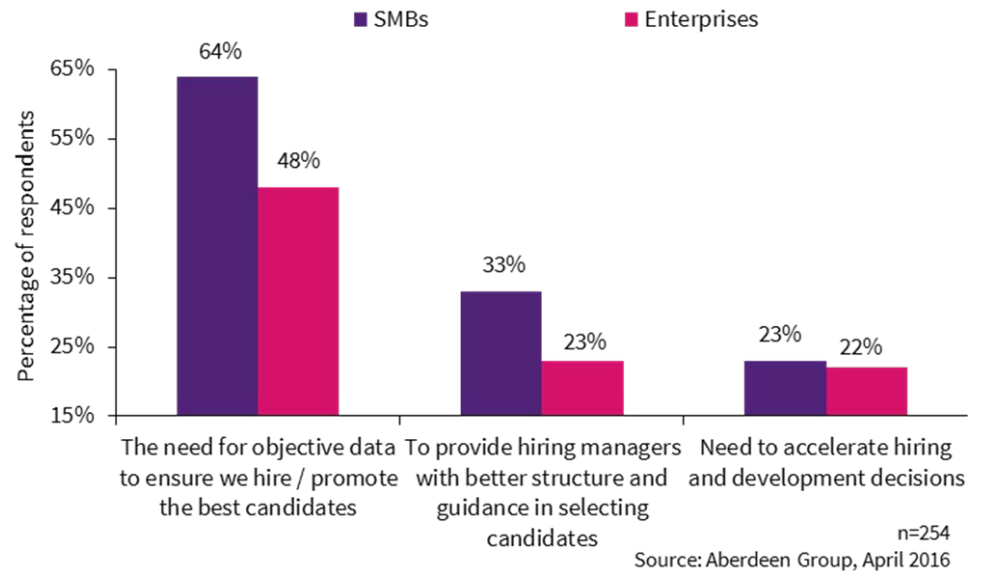
That's why when it comes to actually determining who to hire and who to promote, it's more important than ever be precise. After all, a bad hire can be costly. Case in point, the Society for Human Resources Management (SHRM) estimates that it [can cost up to five times an employee's annual salary to replace a bad hire](#). That's expensive! Even further, inappropriate hires can be detrimental to the morale of the workforce — such as if they aren't good cultural fits — especially if the company is made up of a small, closer-knit staff. Hence, per Figure 1 below, SMBs need to be always thinking about making great decisions across the board.

In Aberdeen's 2015 Human Capital Management study, the following key performance indicators (KPIs) were used to distinguish the Best-in-Class (top 20% of aggregate performers) from the Industry Average (middle 50%), and Laggard (bottom 30%) organizations, with mean-performance among the Best-in-Class as follows:

- 86.9% of employees rated as “highly” engaged
- 30.3% increase in customer satisfaction rates
- 9.9% decrease in voluntary (unwanted) employee turnover

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Figure 1: SMBs Are Hyper Concerned with Making Quality Hiring and Promotion Decisions



SMB businesses are 43% more likely than enterprises to utilize assessments more consistently throughout the talent lifecycle.

Both SMBs and enterprises like to plan ahead by building competency frameworks against which they can make better selection, placement, and promotion decisions. It's a best practice, in fact. Notably, per Aberdeen's *Pre-Hire Assessments: An Asset for HR in the Age of the Candidate* (May 2015), Best-in-Class companies are 95% more likely than All Others (78% vs. 40%) to use a consistent competency model for hiring and promoting.

But SMBs don't stop there when it comes to effective, smart assessment usage. For instance, small and medium sized businesses are 43% more likely than enterprises (40% vs. 28%) to utilize assessments more consistently throughout the talent lifecycle, from talent acquisition to talent management. SMBs like to use the information derived from assessments to make more informed decisions about employee development. More specifically, SMBs are almost twice as likely as enterprises (29%

