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Background Screening Solutions

Integrity Testing:

Why and How to Implement Integrity Testing as an Important Part of Your Talent Management Cycle!

WRITTEN BY:
Russell A. Johnson
President & CEO
Merchants Information Solutions, Inc.

May 2013

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For more information, contact Merchants Information Solutions, Inc. at 602.744.3700. Online at www.merchantsinfo.com.

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Foreword

This guide is intended to provide the strategic management team and human resource professionals of your organization with a detailed understanding of why pre-employment assessments should be an integral part of any company's Talent Management protocol, specifically the recruiting component. It takes the reader through the current selection environment and makes a comprehensive case for utilizing pre-employment integrity testing. Lastly, this document provides a due diligence methodology to enable your organization to make an informed pre-employment assessment selection.

Enjoy the read!

Russell A. Johnson

Acknowledgements:

I wish to thank the following professionals for their able assistance in reviewing and offering suggestions which ultimately has made this document a more useful resource:

Andrea G. Lovell, J.D.

Shareholder
Labor and Employment Practice Leader
Ryley Carlock & Applewhite

Jerel E. Slaughter, Ph.D.

Associate Professor and Assistant Department Head
Department of Management and Organizations
Eller College of Management, University of Arizona

Stephen W. Gilliland, Ph.D.

Assistant Dean, Eller Business College
Executive Director, Center for Leadership Ethics
Department Head
Department of Management and Organizations
Eller College of Management, University of Arizona

Russell A. Johnson

About the Author

Russell A. Johnson, President & Chief Executive Officer of Merchants Information Solutions since 2004, a founding and accredited member of the National Association of Professional Background Screeners (NAPBS), is a respected thought leader with over 9 years of experience within the employment screening industry.

Mr. Johnson regularly advises organizations and industry groups nationwide on background screening best practices, and the direct positive impact of hiring the best candidates.

Mr. Johnson holds a BS degree in Business Administration from the University of Wisconsin-LaCrosse and is an alumnus of the Graduate School of Bank Management from the University of Virginia. He has numerous business, educational, and professional affiliations and is a respected leader in the financial services industry. Currently Mr. Johnson serves as a board member and Vice-Chairman of the Executive Committee for the Maricopa Community Colleges Foundation and Board Member and Secretary and Treasurer for the Greater Phoenix Chamber of Commerce. He is also a former member and chairman of the Board of Directors for Consumer Credit Counseling Services.

About the Company

Merchants Information Solutions, the exclusive provider of the Merchants Integrity Test, which is proven to reduce worker compensation rates an average of 60%, is a provider of background screening solutions for employers and residential communities as well as ID Theft Restoration Affinity programs. Honored to have as company national spokespersons Jerry Colangelo and Harvey Mackay, Merchants was founded over a century ago and is dedicated to delivering world-class identity theft and background screening solutions. Merchants is the only NATIONAL SINGLE SOURCE PROVIDER of all recognized background screening tools and services for employers and multi-housing communities.

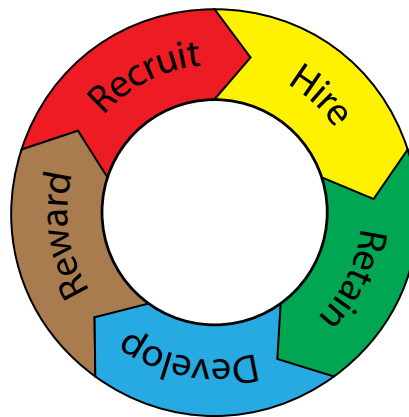
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Integrity Testing:

Why and How to Implement Integrity Testing as an Important Part of Your Talent Management Cycle!

Optimizing an organization's performance through Talent Management, also referred to as Human Capital Management or Performance Management, has been a popular topic of discussion for several years with Human Resource (HR) professionals. Wikipedia defines Talent Management as "the science of using strategic HR to improve business value and make it possible for companies and organizations to reach their goals. Everything that is done to **recruit, hire, retain, develop, reward** and make people perform is part of Talent Management as well as strategic workforce planning."¹

Table 1.
Talent Management
Cycle Components



While all of these components are important, this document will focus on the Recruiting component; more specifically defined as sourcing, screening, interviewing, assessing and selecting. Notwithstanding the actual hiring of a selected candidate, optimizing the Recruiting process will advance the idea that the Recruiting effort is actually the most important component of Talent Management.

