Technology and Innovation in Corporate Assessment — A Cautionary Tale: An Inside Look

082713-WP, August 2013, Rev. 1

After spending a number of years in the psychological testing and publishing world, both as an R&D executive and consultant, I have observed some alarming trends related to technology and innovation. Don't get me wrong: I am a huge proponent of technology and product innovation, both together and separately. However, in the field of psychological assessment, competing interests can have significantly adverse impacts on the quality of the assessments. As the field of psychological assessment and publishing is broad, I am going to focus my thoughts on a particular area of interest under the broad umbrella of testing – talent and corporate assessment.

I can think of very little more near and dear to the American culture – or that of most any culture – than our jobs. The primary role of corporate assessment, also known as talent assessment, is to determine which candidates are likely to be successful in a particular job for a specific industry. The charge of each instrument is to ascertain whether or not the candidate has the requisite characteristics, skills, and abilities to be successful in a given position. As the U.S. economy struggles to recover and many in the middle class are still looking for jobs, I can think of no area of assessment whose integrity and quality control needs protection more. In addition, and against the backdrop of a sputtering economy, corporate assessment is a dynamic and explosive industry. Although projections vary, the corporate (pre-employment) assessment industry is growing at approximately 20% annually[1], and blue chips have taken notice. Notably, IBM and Oracle jumped into the talent management solutions market with recent acquisitions of Kenexa and Taleo, respectively. Although looking to participate in the assessment portion of this market, they may have missed the mark by acquiring companies whose core business is not assessment.

The primary conflict is unavoidable in the world of technology and corporate assessment: the pace of technology is fast and furious, and corporate assessment development necessitates a methodical, careful, and cautious approach. Herein lies the problem: companies are increasingly coming to expect the same rate of production from assessment development teams as they do tech development teams. By also screaming for newer and better technology within the products, the executive teams are forcing the R&D teams' eyes from the ball and actually stifling scientific innovation. Most importantly, all of the pressure for faster, more tech-savvy products is creating a fertile breeding ground for error and quality control issues in the assessment development process.

The culture of tech development is such that it is acceptable for a product to be launched which may need near-future patches, code rewrites, or fixes. With software and online applications, the

[1] Bersin by Deloitte article published 11/29/2012: *The 2013 Talent Management Systems Market: Explosive Growth and Change*

development team can gain access at any time to the back end to make necessary changes. With testing, however, the culture is quite the opposite. The market expects the product to be completed, refined, and perfected upon initial release. The reason for this is quite obvious; the data from these assessments are utilized to make immediate and consequential decisions. Quite literally, the difference in a few points can determine whether or not an individual gets a job.

In the wake of the 2008 economic downturn, many companies have stripped work forces down to bare bones, yet expect the same level of production. Hiring the right person for each job has arguably never been more important. Therefore, any instrument or data that companies rely on to make such decisions about employment are of paramount importance, and it is essential that the tool is precise, accurate, reliable, and valid. Of lesser importance is how quickly the candidate can complete the assessment or how slick and fancy the user-interface may be. Unfortunately, what I have been observing for a number of years now is a collision between maintaining the quality of assessments, and companies pressing for the next generation of technological innovation. What's important in the last statement is that companies are pressing for the next generation of technological innovation and not the next generation of product/assessment innovation. By focusing all of their financial and human resources on creating or acquiring the technology du jour, companies have put innovating the actual products and advancements in science on the back burner. I can tell you; sadly, in all my years in the business I never once heard a call for better science or innovations in testing approaches and practices.

New to Market

Since the late 90s, we have witnessed an explosion of technology start-ups. I have also observed a similar trend of an increasing number of start-up assessment companies in the market. The development of corporate assessments is a very niche, expertise-driven market with a very small number of people trained to develop these instruments. After evaluating a bit further, it appears a significant number of these assessment start-ups are actually tech firms who have purchased or leveraged assessments from external sources. This is an alarming trend for a number of reasons.