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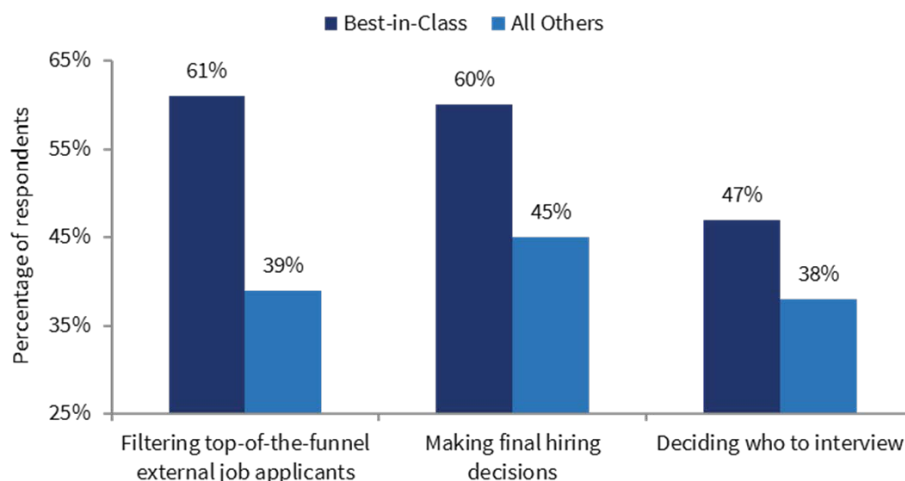
vs. 16%) to create more targeted individual learning and development plans based on assessment output.

Smart Assessment Usage Applies to Pre- and Post-Hire

Savvy companies use both kinds of assessments, but post-hire adoption lags behind pre-hire usage. Per [Pre-Hire Assessments](#), Best-in-Class companies are 45% more likely than All Others (71% vs. 49%) to use such evaluations in the talent acquisition process. Such organizations want to be able to make more informed decisions across the process, from creating filters for initial candidates, to deciding who to interview, to making the final hiring decisions. Most notably, Best-in-Class companies are 56% more likely than All Others (61% vs. 39%) to use pre-hire assessments to filter top-of-the-funnel external job applicants (Figure 2).

Best-in-Class companies are 45% more likely than All Others to use pre-hire assessments in the talent acquisition process.

Figure 2: Reasons for Using Assessments in the Pre-Hire Phase



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Source: Aberdeen Group, April 2016

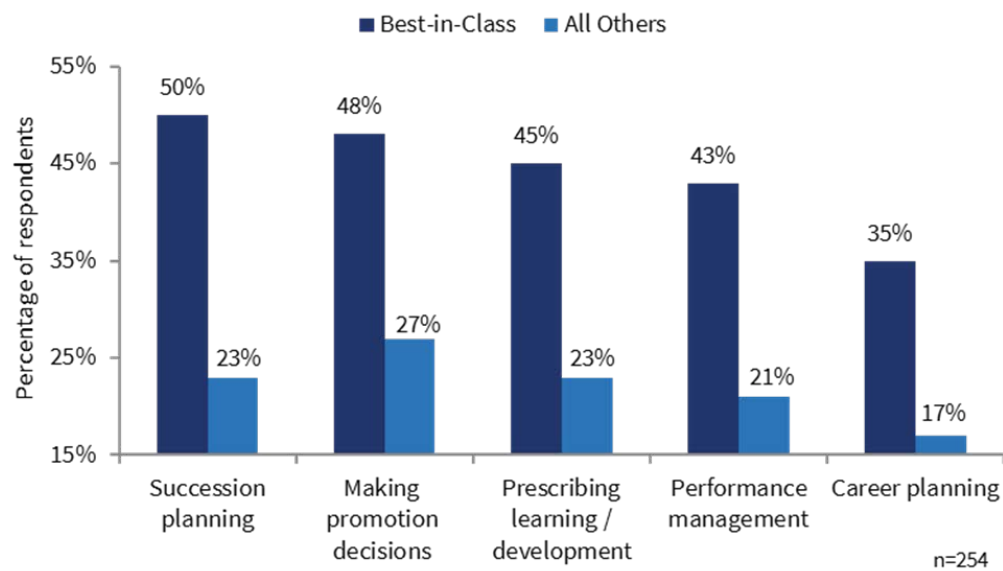
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Best-in-Class companies have some catching up to do. They are 29% less likely than All Others to use post-hire assessments.

With such information at their disposal, companies can be sure they spend the right amount of time on the candidates that will have the highest probability of being good fits for the company. That’s a smart hiring and business practice, especially considering how expensive talent acquisition can be. As previously mentioned, it can be even more costly when you make a bad hire. Such issues can be avoided by setting expectations about who qualifies, who to interview, and ultimately who to hire, from individual contributors to leaders.

Alternatively, Best-in-Class companies are a bit behind the game in regards to usage of post-hire assessments for promotional and/or development purposes. Notably, they are 29% less likely than All Others (24% vs. 31%) to use talent management evaluations. But that doesn’t mean top-performing companies don’t understand the value of such evaluations (Figure 3).