Identifying the best people to hire is critical to the success of an organization. The cornerstone of this assertion is based on the idea that people are a company's most valuable asset.² Therefore, properly managing the Recruiting process is the most important responsibility of the HR executive in the Talent Management process.

Also included within this document are:

- 1) A list of the key issues/challenges confronted by HR professionals as they go about the vital function of identifying the best candidates
- 2) Selection tools, including best practices
- 3) ROI examples and other productivity indicators to substantiate selection tool choices
- 4) Considerations in selecting a pre-employment screening vendor, including legal considerations.

I. RECRUITING & PERSONNEL SELECTION – How Difficult Is It To Find The Best People?

Why companies conduct background screening should be obvious, but the top 5 reasons, according to SHRM³ include:

1. To reduce legal liability for negligent hiring - "Employers lose 79% of all negligent hiring suits and the average jury plaintiff award in excess of \$1,000,000!"⁴
2. To ensure a safe work environment for employees
3. To reduce/prevent theft, embezzlement and other criminal activity
4. To comply with applicable Federal/State laws requiring a background check (e.g., day care teacher, licensed medical practitioner) for a particular position
5. To assess the overall trustworthiness of the job candidate

According to the 2012 year-end Bureau of Labor Statistics report, there are approximately 155 million workers in the US⁵. HR managers are tasked with identifying the best workers to recruit and hire out of this labor pool every day. This can be a very daunting challenge when you consider the amount of negative workplace behavior, also known as Counterproductive Workplace Behavior or CWB, which occurs in the workplace every year. CWB is defined as employee behavior that goes against the goals of an organization⁶ and can take many forms. Some fundamental categories include 1) lying, 2) hostility, 3) employee theft, and 4) drug abuse (**See Table 2 For More Examples, pg. 6**).

Fundamental Categories of Counterproductive Workplace Behavior

1. **Lying** - It should be common sense that organizations expect honesty as part of an

employee's behavior. In fact, "Employers rate honesty and integrity as most important characteristics in their employees."⁷ At the same time, whether you call it "resume inflation", "material misrepresentation", "fabrication" or "outright lies", lying on job applications and resumes continues to be at epidemic proportions, "estimates are over 50%."^{8,9,10} Then consider the number of job applications generated every year is estimated to be "1.4 Billion applications annually in the US," according to a recent HR Technology article.¹¹ Given that half of them likely contain significant errors/fabrications, the Recruiting challenge is deciphering what is real and what is false in any applicants' materials.

2. **Workplace Violence** - OSHA defines workplace violence as "any act or threat of physical violence, harassment, intimidation, or other threatening disruptive behavior that occurs at the work site. It ranges from threats and verbal abuse to physical assaults and even homicide. It can affect and involve employees, clients, customers and visitors."¹²

Typical business news does not report this statistic, but "nearly 2 million workers per year are victims of some kind of workplace violence,"¹³ which also includes workplace bullying. That is not a misprint: Two million people are confronted by workplace violence every year and employers should be concerned about these disturbing numbers!^{14,15} Also, according to OSHA, workplace violence costs 1.1 million lost workdays and billions of dollars more in lost productivity, legal expenses, security, and other losses.¹⁶

3. **Employee Theft** - Most people when thinking about employee theft visualize the tangible assets an organization might own, (e.g. cash, equipment, or inventory). While assets represent a significant part of

employee theft, in recent years employee theft has grown at an alarming rate to also include identity theft and intellectual capital (trade secrets). In fact, the “insider threat” (current or former employees, customers or vendors) is the root cause of a significant number of data breaches suffered by businesses every year. According to a Carnegie Mellon University study: “ID theft costs U.S. businesses more than \$250 billion annually.”¹⁷ Additionally, a report published in July 2012 on the insider threat in the U.S. financial sector reflected that “80% of the malicious acts were committed at work during working hours.”¹⁸