The leadership teams, those making final decisions on company and product decisions and investments, are technologists. Therefore, they will likely continue to invest in their core area of expertise and true focus. Additionally, the knowledge base and expertise for the assessments will be held externally from the company. This makes the company reliant on external sources for any major issue related to their core business.

In this arrangement, two distinct processes for building a single product are taking place: technology and assessments. The two are being created in a vacuum with very little awareness of the needs or requirements of the other. In large firms where both houses are internal – both technology and product development teams – this integration of processes is still very, very difficult. The successful integration of two departments that are in two separate businesses is nearly impossible. Imagine running a tech firm with no expertise related to technology in the company. The thought is ludicrous, but it is happening quite often with assessment start-ups. As the young companies focus on user interface and software development, they ignore the core of the company they are claiming to encompass. They are wholly reliant on an external source which has created the product. In many cases, assessment developers distribute their products through multiple channels after rebranding with minor adjustments and name changes. For the vendor of these cloned products, it is difficult to gain a competitive advantage when you are using basically the same product as your competitors. Just imagine if a company like Apple didn't create their own technology, but merely outsourced core products from another vendor.

Another major concern I have is the immaturity of the software and general systems that support the assessments. Anyone in the tech industry knows that creating and maintaining technology is an on-going and iterative process. The older and more mature the technology, the longer the company has had to work out bugs and issues. Small start-ups quite often don't have the funds to build the scale, complexity, and redundancies necessary to truly protect the integrity of assessments and, just as important, the data. It is not uncommon for small firms to cut corners and utilize inferior systems and resources to build their system.

The Confluence

So how did we get here? It seems to have begun with the advent of the Internet in the 90s. Soon after 2000, the technology boom exploded. Everywhere you looked, new companies were sprouting and new money was being made. If you weren't making 30% returns on your money on tech stocks, you weren't happy. This hyper-inflated economy burst as quickly as it seemed to erupt. Then, in 2008, the economic boom was lowered and the knockout punch delivered. With the economy in free fall, companies nationwide began cutting back and downsizing. If you were not absolutely critical to revenue, you were gone. Companies became lean, which has actually proved to be a good thing for most companies. The problem, however, is that all of these events occurred simultaneously. Now, product development teams are faced with extraordinary expectations to produce innovative products and disruptive technologies with far smaller teams and faster development schedules. Since 2008, this has become a recipe for disaster among assessment publishing firms. Why assessment firms in particular?

The growth of new, disruptive technologies and the momentum that came with it quickly bled into other, if not all, industries. Clarion calls for innovation and disruptive technologies began to echo across the corporate landscape. In the publishing world, these clarion calls were quite often met with fear, trepidation, and angst among the rank and file. Although the publishing industry recognized the movement to a digitized world as opportunity for explosive growth, they also quickly realized they were not equipped to create, build, innovate, and particularly integrate these new technologies. You see, publishing firms are old, traditional, and careful organizations. They were built to build slow moving trains that arrived on time. They will be the first to tell you, if you can get an executive to be honest, they are not built for speed or innovation. As the start-ups and smaller companies began to eat into the large firms' market share, they responded the only way they knew how – buying the start-ups as quickly as they popped up. So what is happening now?

Three primary approaches have dominated the publishing landscape, none of which seem to have worked as designed or desired.

APPROACH 1 — Acquire Small, Innovative Firms and Assimilate

This, on a theoretical – if not logical– level, makes a great deal of sense. However, one doesn't need to dig very deep to see land mines in the not-too-distant future for this approach. The idea was to acquire these start-up firms, which would benefit them in a number of ways. First, they would provide new revenue streams, which we all know is critical to corporate survival. Second, these firms would help position the older firms as innovative and cutting edge by association and branding. Third, the acquiring company would incorporate the new technology into existing, older products and breathe new life into the aging products – along with new and improved revenue. Fourth, the two companies would benefit each other with complementary services and products which they could sell to one another's installed client base.