Figure 3: Reasons for Using Assessments in the Post-Hire Phase



Source: Aberdeen Group, April 2016

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Despite the lower adoption currently, these organizations grasp the intrinsic value of employee data and insights, and how it helps them better plan for the future of the business and its ongoing success. More specifically, per Figure 3 above, Best-in-Class companies are more than twice as likely as All Others to use the results from such evaluations for succession planning (50% vs. 23%), performance management (43% vs. 21%), and career planning (35% vs. 17%). They're also almost twice as likely to use said data for making promotion decisions (48% vs. 27%), and prescribing learning and development (45% vs. 23%). Ultimately, such organizations understand that a quality investment, like post-hire assessments, can pay off dividends in the long run and contribute significantly to the organization's success.

This is where it's imperative for SMBs to understand best practices for utilizing both kinds of evaluations in their businesses. Hence, the next section provides a few insights into how to effectively implement pre- and post-hire assessments.

Steps to Assessment Success

Best-in-Class companies use a few different methods that can be implemented by SMBs to improve both talent acquisition and talent management. In doing so, such organizations can better ensure that they have a steady pipeline of talent moving into and throughout the organization. Accordingly, here are a few recommendations:

1. Use assessments as a source of objective data to inform all decisions in the talent lifecycle, from hiring to learning and development, to retention, and beyond. Assessments

Best-in-Class companies are 2.2 times more likely than All Others to use the results from post-hire assessments for succession planning.

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are often considered a part of hiring, but savvy companies incorporate them wherever and however possible. Be sure to incorporate relevant data from the pre-hire side into the post-hire side, such as how employee strengths, weaknesses, aspirations, and downfalls can help shape them for the future.

2. With so many tools to pick from, be sure you're using the right ones at the right times. Whether it's personality, skills, culture, job simulations, or one of the other kinds of assessments, SMBs shouldn't force certain evaluations for every situation, whether pre- or post-hire. For instance, critical thinking is certainly important for all hires, but it's much more important to ensure that younger employees are capable of doing so before you hire them than it is to ensure that already hired high potentials are capable of doing so. Case in point, per Aberdeen's [*Young and Talented but Lazy? Not So Fast – Millennials Are the Real Deal!*](#) (February 2015), 53% of companies say that the biggest skill Millennials struggle with is critical thinking. That's why it's a necessity to understand what an assessment measures and how that information can best be used to drive business decisions before implementing any one of them.
3. Finally, track the business impact of assessments, and make a clear connection between using both pre-and post-hire assessment and ongoing employee performance. The next section will help build on the return on investment (ROI) of assessments, as well how assessments can do wonders for employee performance.

Steps to Assessment Success:

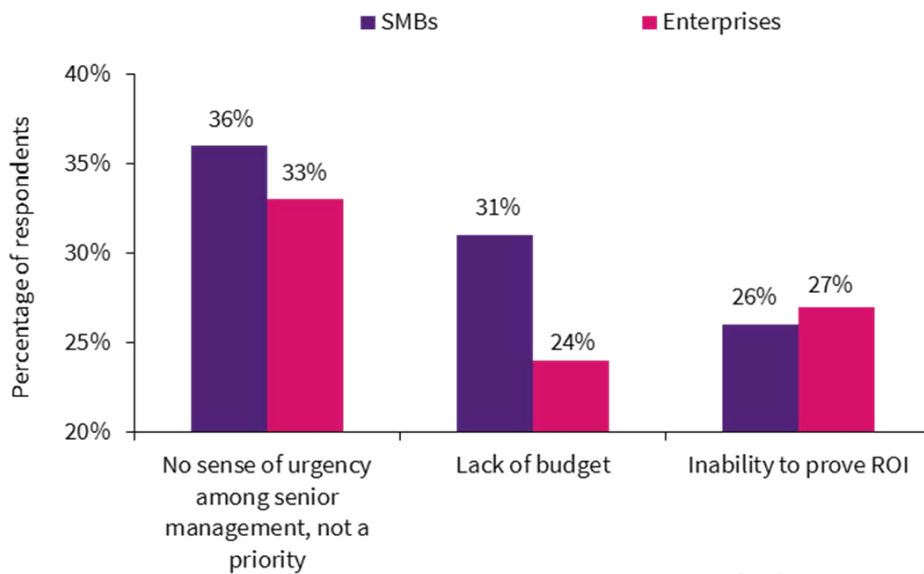
- Use assessments in all phases of the talent lifecycle
- Know when to use specific types of assessments instead of others
- Measure the impact of assessments

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The State of Assessments and How to Overcome Challenges

Best-in-Class companies certainly understand the implications of planning ahead, from the onset of their relationships with candidates through the employee lifecycle. But getting to a point where companies, especially SMBs with limited HR resources, can roll out such assessments is very difficult. Per Figure 4 below, companies of all sizes face similar challenges around making assessments a priority and proving the ROI of assessments. But where SMBs truly struggle is the lack of budget. Notably, they are 29% more likely than enterprises (31% vs. 24%) to have budget constraints that keep them from being able to implement any kind of assessment.