Other startling statistics include U.S. Department of Commerce estimates which cite employee theft causes 33% of all business failures.¹⁹ Also depending on industry the average percentage of employees who steal and engage in counter productivity (CWB) ranges from 20% to 40%.^{20 21 22} Employee Theft in the Retail Industry in the United States is 44% of shrinkage or \$18.4 billion, which is greater than shoplifting losses (36%), according to the 2011 Global Retail Theft Barometer.²³ Even worse is that the most trusted employees, your management team members, are not immune. In fact, according to the Association of Certified Fraud Examiners, perpetrators in ownership or management positions steal the largest amounts (\$573K and \$180K respectively).²⁴ Also, studies show employee theft is not a one-time event as these individuals, if left unchecked, will continue to steal multiple times.²⁵ One last bit of dark news here, “employee theft increases during economic downturns.”^{26 27 28 29} So, one should not expect these numbers to decrease anytime soon.

4. Drug and Alcohol Abuse - This category of CWB should come as no surprise to the reader, when you understand “nearly 66% of all adult illicit drug users are employed, as are most binge and heavy alcohol users.”³⁰ If we consider just a few of the negative safety factors and health impacts this population has on the business community, the cost is staggering. “Substance abusers are 4 times more likely to be in a workplace accident and are 5 times more likely to file for Workers’ Compensation.”³¹ Additionally, 80% of drug abusers steal from their workplace to support their habits.³² Drug-using employees take three times as many sick benefits as other workers³³ and alcohol abuse costs more than \$185 billion annually.³⁴ Lastly, this group is “less productive, usually functioning at only 67% of their work potential.”³⁵

Table 2. Examples of Counterproductive Workplace Behavior

1. Workplace Violence
2. Alcohol and illicit drug abuse
3. Theft - Cash, Merchandise
4. Theft - IP data, trade secrets, client list
5. Theft - Faking time cards, record keeping
6. Theft - Faking injury, sickness
7. Identity Theft
8. Theft - Unauthorized Discounts
9. Bullying - physical, verbal
10. Disrespecting - management, fellow employees
11. Disrespecting customers, vendors
12. Low regard for quality service, products
13. Low regard for company reputation
14. Low regard for following company rules
15. Create & circulate miscommunication, untrue rumors
16. Willful destruction of company property

II. SOLUTIONS - Pre-Employment Screening Methods Available to Businesses

After considering the prevalence of CWB and potential negligent hiring lawsuits, what can organizations do to mitigate their risk? High performing organizations know that the place to start is to have a robust background screening program as part of their Talent Management process if they are going to consistently select the best people and mitigate their exposure to these risks.

What are the tools that are available to companies? Essentially all background screening processes can be divided into two categories, i.e., reactive and proactive (**See Table 3 For Types of Screening Processes, pg. 13**). Companies which perform background checks typically have the following components in their process³⁶:

A. Reactive - Basic - Traditional Background Screening

The screening tools below are considered fundamental or basic screening tools which represent the minimum an organization should consider to help insulate itself from negligent hiring suits.

- Personal Interview
- Direct Verifications or reference checks – e.g., Employment history, Verification of Education, Motor Vehicle Driver License Check
- Criminal Background Checks – 2012 SHRM survey - 87% conduct criminal background checks on at least some applicants³⁷
- Drug Testing
- Credit Checks – 2012 SHRM survey – 47% conduct credit checks, down from 60% in 2010 survey³⁸

With the exception of Drug Testing (which looks for current or recent drug use) these tools are primarily reactive, i.e., looking back at history to predict the future. Obviously doing that is much better than nothing, but each screening tool has its strengths and weaknesses. As a result, leading organizations that are adding pre-hire Integrity Assessments to their suite of screening tools will increase their odds of finding the best people. In fact, employers that have implemented integrity assessments are being recognized as “best-in-class” compared to their competitors.³⁹ Why, will be answered in the next section.

B. Proactive - Best Practices - Integrity Test Assessments

“Integrity tests are among the best predictors of integrity-related behavior in the workplace, supporting the effectiveness and impact of pre-employment integrity testing.”