OUTCOME 1

In my experience, this has resulted in very turbulent and messy situations. The great majority of employees who are attracted to small start-ups are strongly opposed to large, corporate cultures. For many, their worst nightmare is working for a large corporation and becoming another cog in the wheel. Start-ups relish in the counterculture that quietly disdains large American companies. By assimilating these people by force and trying to fit square pegs into round holes, the large corporations have found considerable resistance at every level. I can think of few, if any, small start-ups that have been truly integrated well into large publishing firms. The start-ups naturally resent the miles of red tape, daily meetings, corporate processes, lack of original thinking, layers of leadership, and extraordinarily slow development processes that exist in the larger firms. From a branding standpoint, the large publishers are fooling no one – particularly the consumers. As it pertains to complementary products, I have found just because it makes sense that one company's client base would want the services or products from another, does not mean the respective clients will buy said services. In fact, this seems to rarely work.

APPROACH 2 — Bolt on the Technology Du Jour

This has been a very popular concept in many a publishing board room. The idea is to take the hot technology of the day and figure out a way to integrate it into older products. For example, social media and gaming are two concepts I have heard over and over again in the board room to the point of nausea.

OUTCOME 2

Many find this to be extremely flawed thinking that may result in a number of awkward, failed products. The primary problem with this approach is that instead of asking what technology is necessary to take the product to the next level, they are simply trying to integrate a technology that is popular in another context. The result is often a clumsy, failed product. Imagine if Facebook had tried to use the technology of the day to create Facebook. The social monolith as we know it would not exist. They had the correct approach: first, have a vision and know what you want to build and do; second, build or create the technology necessary to execute the vision.

APPROACH 3 — Innovate Internally

Through strategic hiring and beefing up the technology departments with a large number of Generation Y, 20-somethings, the hope was that more historic R&D departments would work collaboratively with the new tech teams and create new, blended products. In addition, the large publishing firms began to place significant pressure on the R&D teams to develop innovative products – all while sharply decreasing development cycles and human resources. What once took multiple years to develop through careful, meticulous development, is now being expected to be created anywhere from 6-12 months. By increasing cycle times to under a year, the only thing they have created is employee burn-out and far greater error rates.

OUTCOME 3

These two teams might as well come from different planets speaking different languages. Nearly every quality that defines these departments differs significantly. The philosophy of development of technology teams is fast and flamboyant; the philosophy of R&D is methodical and conservative. The product development process for technology is fast, non-linear, and messy (e.g. scrum); the product development process for assessment R&D teams is slow, linear, and controlled at all points. The minimum education requirement for technology development teams is high school; the minimum education requirement for assessment R&D teams is a doctorate. The majority of technology teams are young; the majority of assessment R&D teams are not so young. The one area of consistency among the two teams is that each generally has a very limited level of expertise relative to the other department. Therefore, when it comes to working collaboratively on a blended team, the atmosphere can be less than harmonious. I have spent time working on such blended teams, and to term the experience as frustrating would be a kind depiction.

Case and Point

As an exemplar of the potential negative impacts of acquisitions and the resulting consequences, I am going to discuss a historically strong corporate assessment company: SHL. A recent article[2] on seekingalpha.com entitled “Did Corporate Executive Board Company Acquire Dead Weight With SHL?” examines the logic and current status of the acquisition of SHL by the Corporate Executive Board Company. The general premise and motivator behind the acquisition is flawed. The author notes, “Basically, the main motivation of the acquisition was this: ’Hey SHL, I see that you have some Fortune 500 clients, and I have some Fortune 500 clients. Why don’t we merge so that CEB can sell its products and services to existing SHL clients and SHL can sell its services and products to CEB’s existing clients, effectively doubling the penetration rate of both companies?’” As I discussed in Approach 1 above, acquiring companies with the expectation of selling complementary services to one another’s client base rarely seems to work. At a minimum, this should not be the driving factor behind the acquisition – although fairly common and popular today. To what I believe was a predictable outcome, the article points out the theory was not foolproof. “Unfortunately, in the first year of the merger, things didn’t go as planned. It turns out that just because a company uses CEB’s services doesn’t mean it will use SHL’s services and just because a company uses SHL’s services doesn’t mean it will use CEB’s services.”

