

How to Avoid a Bad Hire



Do You Know the True Cost of a Bad Hire?

There's no better feeling for a hiring manager than winning the candidate lottery. If luck is on your side, you might land a handful of good candidates that not only have the required qualifications and experience, but also boast a spotless work history and radiate enthusiasm. Finding a perfectly matched candidate for a position can be like finding a needle in a haystack, so when you find someone who ticks all the boxes, it's tempting to show them where to sign and ask: "So, when can you start?"

Before you hand over the employment contract, it's important to consider the consequences of a bad hire. What repercussions will your company face if this candidate has not been honest about their experience, education or qualifications? What is at stake if your candidate has a violent past? Unfortunately, the aftermath that follows a bad hire affects far more than terminating the employee and filling the vacancy. This white paper explores the risks associated with poor hiring decisions and the steps you can take to avoid the dreaded bad hire.

The Cost of a Bad Hire: What's at Risk?

Your company has a lot on the line and one bad hire can jeopardise everything. The impact of a bad hire can spread through your company and leave a trail of harmful consequences behind. Your company faces damages to its assets, brand, reputation and employee morale. While some of these things can be replaced, certain results of a bad hire are irreparable. Getting ahead of a negligent hiring claim or recovering from a serious incident of fraud or theft is almost unimaginable. Your company has more at risk than you might think.

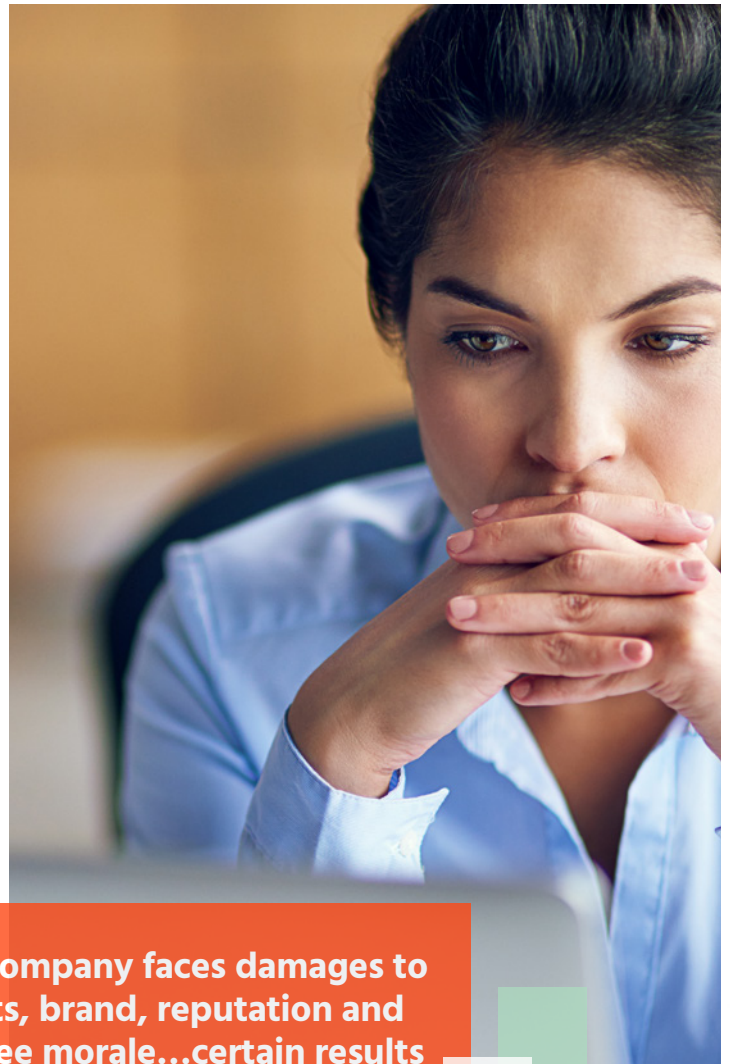
Financial

The financial implications of a bad hire are seemingly endless. First, you have the cost of off-boarding the employee, which can escalate rather quickly if it's not a smooth departure. Then, you have the cost of recruiting, hiring and training a replacement. The biggest financial impacts may occur even before you realise you've made a poor hiring decision.