As stated, organizations that add a proactive, “best practices” Integrity Test approach to their hiring process will be significantly rewarded by consistently hiring the best people. That observation was echoed in a recent HR Magazine article which stated “By any measure, scientific, legal and ROI integrity testing gets a passing grade. And compared to other pre-employment screening options such as checking credit histories and criminal records, there is no comparison. Both credit checks and criminal background checks provide historical data that don’t necessarily predict future behavior.”⁴⁰

An additional reason for utilizing integrity tests is their validity in predicting CWB:

According to the American Psychological Association task force that researched this topic, “pre-employment integrity tests may provide organizations with the best method for identifying the potential of dishonest behavior, as well as, offering one form of protection against claims of negligent hiring.” The task force further concluded that “integrity tests are among the best predictors of integrity-related behavior in the workplace, supporting the effectiveness and impact of pre-employment integrity testing.”⁴¹ As noted previously, many perpetrators of CWB (e.g., employee theft) have likely been engaging in such behavior for long periods of time, but just have not been caught yet.⁴²

Those observations were also cited by HR Magazine which included the following, “Among all types of pre-hiring assessments, including background screening, research has shown that integrity tests have the highest validity for predicting undesirable behaviors at work.”⁴³ Further, the SHRM Foundation in their “Selection Assessment Methods” publication offered, “there are real and very substantial bottom-line financial results associated with using effective assessments to guide selection decisions.”⁴⁴ Also, when considering their cost-effectiveness, studies have found ROI’s of up to 846%.⁴⁵

Adding to the case for using integrity tests is today’s challenging economic times. When unemployment is high, employers can afford to be choosy. A larger pool of applicants increases the utility of any selection process – the ability to identify the best candidates increases if a company is selecting 10% of applicants vs. 90% of applicants. Smart companies are looking for ways to increase their odds of finding the right people and the assessment industry is expected to benefit from organizations looking to do more than just the basics.⁴⁶ A May 2011 survey by Aberdeen Group found that personality assessments have been gaining in popularity in

the past decade, finding 80% of the companies in their survey employ some type of assessment, and when the pre-hire assessment process is automated it will significantly reduce the time to hire and overall cost.⁴⁷ More and more, assessments continue to show up as a differentiating factor with “Best in class performers.”⁴⁸

Types of Pre-employment Integrity Assessments or Integrity Tests

There are two types of Pre-employment Integrity Assessments or Integrity Tests that are used as part of the hiring/selection process: Overt Integrity Tests and Covert Integrity Tests/Personality-Based Tests.^{49 50}

Overt Integrity Tests ask direct questions about actual acts of CWB and attitudes toward theft and other types of high risk CWB. They are based on the psychological concept of cognitive dissonance whereby individuals rationalize CWB as being normal and are not conflicted to responding honestly to direct questions about it. In fact, “applicants often give surprisingly candid answers (or at least, they do not always respond with what would be considered the “desired” answer).”⁵¹

Covert Integrity Tests or Personality Tests typically do not contain many, if any, items that make direct reference to CWB. Personality Tests typically include more disguised-purpose items and are designed to measure a number of dimensions, the so-called Big 5 or Five-Factor Model (i.e., conscientious, agreeableness, introversion/extroversion, emotional stability and openness to experience.)^{52 53}

What improves? By definition, organizations that are effectively able to reduce their hiring rate of employees with propensity to engage in CWB will see improvement in the following areas:^{54 55 56 57 58 59}

- Less Employee Theft
- Lower Turnover
- Reduced Workers' Compensation Expenses
- Safer Work Environment
- Productivity Improves
- Lower Medical & Sick Leave Program Utilization
- Fewer disciplinary problems

III. Selecting the Right Pre-employment Assessment and Provider – What Questions to Ask?

A recent Google search on “Integrity Tests” returned 32 million hits! With so many different types of assessments and assessment providers on the market, the choice of selecting pre-employment assessments and a supporting vendor for your workforce can be confusing. The fact is these choices will have a huge impact on your company. Not only would this impact the quality of the people you hire, but it could have legal implications, and ultimately the reputation and viability of your organization’s brand could be affected.

