

TALENT STRATEGIES UPDATE



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Due Diligence in Hiring: Are You Doing All You Should?

Philip S. Deming, Founder of Philip S. Deming and Associates, has over 27 years of experience in consulting on human resources, security and risk management matters. He was a Special Agent with the United States Treasury Department and conducted criminal investigations as well as background investigations for Top Secret Clearance. Here he talks to Talent Strategies Update about the importance of due diligence when making hiring decisions.

How critical is it that companies today focus on proper due diligence?

Philip Deming: Let me give you a quick example. David Edmondson spent nearly eleven years with RadioShack but was never completely vetted before hiring. After he took over as CEO, it came out that he had lied on his resume about his college education, and the story was picked up by *The Wall Street Journal* and *New York Times*. He was forced to resign – but not before the company’s stock value dropped 12%.

I find some companies spend more energy on examining the backgrounds of lower to mid-entry-level positions than they do for

their top executives. In fact, recent surveys show that 57% of companies say they have had candidates who lied on their applications; but I actually think that number is too low, particularly in the current economy.

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What should companies be doing about this?

Deming: First, there has to be an understanding that investigations are necessary – and that it has to involve much more than checking off a box that, yes, it’s been done.

Second, too many people overly rely on psychological influencers: “Well, I like this candidate because he went to the same college I did” or “Our kids are in the same school.” That type of bias – assuming that candidates are right for a position because they are like you – is natural but needs to be recognized and carefully managed.

Third, there has to be a formal process in place. A company spends months recruiting what seems to be the right candidate – but now time is short and you want that person in the position right away. But you have to



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recognize you're going to be replacing that new hire in short order if you don't do the homework.

This takes commitment by senior management and continued support of the process. And it's a discussion that has to be held upfront, not once you think you have identified the right candidate. Seems very basic, right? But I can't tell you how often it's not done. If you are hiring for the federal government or a top secret clearance job, chances are you're thinking this way - about the time it will take, who is responsible, the resources that will be put behind it, all the legal implications. Corporate America should be adopting a similar structure.

The "Four Phases" of Vetting

Identifying the Desired Candidates	Screening and Researching
Evaluating the Candidates' Qualities to the Position	Assessment of Behavior

So what elements make up a strong due diligence process?

Deming: Due diligence has to include preparing and planning the process, information gathering, verification analysis and documentation. And this last - documentation - is extremely important. In any negligent hire situation, the first thing legal counsel is going to demand is whatever notes you've prepared. For example, you must have a well-constructed intake form, including the right releases and disclosure, the information that you need to know about the candidates and, very importantly, the exact dates of education

and employment. It doesn't matter what the level of the position - entry-level or C-suite - you must have an accurate intake form. Also, always advise the candidate that the company will be doing a background check; if somebody has given misinformation, this is the time to clean it up.

Never rely solely on references. I don't know anybody who has given a bad reference as a source. Check criminal, civil and bankruptcy filings at the federal, state and local levels. There are ways of getting the information - for example, make sure you know where they worked last, where they lived last, where they summer. Why ask where they summer? Recently, I conducted a background check on a chairman of the board, and it turns out he had been arrested twice for Driving While Under the Influence (of alcohol) in Ocean City, NJ - a potential risk to the organization.

Confirm education - it's been the downfall of many a hiring - and knowing the specific dates is critical. A controller candidate told the company she was just re-entering the workforce, after taking time off to raise a family and going back to school to get her college degree. Where did she say she graduated? From Penn State's Muncy campus. Well, there is no Muncy campus at Penn State - but there is a Women's Correctional Facility there, which has a college correspondence program with Penn State. That's how she got her degree.

Civil records will show if the person is litigious, which tells you something about the person's character. Credit searches reveal not just if someone has a good credit rating, but how many people have been inquiring about that person and if the candidate has recently applied for a large number of cards, which could indicate a need to support a heavy debt load. Check professional licenses - not so much to verify that license but to

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see if there has been any disciplinary action. For example, we had a CFO candidate who indicated that his license had been suspended because he forgot to pay dues – which didn't make sense. With a little checking, we found that disciplinary action had been taken against him, so it had nothing to do with dues.

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A Strong Due Diligence Program

Preparation	Information
Verification	Documentation

Any advice on the Internet?

Deming: Be cautious. You could have a “stagecraft” person – in other words, someone who is setting up a background for you. The candidate knows you're going to check on Facebook or LinkedIn, so information there is crafted so it matches up to the representation being created. Remember, there is no one on any of the Internet services who's validating the information. Any inconsistencies become talking points at the interview. I always like to give the candidate an opportunity to respond and explain.

How do you know the right questions to ask?

Deming: You need to plan your questions carefully ahead of time – and think through what it means if the candidate responds in a certain way. Make sure your questions correlate to the job description and give you tools to gauge abilities and skill. This means drilling down – what do good leadership skills entail exactly? Why was it important at your last employer and why would it be of value to your new one?

Ask open-ended questions; the interviewee should speak 80% of the time and the interviewer only 20%. Use questions like “Has there been an occasion where you have been asked to do something that has challenged your integrity – and how did you manage the situation?” Someone who tells you they were asked to compromise sales records but were able to avoid doing so is very different from someone who reported the incident to the general counsel or the company hotline.

What if you feel someone isn't telling the truth?

Deming: No question, this is awkward. I never attack the falsehood directly but instead ask questions around it, listen to the details carefully and match up the body language with the vocabulary. Make a diligent effort to verify sources of information – which can be difficult. If you have inconsistent information, you really have to be creative and think through how else you can check it out. People will do all kinds of things to secure employment.

Keep in mind that the candidate has probably received the job description from somebody inside the company, has figured out the buzz language, has read the annual report, done due diligence on the company via the Internet – so listen to see if they're

simply parroting back the information they think you want to hear.

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Any trick to gathering references?

Deming: I’m sure you’ve all been there - knowing the person on the other end of the phone has information about the candidate, but for some reason isn’t disclosing it. I always ask if there is any *legal* reason that you wouldn’t recommend the candidate. If you were presenting or hiring this candidate, would you have any *legal* concerns or reservations? Is there any information that you’re not allowed or at liberty to talk about or disclose? And if so, whom can you direct me to? And would you hire the candidate back? And if there’s a pause, that’s always a red flag in my mind.

Are there legal issues you need to worry about when doing background checks?

Deming: With all background checking, you have to comply with all the legalities when you gather information – and these can vary from state to state. Seek a lawyer’s advice so you are aware of what you can and can’t do. If you’re using an outside service, it’s your obligation to make sure they are proceeding lawfully so it doesn’t come back to haunt you.

You talked about the intake form. What other documentation should files include?

Deming: When you’re interviewing a number of candidates, it’s hard to remember who said what, and what information is said to you. Your files should include summaries of the interviews; copies of transcripts, e-mails and information you’ve retrieved from the Web; and reports you obtained.

Preparation and planning; information gathering; verification and analysis; and documentation – these are the foundation for a strong and valuable due diligence process.

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