

Who Are You Really Hiring?

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Companies often don't screen executive-level applicants. They should. High echelon crooks and cons can cost your company a fortune. But there are ways to safeguard a firm from liars and cheats at the top.

James Baughman was imprisoned for stealing money from student funds while he was a California high school principal. He lied about earning a doctorate at Stanford. He eventually became director of recruitment for Lucent Technologies.

Al Dunlap was fired in 1973 by Max Phillips & Son after just seven weeks of employment. Three years later, he was fired by Nitec Paper Corporation--which soon went broke--over allegations of financial fraud. Twenty years later, he surfaced as chairman and chief executive officer for Sunbeam Corporation.

George O'Leary lied on his résumé about earning a master's degree in education from New York University. He lied about lettering in football for three years at the University of New Hampshire. He later was hired as Notre Dame's football coach.

Lucent, Sunbeam, and Notre Dame were not aware--at the time--that they had hired a felon, an alleged books-cooker, and a liar to fill positions of authority. But these organizations could have learned about their employees' tainted backgrounds if they'd taken time to do a routine background check.

Open the help-wanted section of any major metropolitan daily and you'll see ads for front-desk clerks, delivery drivers, and salespeople warning that background checks are required. Drug tests, criminal-record checks, and employment and education verification are de rigueur for the rank and file in many companies. But when it comes to filling upper-level positions, there's a class system at work in corporate America. Instead of sifting through background data for the kind of debris that would prevent a clean hire, companies are all too willing to take executive-level applicants at their word.

"You'd think the logic would be that the higher the position, the more screening companies would do," says Les Rosen, attorney and president of Employment Screening Resources in Novato, California. "But from what we've seen, that's not true. Somehow, there is a sense of impropriety in challenging the credentials of people higher up."

Douglas Hahn, president of HRplus, a background-screening firm based in Evergreen, Colorado, agrees. "At some companies there is definitely a good ol' boy network that prevails," he says. "Executives tend to hire their friends, and they hold the integrity of those friends above that of anybody else in the company. Unfortunately, that sometimes backfires."

And those backfires can be devastating. While a low-level employee might manage to embezzle a few thousand dollars or steal some inventory, a single dishonest executive with the right influence and access to accounts can plunge a company into the depths of bankruptcy, taking scores of jobs and billions of dollars in retirement savings and shareholder investment along with it.

While it might be impossible to safeguard a company against every potential act of dishonesty, HR professionals can minimize the chances for unscrupulous behavior by understanding who it is that they really are hiring. This means developing background-checking procedures that are utilized at all levels of the organization, including--and perhaps most especially--those at the very top.

Why checking Execs is more important today

Up until two years ago, a go-go economy compelled a lot of companies to hire many employees quickly. The talent war was so brutal that businesses didn't have time to slow down and check every detail of an applicant's background. They had to find candidates, make an offer, and issue a company parking pass before the competition could steal that person away. As a result, corners were cut, guidelines were overlooked, and unscrupulous people slipped through the cracks.

Renee Svec, marketing manager of HireCheck, Inc., an employment-screening firm in St. Petersburg, Florida, tells the story of a *Fortune* 500 company that hired a new executive and decided to forgo the background check. "Not long after he was hired, the executive started coming on to a woman in his department," Svec says. "The woman reported his behavior to the corporate security department, which ran a background check and discovered that the executive had operated under several aliases and served more than one prison term for financial fraud."

Today, there's no reason why someone like this should be offered an executive-level position. The labor market has opened up considerably, and HR professionals now have time to check the background of each potential new hire. Furthermore, there's a lot more motivation to do so. The events of September 11 brought the threat of terrorism to the forefront. The scandals in the Catholic Church heightened awareness of sexual predators. Workplace violence is an ongoing concern, especially when unemployment rises. And the collapse of some of the country's largest corporations has shown the enormous potential for financial fraud at the executive level.

If none of these factors sway you to do more digging into a candidate's past, consider this startling fact: a full 44 percent of all résumés are inaccurate, according to Eric Boden, president and CEO of HireRight, a Web-based employment-screening company based in Irvine, California. The inaccuracies could be little white lies such as listing a volunteer position never held, or major whoppers such as lying about advanced degrees or former jobs. Regardless, with so many people being laid off and looking for work, the temptation to make one's résumé more attractive is greater now than it has been in some time. And often, the people who pad their résumés are the people you'd least expect.

