



Spreadsheet #1: ROI Provided Through Better Hiring Decisions

The main value of assessment tools comes from improving the average performance of newly hired employees. Imagine the impact if the average performance of each employee in your company improved by 5 percent. Extensive private and public research has shown that well-designed staffing-assessment tools can provide such results.

The following spreadsheet estimates the potential ROI to be gained by using staffing-assessment tools to increase employee performance.

Note: The ROI estimates provided by this spreadsheet may seem unrealistically large. However, they accurately reflect the long-term impact that assessment tools can have by improving the average performance of an entire workforce.

You will need the following data to use this spreadsheet:

Hires (N)

The number of people hired per year due to growth and turnover for the position(s) for which you are using assessment tools.

Tenure (T)

The average number of years that employees work in the position(s). Indicate tenure using decimal values (e.g., if the average tenure is 9 months, set this value at .75).

Value of High Performance (Zx)

The differences in revenue generated by high- versus low-performing employees. This is commonly set at 40 percent of the average employee salary.

Increased Hiring Effectiveness (rxy)

An estimate of how much the use of assessment tools will improve the quality of hiring decisions. Effectiveness ranges from 0 (random hiring) to 1.0 (perfect hiring).

Accurately calculating hiring effectiveness is a highly complex mathematical task. However, the table below can be used to calculate a very rough estimate for this value.

To calculate Increased Hiring Effectiveness, subtract the effectiveness of the assessment methods you are currently using from the assessment methods you are considering deploying. For example, if you currently use Unstructured Interviews (effectiveness of .02) but are considering using measures of Ability (effectiveness of .25) and Personality (effectiveness of .15), then the Increased Hiring Effectiveness would be equal to $(.25 + .15) - .02 = .38$.

Assessment Method	Effectiveness	Cost
Random Hiring	0	0
Unstructured Interview	0.02	£50
Structured Interview	0.10	£75
Knowledge & Skills Tests	0.15	£50
Talent Measures: Workstyle/Personality	0.15	£75
Talent Measures: Ability	0.25	£75

Note: This table provides only assessment tools designed to predict superior performance. It does not include assessment tools that add value primarily by reducing administrative time (e.g., qualifications screens) or reducing the risk of catastrophically bad hires (e.g., background verifications).

Per Usage Assessment Cost (Cy)

How much the use of assessment tools will increase the cost of evaluating candidates. Rough cost estimates are provided in the table above. The costs of interviews in this table are associated primarily with time spent by recruiters and hiring managers conducting the interviews.

Selection Ratio (SR) (default value: 5)

The number of candidates you typically assess before making a hiring decision. It is usually somewhere between 3 and 10. If you do not have this statistic, we suggest setting it at 5.

$$\text{Formula 1: } \Delta \$\text{performance} = [(N) (T) (r_{xy}) (Z_x)] - [(N)(C_y)(SR)]$$