



# Predicting Adverse Risk Behaviors: Reducing Workers' Compensation Claims Costs Through Integrity Testing

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## Psychometric Testing/Behavioral Screening (Personality-Based Testing)

Identifying and matching the best job candidates to those successful attitudinal and behavioral traits most appropriate for a specific job are classified through personality-based testing, generally categorized as psychometric testing.

A subcategory of these personality-based tests assess job applicants for honesty and conscientiousness—coined “integrity testing.” While integrity testing implies matching candidates who perform their work ethically and honestly, when combined with cognitive behavioral screening, they can help identify the best candidates for sales and customer service and other positions.

Stated another way, broad personality tests look for positive behaviors that would exclude negative behaviors; more appropriate for sales and customer-facing job classifications, whereas, integrity tests look at only negative character and resulting behaviors to identify applicants with entitlement mentality and lack of conscientiousness. Interestingly, between 25 percent and 30 percent of applicants completing integrity tests self-disclose undesirable behaviors such as on-the-job illicit drug use, theft and violence in the workplace. These negative characteristics have a direct impact on the frequency and severity of an organizations workers' compensation claims.

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## Background

Integrity testing originated nearly 40 years ago to counter employer financial losses from worker dishonesty. Its development was fostered by the need for a low-cost strategy to test large volumes of job applicants as well as to replace polygraph testing made illegal by federal law in the late 1980s. Research demonstrated during these four decades that specific behavioral traits leading to a greater propensity toward employee theft also contributed to unsafe acts resulting in accidents and the reporting of fraudulent or exaggerated workers' compensation claims.

## Integrity Testing and Background Verification

While this paper is focused on integrity testing and workers' compensation claims cost reduction, the overall screening concept addresses the much larger area of predictive employee workplace behaviors. Dave Arnold reported that a 1998 *Psychological Bulletin* made reference to the effectiveness of integrity testing and other general mental ability tests among all 19 selection measures used by employers, i.e., interviews, work samples, reference checks, work experience, etc. He indicated that psychometric screening had the highest validity for predicting both counterproductivity and superior performance of all 19 categories.

Just one example of how this type of screening may be more powerful than the traditional background checks comes from PrWeb, who recently released an online report stating that IT staffing firms supplying security experts to meet the needs of small businesses may be at increased exposure to professional liability claims due to applicants' misrepresentation of their skills and putting clients' networks and data at risk. Adding integrity testing to a few of the other selection measures may reduce this credible risk.<sup>1</sup>



## Integrity Testing Validity

Research has repeatedly demonstrated that integrity testing is valid for predicting job performance and counterproductive behaviors on the job<sup>2,3,4</sup>. Actual clinical applications of various forms of integrity testing in concert with other behavioral screenings have demonstrated savings specific to workers' compensation claims costs<sup>3,5,6</sup>. In addition, integrity testing can also help identify candidates who are at high risk for voluntary and involuntary turnover, thus contributing to lower turnover rates in organizations<sup>7,8</sup>. Summarizing findings from an extensive validation study by Wang based on 6,440 employees hired by a large fast-food chain, he concluded that using integrity testing, the employer could decrease its semiannualized voluntary turnover rate from 14 to 10 percent and its semiannualized involuntary turnover rate from 38 to 30 percent.

## Adverse Impact on Labor Pools

Countless validation studies have repeatedly demonstrated that integrity testing is overall nondiscriminatory and can successfully meet EEOC challenges. Regardless, all of the testing vendors surveyed concede that there is a very significant adverse impact on the employers' labor pools across all industry sectors. This is not an adverse impact as respects to EEOC regulations or state statutes, but a negative impact on the number of qualified applicants

We added integrity testing to help streamline our comprehensive hiring process and more efficiently identify and spend time with the most qualified candidates for positions.

“ Focusing on the best qualified matches to our clients will lower our risk of work-related incidents and absenteeism and enhance our value proposition to clients. ”

Joan Davison  
President & Chief Operating Officer  
Staff Management | SMX

available to a prospective employer (labor pool) without cautionary hiring concerns.

There is considerable variation as to this impact between the large number of vendors and their specific test batteries. A good estimate is that around 25 percent of applicants would typically be excluded during the initial interview process.

Industries such as transportation (truck drivers), healthcare (nurses, CNAs, LPNs) and employee staffing firms would have to weigh this impact on filling critical positions or meeting client staffing demands.





Selecting potential employees using integrity tests had robust beneficial effects in reducing workers' compensation claims costs and preventing safety-related violations across various job types, including day laborers, healthcare, correction, security and other service classifications, from studies conducted with Insight Worldwide clients.