SHL is not just a victim of being acquired. They are also victim of trying to grow revenues and product offerings by acquiring smaller companies. When a company lives by the sword, they seem to also die by the sword. By relying on other companies for innovation and revenue growth, the core company seems to lose the ability to do so themselves – which is exactly what seems to have happened with SHL. The article continues, “If we look at the company’s past history, we see that all the growth in its history came from acquisitions and mergers while very little organic growth actually ever occurred. For example, in 2011, SHL bought PreVisor, a Minnesota based company.

[2] Staff Writer: Did Corporate Executive Board Company Acquire Dead Weight With SHL? Seekingalpha.com. August 19, 2013.

PreVisor also owes a lot of its growth to past acquisitions such as Brainbench in 2006, CraftSystems in 2007, and ASE in 2008." It would appear the acquisition cycle has come full circle, and they are now realizing the consequences of a poorly managed acquisition. Another casualty of poorly managed acquisitions is a quick downturn in employee morale and overall confidence in the company. The article cites the following employee comments:

"The company hasn't seen any organic growth in years."

"All the growth comes from mergers and acquisitions."

"Too much office politics and drama."

"Highly inefficient, functions like a government institution."

"Culture is weak, people don't have much passion for the company, high turnover rate, very high workload and no work-life balance."

"Most employees are unhappy and wanting to leave. Since we merged with CEB, it's been all about selling more products. It's all about increasing revenues at all costs. No matter how hard we work, we keep losing market share to competition."

"The company hasn't innovated in years. Competition is catching up."

The final comment above is extremely telling, and brings us full circle to what I believe is the most damaging consequence of Approach 1 – companies stop innovating and lose competitive advantage. It's basic psychology: once we start relying on someone to do something for us, our skills and appetite for that task tend to diminish.

What is the Right Approach?

So, if the industry is trending with the approaches I mentioned, what are we to look for in an assessment provider? What qualities seem to manifest in a good assessment company? The corporate assessment companies we should be looking for meet certain criteria and have very consistent traits.

- **Strong Global Footprint:** It's difficult to develop a global workforce if you don't do business outside of the U.S.
- **Strong Scientific Evidence:** Each company should have available extensive scientific evidence via technical manuals. The harder it is for you to find the evidence, the higher the likelihood they have little to share.
- **20 Plus Years in Business:** To develop, refine, and perfect any psychological assessment takes a very long time. Be leery of companies that are new to the market with new tools.
- **Dedicated, On-site R&D Team:** Be leery of companies that purchase assessments from external vendors to merely put it on their website. There is a lack of focus, lack of

quality control, and a general lack of understanding of the tools with these companies. Generally, these companies are tech firms first that want to throw other products on their systems.

- **Evidence of Continued Product Innovation**: A company that continues to improve their product line through updating older products and creating new, innovative products demonstrates a commitment to their product, customer, and the industry.

There are three corporate assessment companies that come to mind when looking at the aforementioned criteria. The three leading companies, based on my research and professional judgment, are the following:

- Profiles International
- Hogan Assessment
- SHL

Profiles International

Profiles International has over 20 years in the business.. The company was founded by two individuals, Bud Haney and Jim Sirbasku, in 1991. The company is still privately owned and under the leadership of Bud Haney, who is highly regarded for his leadership and business acumen within the corporate assessment industry. Mr. Haney's business expertise has served Profiles well. Not only has he grown the company consistently and what appears exponentially, he is well-known in the industry for running a very tight ship. He has a background in finance and accounting, and unlike SHL, financial management of the company has never been a question. The company has maintained an R&D team since its initial founding and has grown all of their market leading assessments internally and organically. The research behind the assessments is exceptional and of extremely high quality. Profiles has administered over 2 million assessments, and currently maintains a database of several hundred thousand job patterns which have been created in partnership with their clients. The company that began as a small start-up in Waco, Texas has grown into a global powerhouse, with a presence in more than 120 countries and assessments administered in over 30 different languages.