Figure 4: Barriers SMBs vs. Enterprises Face to Implement Assessments



Did you know that SMBs are 29% more likely than enterprises to have budget constraints that keep them from being able to implement any kind of assessment?

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Best-in-Class companies that use assessments are twice as likely as All Others to have employees who exceed performance expectations.

As depicted above, SMBs are not alone with their challenges. To overcome the aforementioned hurdles, among others, it's highly recommended to prove just how valuable assessments can be. This can be done by demonstrating to the potential investors what assessments can do for the company. So let's help clear the air by showing what top-performing companies are able to accomplish when they use assessments in any phase of the employee lifecycle. Namely, such businesses are:

- ➔ 2.07 times more likely to have employees who exceed performance expectations (79% vs. 38%)
- ➔ 65% more likely to have a strong leadership bench (79% vs. 48%)
- ➔ 35% more likely to have highly engaged employees (85% vs. 63%)
- ➔ 35% more likely to have filled open positions with internal candidates in the past year (74% vs. 55%)
- ➔ 27% more likely to retain first-year employees (89% vs. 79%)
- ➔ 19% more likely to have their new hires meet their performance goals in the past 12 months (81% vs. 68%)

In essence, Best-in-Class organizations have made major strides by using assessments. With the help of pre-hire evaluations, they've hired employees who are more likely to exceed expectations, more likely to be engaged, and more likely to bring in new employees who meet their goals. Moreover, with the assistance of post-hire evaluations, top companies have built a stronger pool of exceptional talent for leadership positions on down. They've engaged their employees, so they're more likely

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to commit. And they've filled a greater number of requisitions with current members of their workforce. Sure, not every SMB out there is necessarily a Best-in-Class company. But with quality investments and support, any small and medium sized company can reach the upper echelons of business. The key, however, is to not approach the implementation alone. After all, teamwork makes the dream work, right?

As discussed previously, SMBs definitely have a lot less wiggle room when it comes to making bad decisions, whether that applies to their people or their technology. That's why it's a savvy business practice, for both small, local companies and giant, global companies, to collaborate with other departments wherever possible. More specifically, per Aberdeen's [*Best Practice: Establish Strong Internal Relationships to Improve the Employee Experience*](#) (January 2016), Best-in-Class HR departments are 22% more likely than All Others (56% vs. 46%) to collaborate with other departments to select human resources technology providers. Doing so demonstrates camaraderie and reinforces the notion that each team can play a part in the greater success of HR and the company. Indeed, dynamic HR departments are interconnected with other teams and the business as a whole.

Final Thoughts

Whether it's for talent acquisition or talent management, adoption and ongoing usage of assessments continues to increase. As demonstrated, Best-in-Class companies understand the value of pre- and post-hire data to help them make more informed talent decisions. These are lessons that SMBs can truly

Best-in-Class HR departments are 22% more likely than All Others to collaborate with other departments to select HR technology.

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learn from, especially since they don't have a lot of leeway when it comes to hiring, developing, and retaining employees. Even further, SMBs need to be careful about their technology investments and ensure that they are the best ones possible. To help with that, such organizations need to consider the aforementioned strategies around how to implement assessments and prove their worth. The reality is that SMBs need to avoid bad hires, and they can't afford to make the wrong talent management decisions either. By integrating assessments throughout the talent lifecycle, using the right assessments for the appropriate situations, and tying them to ongoing business strategy, SMBs can improve business results and create significant return on the assessments investment.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[*Best Practice: Use Modern Recruiting to Stay Cutting Edge*](#); January 2016

[*Best Practice: Establish Strong Internal Relationships to Improve the Employee Experience*](#); January 2016

[*Turn Your High Potentials into Your Leaders of Tomorrow!*](#); August 2015

[*Best Practice: Identify High Potentials Before You Lose Them!*](#); July 2015

[*Pre-Hire Assessments: An Asset for HR in the Age of the Candidate*](#); May 2015

[*Talent Acquisition 2014: Reverse the Regressive Curse*](#); June 2014

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