So, how do you find a reliable Integrity Test vendor, and what kind of questions should you be asking? The best place to start when considering using an integrity test as part of the pre-employment hiring process is to assess its exposure to CWB. Once that is understood the selection process should include the relevant business purpose the Integrity Test will address, (e.g., employee theft, turnover) and then look for an Integrity Test that will be effective for their requirements. Also, include in your due diligence process a consideration for the suitability or candidate experience of the assessment.

Lastly, depending on your expertise in this area, you may want to consider contracting the services of an Industrial Organizational Psychologist well versed in these areas to aid in your needs and selection process.

A. Legal and Professional Standards – Professional Integrity test vendors follow standards similar to “The Standards for Education and Psychological Testing”⁶⁰, Society for Industrial and Organizational

Psychology (SIOP) “Principles for the validation and use of personnel selection procedures”⁶¹ and The Association of Test Publishers “Model Guidelines for Pre-employment Integrity Testing”⁶² when they are creating an Integrity Test. Also, employers can look at “Testing and Assessment: An Employers Guide to Good Practices”, published by the Department of Labor and the SHRM Foundation’s “Selection Assessment Methods” for additional, helpful guidance. These references also include detailed sections on the various laws and regulations governing the employment process which for brevity sake this document does not include. The reader is encouraged to review this body of legislation if they are not already familiar with it.^{63 64 65}

Due Diligence Questions: A Template

(The following due diligence questions are based, in part, on the standards proposed by the industry periodicals named above).

As part of that development, a professional vendor should be able to provide the following information:

- Who developed the test (credentials) and what professional resources (credentials) are in place to keep the test effective and in compliance.
- Data regarding what the Integrity Test will measure & why.
- Data regarding a test’s validity and how it’s tracked going forward
- EEOC impact - is it fair and unbiased? How is it tracked on an ongoing basis? Does it meet the 4/5th rule?⁶⁶
- Test simplicity - is it clear and easy to read?
- Samples of management reports - are they clear and easy to understand?

- Description of initial and ongoing training - is the level of support satisfactory?
- Test results interpretation - who will see results? Are they clear and straightforward? Are there different levels of results available based on audience, e.g., pass/fail vs. all responses profiled?

B. Examples of Success

- What kinds of benchmark results can be offered as evidence of the effectiveness of the Integrity Test?
- Are examples of independent research conducted on the effectiveness of test validity and EEOC compliance reports available?
- References - sample of companies that are currently using the test.
- How long has the company been in business?
- Depth of Integrity Test business - how many different industries? How many active clients?

C. Additional Vendor Questions

- How many languages are supported?
- How long does the test take on average?
- How quickly are results provided?
- Is there a dedicated relationship manager?
- Is the vendor willing to conduct a pilot/research study within your organization?
- What kind of support staff is in place (e.g., IT department, customer service department)?
- Who has access to results? What safeguards are in place for privacy and security?
- What implementation support is available, if necessary? Is it adequate for your size organization?
- What is the reliability of the vendor's delivery system, i.e., what % of the time is the test available?

Refuting Some Additional Myths Regarding Integrity Tests!

1. Legal Problems. As discussed previously, by following the guidelines noted above, an organization will be able to conduct a comprehensive due diligence process to identify a professionally developed integrity test and select an appropriate test for their organization. Integrity Tests - when used properly and in compliance with legal standards (EEOC) - have been shown to be fair, consistent, and effective.^{67 68 69}
2. Faking. Despite much debate, research has shown that, in general, individuals who respond in more socially desirable ways -- which may or may not reflect their true attitudes -- do not affect the validity of integrity tests. The ability of the test to explain or predict individual behavior in work settings is unaffected by such answers.^{70 71 72}
3. Applicant Experience or Acceptability. Employers are concerned, and rightly so, about their brand and reputation, so implementing an integrity test into their recruiting/hiring process can create apprehension at both the applicant and existing employee level. Studies have shown that the majority of job applicants have indicated that they view integrity testing as an appropriate and acceptable component in the selection process.^{73 74} Further, when asked to rank-order all pre-employment selection assessment on acceptability, applicants consistently rank integrity tests in the middle, below interviews and above ability or cognitive testing.^{75 76}

Conclusion

In summary, a tremendous amount of evidence exists that suggests organizations should consider adding a proactive, pre-employment integrity screening program to their Recruiting process as part of their overall Talent Management efforts. The program would be designed to identify a job applicant's propensity for engaging in on-the-job theft and other counterproductive behavior at work. When implemented effectively, applicants that pass these types of assessments will have a propensity to exhibit productive and dependable work behavior, which will produce remarkable results for your organization!

