

Mitigating Human Capital Risks through Pre-Employment Integrity Testing

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Employees are a Major Source of Loss for Organizations and their Insurers

- The costs are staggering!
 - U.S. organizations lose 7% of their annual revenues to fraud
 - Fraud is committed most often by accountants and upper management
 - Losses from employee theft of physical and intellectual property are in the billions
 - It is estimated that 30% of business failures can be attributed to employee deviance
- Loss is a daily occurrence that must be managed on a daily basis

Mitigating Human Capital Risk

- One starts by getting the right people to do the right things in the right way
 - Human capital system focusing on staffing, recruitment, performance management, training, and compensation
 - Managing organizational factors (e.g., culture) and control systems
- How do you avoid the wrong people who will do the wrong things?

Counterproductive Work Behaviors

- Voluntary behaviors that are counter to the interest of the organization and cause harm to the organization or its employees
- Example counterproductive work behaviors
 - Theft and fraud
 - Destruction of property
 - Misuse and inaccurate reporting of information
 - Misuse of time and resources
 - Unsafe behavior
 - Poor attendance
 - Alcohol and substance abuse
 - Inappropriate physical contact

Antecedents of Counterproductive Work Behaviors

- Situational factors
 - Organizational culture and leadership
 - Performance standards
 - Reward structures
 - Interpersonal treatment
 - Organizational change
- Individual characteristics
 - Propensity or willingness of individuals to engage in counterproductive behaviors
 - Commonly assessed using integrity tests

Integrity Tests

- Psychological measures designed to assess honesty/integrity and identify individuals likely to engage in counterproductive behaviors
- Millions of integrity tests are administered annually by thousands of organizations
- Primarily used with entry level and low paying positions
 - Public safety, retail, financial services, and food services industries are largest users

Types of Integrity Tests

- Overt integrity tests (clear purpose)
 - Attitudes and beliefs about theft, assessments of one's honesty, and self-reported frequency of theft and other counterproductive or illegal behaviors
- Personality-oriented tests (veiled purpose)
 - Normal adult personality inventories consisting of conscientiousness, agreeableness, risk seeking, dependability, emotional stability, and other factors

Using Integrity Tests to Predict Counterproductive Work Behaviors

- Overt integrity tests predict the occurrence of theft and other counterproductive behaviors
- Personality-oriented integrity tests predict the occurrence of non-theft counterproductive behaviors
- These tests are negatively related to productive work behaviors
- Losses decrease after organizations incorporate these tests into their pre-employment screening

Concerns and Cautions

- Applicant reactions and dishonest responding are potential concerns of test users
- There are some legal concerns
- There is variability in the frequency of the use of integrity tests across the globe and within the E.U. in particular
- The use of these tests will not eliminate all potential risks of counterproductive behaviors, but they do reduce exposure

Strategies for Organizations to Mitigate Risks from Counterproductive Behaviors

- Integrate rigorous pre-employment assessments into positions at all level of the organization
- Develop standardized human capital systems that monitor employee competencies and performance
- Minimize the factors that promote counterproductive behaviors
 - Set reasonable performance standards
 - Avoid an over focus on short term performance rewards
 - Develop an ethical organizational culture and one that does not reward excess risk taking

Strategies for Insurers to Identify Risks from Counterproductive Behaviors

- Examine human capital metrics
 - Turnover among senior management
 - Organizational survey results and organizational culture assessments
 - Performance metrics
- Audit human capital systems
 - Staffing and talent management systems
 - Performance management and reward systems

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