These costs may arise due to:

- Fraud, theft or embezzlement
- Abuse of sensitive information, confidential company data or trade secrets
- Bullying or harassment of co-workers
- Violent or abusive behaviour
- Unprofessional interaction with clients
- Time theft or lack of productivity in days or weeks leading up to termination

Productivity loss after the employee has been terminated also has a financial impact. It takes time to hire a suitable replacement, train them and have them working at full capacity. That transition can take several weeks or several months depending on the level and depth of knowledge required.



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The Cost of a Bad Hire: What's at Risk?

Workplace Safety

Corporate fraud is a very real and concerning issue. In 2018, an astonishing 50% of UK companies experienced fraud; 33% were committed by internal perpetrators, of which half were committed by senior management.¹

The total cost? At a high-level, it's estimated that the overall cost of occupational fraud worldwide amounts to €3.7 trillion.² According to respondents in the 2018 Global Economic Crime Survey by PwC,³ **the top three categories of fraud were:**⁴

- **Cyber-crime** - 49% reported
- **Asset misappropriation** - 32% reported
- **Procurement fraud** - 23% reported

Legal

If your bad hire engages in any negligent or illegal activity, it could lead to legal action. Even if your employee took actions or performed their duties contrary to instructions or expectations, you may be held vicariously liable in civil court. The costs relating to legal action can add up: legal fees, settlements and productivity loss to name a few.

For example, the U.K. Bribery Act makes an organisation liable for any employee bribery if it fails to put in place adequate procedures to combat bribery. The only defence to a prosecution, under the Act's new "corporate offence", is for the company to prove that it had in place adequate procedures designed to prevent persons associated with the company from undertaking such conduct. **Such measures may vary from country to country.**

Brand & Reputation

You spend significant time, investment and energy on your brand – everything from marketing and PR efforts to quality customer service. Yet it only takes one incident and some bad press to overshadow those efforts and turn your company into public enemy number one, especially with the proliferation of social media and viral marketing strategies. Consider the negative impact on your hiring teams and your ability to attract good candidates with a tarnished brand. Reputational damage isn't just a risk for large or well-known companies. It can be devastating for companies in their infancy as it adversely affects investing and fundraising efforts while you are trying to grow. Investors may shy away from companies that have been criticised for negligent hiring or those that have been associated with violent incidents—even if the company itself did no wrong.

Employee Morale & Corporate Culture

A bad hire can have serious negative consequences on an organisation. 50% of managers believe that increased workload for colleagues is the most significant impact of a poor hiring decision, followed by increased stress on colleagues and lost productivity.⁵ The impact of a bad hire has a ripple effect throughout your organisation, so there's no way to accurately measure the damage. One thing is certain: it almost always costs more than you think.

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The Role of Background Checks

Diligent background screening is your first line of defense against poor hiring decisions. A detailed background check puts your candidate's C.V. to the test, verifying what's true and flagging what's not, and candidate lies are not always easy to identify.

A background check can range from a basic criminal record check to a more in-depth and thorough investigation of your candidate's history, including:

- Professional experience
- Educational credentials
- Financial aspects

Types of Background Checks and When to Use Them

There are a variety of screening tools available to employers that can aid in hiring the most qualified candidates. The more extensive the background check, the more equipped you'll be to make a good hiring decision; however, it's not practical to conduct every type of background check on every prospective new hire. The types of background checks you conduct should reflect the responsibilities of the position you're hiring for.

Criminal Record Checks

A criminal record check can be a crucial step towards a comprehensive employment screening program for many organisations. This is particularly the case where a role involves working with vulnerable populations or positions of trust and may include roles for employers within education, healthcare, financial services, and government organisations amongst others. Depending on the country, varying levels of criminal record check may exist offering an additional layer of protection, which could better suit the role in question, and the nature of the work being conducted.