Table 3. Pre-employment Screening Processes Available to Business

Screening Type	Implementation Process	Advantage	Obstacles
Integrity Tests	<ul style="list-style-type: none"> Typically easy to implement into existing process 	<ul style="list-style-type: none"> Proven highly effective Compliant-EEOC, consistent results Not generally viewed as offensive Use may deter CWB applicants to self-select out of applying 	<ul style="list-style-type: none"> Many options (types, vendors) due diligence is necessary as many are not validated Training required
Personality Tests	<ul style="list-style-type: none"> Routinely used in employment process 	<ul style="list-style-type: none"> Job-related personality tests are useful predictors of job-related behaviors such as service, teamwork, leadership potential. Multidimensional personality tests typically include a Conscientiousness Factor which is often positioned as a personality based predictor of integrity 	<ul style="list-style-type: none"> General personality tests have not been reliable predictors of employee theft and deviance The job relevancy of all personality items and subscales is not always obvious therefore applicant could be offended by some of the questions asked Many options (types, vendors) due diligence is necessary as many are not validated Training required
Personal Interviews	<ul style="list-style-type: none"> Usually a standard part of hiring process. Time consuming to conduct and schedule 	<ul style="list-style-type: none"> Utilization of structured interviews show more promise than traditional interviews in terms of validity and fairness 	<ul style="list-style-type: none"> No evidence of validity with theft criteria Difficult to determine applicant's truthfulness in discussing CWB activities Inconsistent & open to individual bias
Reference Checks	<ul style="list-style-type: none"> Often time consuming Often difficult to get meaningful information 	<ul style="list-style-type: none"> May increase truthfulness of applicants Verifies information on application form and resumes 	<ul style="list-style-type: none"> Little evidence of validity Most misconduct is undetected Many companies reluctant to provide negative information
Criminal Background Checks*	<ul style="list-style-type: none"> Readily available, can be delays in getting information from courts 	<ul style="list-style-type: none"> Usually complete and verifiable data can be obtained if available 	<ul style="list-style-type: none"> Very few convictions compared to criminal acts Hit rate much lower than actual theft rate in organizations Under regulatory scrutiny for adverse impact issues
Credit Checks*	<ul style="list-style-type: none"> Quick, may be expensive 	<ul style="list-style-type: none"> Obtains fiscal responsibility and financial need data 	<ul style="list-style-type: none"> Correlation to theft is not clear Under regulatory scrutiny for adverse impact issues
Drug Tests	<ul style="list-style-type: none"> Time consuming Expensive 	<ul style="list-style-type: none"> Properly administered provide strong data 	<ul style="list-style-type: none"> Low hit rate

Adapted, in part, from Association of Test Publishers, "Model Guidelines for Preemployment Integrity Testing", (2010). (Citing Jones & Terris, 1989 & Expanded based Jones-Arnold (2008) article.)

* Due to frequent legislative and regulatory changes impacting criminal background and credit checks, it is recommended that you consult legal counsel to ensure that your organization's policies and procedures are well documented and adhere to current state and federal law.

ENDNOTES

- ¹ Talent Management- refers to the anticipation of required human capital the organization needs at the time then setting a plan to meet those needs. The field dramatically increased in popularity after McKinsey's research and subsequent book on *The War for Talent*. Source: *Wikipedia*.
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ENDNOTES (Continued)

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- ¹⁸ Shaw, E.D., Ph.D., & Stock, H.V., Ph.D. (2011). "Behavioral Risk Indicators of Malicious Insider Theft of Intellectual Property: Misreading the Writing on the Wall". "Frequent perpetrators were current or former employees or partners such as customers, contractors, vendors and joint venture partners."
- ¹⁹ National Federation of Independent Business. (cited US Department of Commerce). <http://www.nfib.com/business-resources/business-resources-item?cmsid=29624>
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- ³² National Drug-Free Workplace Alliance, www.ndwa.org
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