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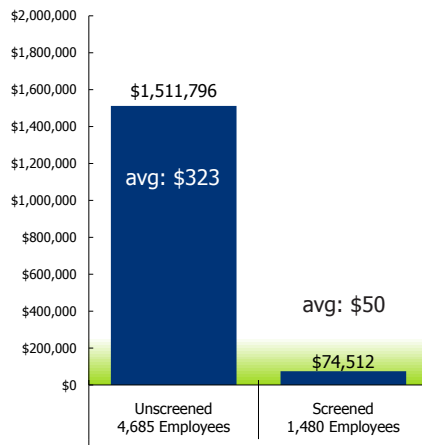
## Integrity Testing and Workers' Compensation Claims Cost Reduction

Integrity testing vendors abound offering various test batteries for the selection of job candidates. Not all specifically target workers' compensation, but claims cost reduction is typically a secondary benefit to standardized test batteries. To date, there are only a few independent validation studies supporting vendors' anecdotal reports of significant claims cost reductions. Regardless, these studies suggest very favorable results, especially in light of the relatively low cost of screening.

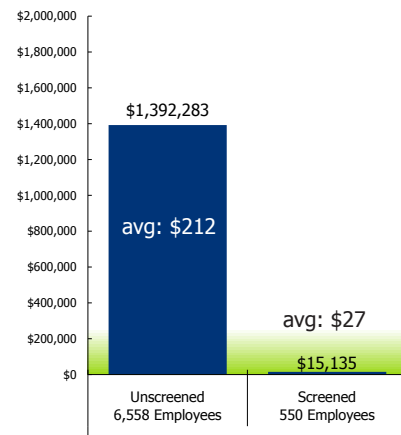
Pacific University's recently published research study<sup>3</sup> involved more than 33,000 job applicants from four separate industries (publishing, nursing homes, food processing and auto club) over 12-34 months. The research evaluated the propensity of applicants toward counterproductive behavior such as theft, drug use, violence and aggression. The study's hypothesis was that employees more at risk for accidents are more likely to defy company policies, damage property and engage in on-the-job drug use, etc. Those applicants screened by integrity testing demonstrated a 23 percent across-the-board claims severity reduction.

### PACIFIC UNIVERSITY INTEGRITY TESTING RESULTS—TOTAL COST OF CLAIMS, AVERAGE COST PER EMPLOYEE

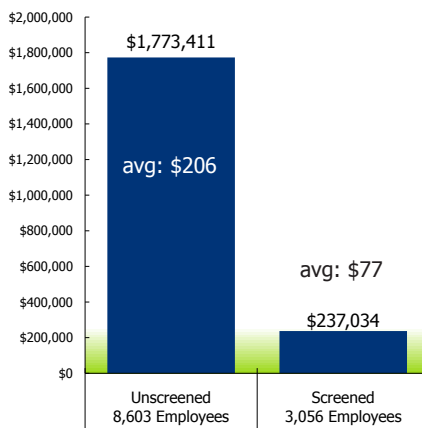
#### Auto Club



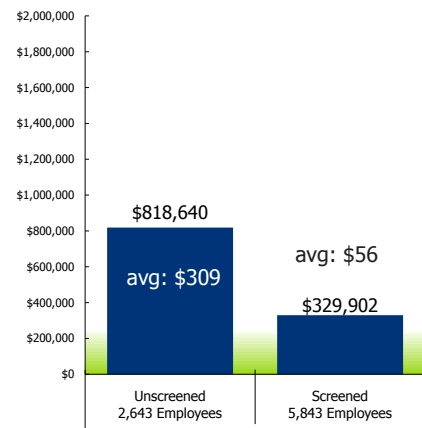
#### Nursing Home



#### Packing Plant



#### Multimedia Co.



In another relatively recent Cornell University study<sup>4</sup> involving a large hotel chain's 29,000 job applicants tested over 12 months, the screened group experienced about one-half the claims frequency and 39 percent less severity than the control group of unscreened applicants.

From a more anecdotal example, Jeld Wen Corporation engaged integrity testing (the same program used in Wang's study) along with ergonomic programs, new-hire orientation and employee warnings for excessive injuries, and demonstrated a \$31 million workers' compensation cost savings between 2004-2008<sup>9</sup>. While there were many confounders to this study that make it impossible to differentiate what part of the savings was related to integrity screening, the company's conclusions were that it played a valuable role.

## Conclusion

Employers with a workers' compensation loss pick of sizeable impact on net income should consider the value of this very low-cost, easily implemented addition to their existing employment screening process. Those employers in industry sectors affected by an already inadequate labor pool may create varying thresholds of exclusion to eliminate those candidates with the highest propensity for counterproductive behaviors to adjust labor pool exclusions to more tolerable levels.

Lockton has considerable experience in assisting its clients in integrating integrity testing into the applicant screening process.

## References

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## **Our Goal**

To be the best place to do business and to work