Two years ago, HireCheck was introducing its background-screening services to a management team at a hospital. The hospital administrator invited HireCheck to run some test searches on a few employees, and put her staff in charge of selecting the sample employees. Thinking it would be fun to run a check on their boss, the staff members chose the administrator as one of the test cases. In conducting the background search, HireCheck discovered that the administrator had falsified details of her educational background, which were grounds for immediate dismissal.

The administrator's termination--which was unwittingly effected by her own hand--would be laughable if the problem of résumé deception weren't so widespread. But even if lying weren't so commonplace, verifying an employee's background is something that all companies should be doing. After all, it doesn't take a parking lot full of dishonest employees to create havoc for an organization. A single well-placed unethical employee can plunder profits before anyone knows what's under way.

What's that, you say? Conducting extensive background checks on management employees is expensive? Better to save the \$2,000 to \$10,000 average cost and trust your gut? A Toronto-based trucking company thought it was saving money by not checking the background of a woman hired to manage its accounts department. The woman was impressive, after all, and seemed to have the right credentials. Over the course of two years, the employee siphoned \$250,000 from the company's general accounts. Ultimately, she was prosecuted on criminal charges and sentenced to three years in jail. Had the trucking company taken the time to call her previous employer, they would have discovered she'd also defrauded that company to the tune of \$100,000.

How to integrate background-checking at all levels

HR professionals have an obvious and important role to play in safeguarding company assets by hiring honest employees. But conducting a thorough background check on every employee is not easy, especially if it's not already an accepted part of the culture to do so. Here are some steps that HR people may want to consider:

1. Lobby for the fact that integrity is important. In many companies, HR gets involved in hiring lower-level workers, but executive recruitment is handled by those at the top, who tap into their own executive network. This is fine, but if the executive team wants to build and maintain a company that holds integrity and honesty in the highest regard, everyone should be subjected to the same level of background-checking once a job offer has been made--and it's HR's job to argue for this.

"HR has got to lobby for the fact that high integrity should be a requirement for every job," says Philip Sullivan, vice president of recruitment and placement at nSight, Inc., a staffing firm in Burlington, Massachusetts. One way to do this is to talk about the potential financial consequences of *not* conducting thorough checks.

For instance, if Sunbeam had done a more thorough background check on Al Dunlap, the company might have discovered the allegations of financial fraud in his background and

declined to hire him. It's hard to say for sure, but if Dunlap had not been at the helm, Sunbeam might not have had to endure plummeting stock values, stockholder lawsuits, and eventual bankruptcy.

"If an executive wants to shortcut the process and hire a peer without consenting to a background check," Sullivan says, "HR has to make clear to the executive that, in doing so, he or she is putting his or her own integrity at stake."

2. Treat all employees fairly. All employees should be subject to a standard background-screening that includes a credit check; a review of motor vehicle and criminal records; reference checks; and verification of employment, education, professional licenses, and Social Security number. However, Rosen says, "It is perfectly acceptable to have different levels of screening for different positions as long as everyone is treated *fairly*." Someone on an assembly line, for example, would not necessarily receive the same level of scrutiny as a potential executive. But all assembly-line workers should be treated the same way and all executives should be treated the same way. "What you want to do is conduct the screenings that are appropriate for the position," he says.

3. Dig deeper with executive candidates. When hiring executives, Rosen suggests going beyond a standard security-screening and conducting something he calls an "integrity check." "The typical pre-employment screening is a low-cost risk-management tool that looks at verifiable, known factors," he says. An integrity check, however, is more investigative and entails looking at such things as involvement in lawsuits, the financial performance of the person's previous firm, and when and why the candidate might have appeared in local or national newspapers.

4. Don't rely solely on a candidate's former employer. Although a number of states have enacted legislation that protects employers in giving truthful information about a former employee, labor lawyers still counsel HR people to only verify facts of employment. Furthermore, in the age of consolidation and big business, the central HR departments of many companies typically have only sketchy records.

For these reasons, it is not enough to rely on a reference from a former employer. To do an in-depth search, HR people should ask the candidate's supplied references for the names of three other people who might know the candidate.

5. Don't rely solely on search firms. Search firms that don't conduct a thorough background check of candidates can be misled as easily as any employer. In March 1998, Robert Half International Inc. recruited T'Challa Ross as a temporary bookkeeper for Fox Associates Inc., a small advertising agency in Chicago. She performed so well at the job that the company hired her permanently 30 days later. Within months, Ross was taking blank checks from Fox and forging signatures. Within a year, she had embezzled more than \$70,000. What makes the case especially disturbing is that the staffing firm had failed to uncover the fact that just two months earlier, Ross had pleaded guilty to stealing \$192,873 from another employer and been sentenced to four years' probation and 100 hours of community service.

