

Personality Tests as Hiring Tools

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Last year Leon Rousso, a certified financial planner with a practice in Ventura Calif., decided it was time to hire a new associate. Instead of relying just on resumes and interviews, Mr. Rousso also asked promising candidates to take the 16 Personality Factors, a personality test.

The reason: Mr. Rousso wasn't just looking for good administrative skills and a possible future successor but also someone with whom he could get along. Last November he hired Joshua Pierce. Four months on, Mr. Rousso says his new hire "is working out really well," a success he credits in part to the 16 Personality Factors, or PF16.

"It's an amazing test," Mr. Rousso says.

Mr. Rousso's experience is becoming increasingly common. Financial advisory firms big and small are using psychometric assessments, personality profiling and intelligence tests to hire staff, coach employees and create teams. When used well, the tests, which are relatively inexpensive -- Mr. Rousso says he spent around \$300 per candidate, including consultancy fees -- can cut costs and improve performance. However, advisory firms risk lawsuits if they fail to do due diligence as there are a plethora of tests available and the industry is unregulated.

Securities America Inc., a general securities broker-dealer servicing more than 1,800 independent financial advisers, uses tests to recruit staff for its head office in Omaha, Neb. They consist of an IQ test, a personality test and the Mayer-Salovey-Caruso Emotional Intelligence Test. MSCEIT, for short, is designed to measure emotional intelligence by assessing a person's capacity to identify emotions in others. Aptitude in these areas is particularly important for customer-service representatives who are tasked with providing back-office support to financial advisers over the phone.

By using the tests, Securities America hopes to increase the likelihood of hiring top performers and improve retention rates.

"The cost of turnover can be three to five times an individual's salary, so increasing retention rates can have a significant effect on the bottom line," says Kathy Shotkoski, vice president of human resources at Securities America. Securities America is part of Securities America Financial Corp., a wholly owned subsidiary of Ameriprise Financial Inc.

Like Mr. Rousso, she says the assessments are just one tool used to make the hiring decision; they aren't the sole criteria for decision making.

Tests are also helping financial advisers manage their employees more effectively. First Harbor Group LLC, a Houston financial advisory firm, uses DiSC, a

behavioral model, as a stress management tool. DiSC helps people understand why they do what they do, by measuring the interaction of four behavioral factors: dominance, influence, steadiness and conscientiousness. Using this information, DiSC can be used to describe a person's general approach, including his or her motivations, dislikes, strengths and weaknesses, and some of the basic assumptions the person makes about other people. It can also predict how a person will react to a specific set of circumstances.

"If you can understand how employees react to stress then you can develop ways to counteract it," says David Hanson, a founding principal at First Harbor Group. If left unchecked, "stress can result in lower productivity, increased absenteeism, tardiness and high employee turnover," Mr. Hanson says.

Meanwhile, [H&R Block](#) Inc.'s H&R Block Financial Advisors Inc., which has about 1,000 advisers nationwide, is using Kolbe, a psychometric test, to improve team performance. About 10% of its advisers have taken the test, which is voluntary.

Unlike IQ tests, which tell you what you can do, and personality tests, which tell you what you want to do, Kolbe tells you what you will or won't do by measuring natural instincts, according to [Kolbe](#) Corp.'s Web site.

Kolbe defines four basic action modes: "Quick Starts" are innovators, who think on their feet; "Fact Finders" enjoy gathering information and becoming experts; "Follow Thrus" are natural organizers who complete tasks in a methodical way; "Implementors" figure things out by building models.

"Two of our higher producers were constantly clashing with their assistant and they couldn't figure out why. When their Kolbe results came back it was like, aha!" says Joan Cohen, executive vice president, H&R Block Financial Advisors.

It turned out the advisers were primarily "Quick Starts" -- big-picture people -- while the assistant was a "Fact Finder" -- mainly detail-oriented. To reduce conflict the advisers agreed to start providing their assistant with more detailed information.

Wholesalers who market investment products, such as their firms' annuities and mutual funds through advisers, are offering Kolbe as a coaching tool to large Wall Street firms. Frank Maselli, executive vice president and director of the IXIS Advisor Academy, a training program for financial advisers offered by IXIS Asset Management Advisors Group, says he has administered about "2,000 Kolbe tests" over the past five years. Mr. Maselli is a certified Kolbe coach.

Studies show that personality tests are a far more reliable predictor of performance than interviews and resumes, but they are controversial tools. Using tests not specifically designed for hiring can lead to lawsuits. For instance, the U.S. Court of Appeals for the Seventh Circuit, in Chicago recently ruled a personality test used to fill management positions at [Rent-A-Center](#) Inc., a national retail chain, qualifies as a medical exam. The

Americans with Disabilities Act prohibits requiring medical examinations prior to making a job offer, and according to the appeals court this includes positions filled internally. In addition, the court ruled that the test, the Minnesota Multiphasic Personality Inventory, was inappropriate for this purpose as it is used to diagnose mental illness. (Psychological screening tends to be limited to professions where mental stability is required for public safety, such as in the police force.)

Employers also need to carefully examine state laws. While no state explicitly prohibits the use of personality tests, integrity and honesty tests are banned in Massachusetts and Rhode Island so employers need to check for unlawful components.

Moreover, tests shouldn't have a "disparate impact" on a protected classes of people, such as certain racial or ethnic groups. The Equal Employment Opportunity Commission's general rule is that protected classes must pass an assessment at a rate that is at least four-fifths the pass rate of unprotected classes. For example, if eight out of 10 Caucasians pass a test compared with just five out of 10 African-Americans, then employers can be sued under the Civil Rights Act of 1964.

"Employers need to do their homework before using tests," says Joseph Schmitt, an attorney in the labor and employment team at Halleland Lewis Nilan & Johnson PA, a law firm based in Minneapolis.

Although Mr. Schmitt knows of no major cases against advisory firms, he advises employers to vet vendors. Companies should find out, for example, how long the profile has been used and its history. Does the test, for example, comply with U.S. civil-rights and equal-opportunity legislation? Are there multiple objective studies showing it to be an accurate predictor of future job performance? Has the vendor ever been the subject of a lawsuit? Mr. Schmitt also suggests partnering with an attorney to check compliance with labor laws, and using an experienced professional, such as an industrial-organizational psychologist, to interpret test results.

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