Hogan Assessments

Hogan Assessments shares a number of positive qualities with Profiles which deserve praise. Like Profiles, they are still privately owned and their assessments have been grown organically. They, too, were founded by two individuals, Drs. Joyce and Robert Hogan, in 1987. Today, the company is run by Robert Hogan, who has developed the company into a global competitor within the market. Like Profiles, the research is strong, with Hogan boasting over 250 criterion-related validation studies, 2 million plus assessments, and over 700 validation studies. The products are well-regarded by consumers and competitors. The assessments span 42 different languages and are utilized in over 50 countries. Hogan is a strong company with good products and management.

After researching both these companies, I am amazed, although perhaps not surprised, at how many characteristics both Hogan and Profiles share. They are both privately owned and have been closely controlled and managed by their founders for the entirety of their existences, exceeding 20 years for both companies. They have both grown market-leading products internally and organically. Both companies have exceptional science and data to support their products. Both companies are held in high regard by industry insiders and customers alike. Both have leaders, Dr. Hogan and Mr. Haney, who are held in high regard by industry insiders and competitors. Both companies have a wide international footprint, with Profiles holding a larger global presence. Neither company's financials are public; however, I would guess based on market penetration and all available data, both companies have healthy margins, two strong quarters for the first half of 2013, and healthy EBITDAs. From my vantage point, both Profiles and Hogan are among the best choices that can be made when selecting corporate assessments.

SHL

It may come as a surprise that SHL is among my top three recommendations – given the case study above and the recent article by seekingalpha.com. If you look carefully, however, the article does not detail issues with product offerings or the historic or current value of the products. The article, in my opinion, is more of a referendum of the inherent challenges and potential impacts of the acquisition process. Although I believe in the old saying that "perception is reality," I also believe that perception is not fact. Many of the opinions offered by SHL employees are based on emotion and their personal perceptions. They may be accurate, but their perception is not fact. Therefore, when I review the facts against my 5-pronged criteria for evaluating assessment companies, the facts add up to SHL still being a quality company with products that provide value to their customers.

Of the three I recommend, SHL is clearly the largest. Being big in this business has both pros and cons. The positives are that SHL has been in the business for a half century and their R&D department knows what they are doing. They have over 1,000 off-the-shelf assessments, which although impressive, does seem a bit overkill and potentially redundant. Nonetheless, they have one of the deepest product offerings in this niche market. SHL has extensive resources, and particularly since being acquired in 2012 by CEB, they have the capacity to continue to build quality products. The science behind the products is solid, and they appear to take pride in developing quality products. They have a significant global footprint, with business in over 150 countries and assessments translated into over 30 languages. Although I do not believe SHL to be as tightly managed as Profiles and Hogan, I believe the core operations of the company to be reasonably managed and, therefore, the integrity of the products and related services protected. Although many factors will likely affect the future of SHL – which is true of any company – today I believe SHL to be a quality company that produces solid assessments.

Of the top three offered here, both Profiles and Hogan are strongly leading the pack with SHL a distant third. Of the top two, I have to go with Profiles. Although they share many positive similarities, I believe Profiles to have an edge in two critical areas: product innovation and international footprint. As I review the products of both companies, admittedly from a distance, Profiles has a very direct progression of continued innovation and growth. In addition, Profiles has the advantage on international markets and penetration. Profiles has been aggressively expanding and demonstrates a significant commitment to translating assessments into a multitude of languages. Simply put, if I needed to buy corporate assessments for my business, I'd buy from Profiles International.

About the Author

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082713-WP, August 2013, Rev. 1