The problem with relying on staffing services is that they are typically not paid their contingency fee until a job candidate has been placed in the job. Thus, they have a vested interest in placing employees quickly. To ensure that staffing firms take the time to conduct thorough background checks, Eric Archer, president of Spherion Professional Recruiting Group, a professional services staffing firm based in Fort Lauderdale, suggests a pricing mechanism whereby the staffing firm is paid a fee based on two-thirds contingency and one-third retainer. "This shows sincerity on the part of the client who wants to hire someone, and it buys a commitment from the recruiting organization to conduct a more thorough search," he says. This way, if a firm uncovers troubling aspects of a candidate's background that prevent his being hired, the staffing firm still receives some compensation for the work involved.

6. Check everyone, including temps, part-timers, and contract employees. A few years ago, the Los Angeles-based National Academy of Recording Arts and Sciences was preparing for its annual Grammy Awards presentation. To help put together the labor-intensive show, the organization hired several temporary workers. One of them, unbeknownst to the academy's HR people, was a reporter who was posing as a temp in an effort to get inside the academy and gain information on the show's winners. According to HR manager Shonda Grant, the ruse was discovered before the reporter managed to get any privileged information. But ever since then, the academy has required thorough background checks on all employees, including temporary, part-time, and contract workers.

In this era of heightened concern about terrorism and theft, many organizations are choosing to screen the backgrounds of everyone who works for them. In the six months following September 11, for example, Eli Lilly and Company commissioned criminal-background checks of more than 7,000 employees of outside vendors, including construction workers and fast-food staffers.

"There is a clear trend and more genuine concern from companies about checking out all of their employees," Boden says. "Companies are no longer solely concerned with establishing a defense against negligent hiring. They want to be careful about who is being brought into the business."

7. Don't have interviewers conduct background checks. As a former grocery-store owner and now president of a background-screening firm, Douglas Hahn has interviewed countless people for jobs, and what he's learned is this: you cannot trust your own instincts. "I've been nailed so many times," he says. "At the grocery store, one of my most charismatic, friendly managers was stealing me blind and I had no idea."

Because Hahn has learned to not trust his gut, he always makes it a point to have one person on his staff interview a candidate and another conduct the background check. "People become prejudiced," he says. "You ask questions differently if you've interviewed someone and liked them. For example, instead of asking a reference if there is anything in a person's history that would prevent you from giving him the keys to the vault, you might say, 'there are no problems with this person, right?'"

At HireCheck, Renee Svec confirms that likable and charismatic employees can be particularly challenging. "Recently, we were going to hire a key executive for our office," Svec says. The candidate had been referred by corporate higher-ups who believed she had potential. Svec's team met with the woman and thought she was terrific. The candidate had impressive credentials, an excellent employment history, and professional licensing.

HireCheck offered her the job, contingent on a clean background check. "Basically, everything this woman claimed turned out to be completely false, and we were amazed how she had the nerve to pursue a position with a background-checking company," Svec says. "Prior to that, she'd been our top candidate. She had everybody snookered."

Given the fact that few companies conduct thorough background-screenings on their top-level candidates, chances are good that many more employers are being duped. And sometimes the level of deceit isn't uncovered until it is too late. "We don't often do routine background checks on executives unless it's for a merger or joint venture," says Chris Mathers, vice president of KPMG Forensic, Inc., in Toronto. "But when we do them, it's typically because a company is about to terminate a person for wrongdoing and they'd never checked that person out in the first place."

Mathers recently worked with an international company that had hired a Harvard graduate with "sterling" credentials. Almost immediately, the company started having problems with the employee, who would stay late at night and engage in bizarre behavior. Eventually, he was caught trying to steal software from the company for his own gain. "Before terminating him, we checked with three previous employers, and all three said the guy was bad news," Mathers says. "He was involved with substance abuse, had assaulted his wife, and had also been terminated at other jobs for stealing."

"Anyone who avoids checking employees does so at their own peril."

Thoroughly checking someone's background doesn't guarantee that you'll prevent the kind of fraud that brought down Enron, WorldCom, and other corporate disgraces. But in the realm of human behavior, a little safeguarding can go a long way.