Reference Interviews

One of the best ways to get to know your candidate is the tried-and-true reference interview. Having a candid conversation with a former supervisor can provide the much-needed insight into a candidate's work ethic, strengths and weaknesses. Some employers opt to conduct reference interviews themselves, but there are many challenges involved with an in-house approach. Waiting for calls and returning messages can feel like an endless game of telephone tag, and when you finally are able to connect with the former supervisor, you may have other more pressing tasks on your plate. Alternatively, screening providers are proficient at conducting professional reference interviews and drawing out honest and open comments about candidates to give you a realistic picture of your candidate's past performance.

Credit Orders

When you're screening a candidate for a position that involves asset management, cash handling or a high-level of financial responsibility, you may want to consider conducting a credit check. A credit check provides a glimpse into your candidate's ability to manage assets and make good financial decisions. Credit checks alert employers to a history of missed payments, collections, bad debt write-offs, fraud or other negative items that may indicate that the candidate is not capable of good money management.

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Employment Verifications

Similar to reference interviews, employment verifications involve confirmation of previous employment details. The difference is that employment verifications focus only on factual information, such as dates of employment and job title. The information is verified directly with Human Resources or Payroll departments to ensure accurate details rather than relying on the word of a former supervisor or other colleague whose contact information was provided by the candidate. Employment verifications are most valuable when combined with reference checks, as together they provide more accurate insight into your candidate's work history and performance.

Education & Credential Verifications

For positions that require a specific degree or credential, it is important that employers confirm that the candidate's educational claims are accurate. Dishonest candidates have taken C.V. embellishment a step further by using diploma mills. Some fake institutions are easy to spot, while others go to great lengths to appear legitimate. Some screening providers maintain a list of known diploma mills and are also cautious when contacting unknown institutions for the first time.

Motor Vehicle Checks

Knowledge of a driving record is particularly important for positions that involve transportation of goods, use of a company vehicle, or representation of your company while driving. Over a third of driver reports raise a red flag⁶; these can include drunk driving, excessive speeding, dangerous driving, and more – a motor vehicle check is one way of helping to safeguard your company's assets, people, clients and the public at large.

Using the Right Screening Tools for the Position

(Entry-Level vs. Executive Level)

The extent of a background check depends on the position and the responsibilities that come with it. For example, a background check for an entry level customer service representative is going to be much different than a background check for a CFO.

It's important to balance your need for a comprehensive background check with cost and your candidates' privacy. A background check should only investigate the aspects of a candidate's past that are relevant to the position. For example, if a candidate will not have any financial responsibility, a credit check may be excessively intrusive.

When screening candidates for high-level positions such as C-level executives, senior management or board members, your investigation should extend beyond the standard background screening services. An executive investigation can reveal a litigious past, insider trading, conflicts of interest, non-compete agreements, negative media exposure and much more. A bad hire at the executive level can be one of the most devastating situations, costing up to three times their salary.

Hiring Guide: How To Make Good Hiring Decisions

The Importance of a Screening Policy

The first step to making a good hiring decision is to implement a background screening policy. Your policy should outline your objectives, processes, types of background checks for each position and how the results will affect hiring decisions. Be sure to consult appropriate legal counsel to ensure your policy is fully compliant with local regulatory guidelines.

Interpretation and Use of Screening Results

Background checks identify flags so that you can explore the circumstances further with your candidate. A flag in a background check is not necessarily indicative of a bad hire; it simply means that additional review is warranted and the situation should be considered as part of the hiring process. While some more serious flags will make it difficult to move forward with a candidate, it is always worthwhile to discuss the information with your candidate to fully understand the circumstances before making a decision.

For example, if the employment dates on a candidate's C.V. are off by a few months, the candidate may have been mistaken or they could be trying to cover up another employer that didn't work out. Perhaps the candidate didn't want to blemish their otherwise spotless C.V. with a three-month stint with an undesirable employer. Or maybe they were dealing with a personal or medical issue that they didn't want to draw attention to. Should the candidate have been more forthcoming? Probably. But is it worth passing up a great candidate? That's for you to decide.

Alternatively, those three months could be covering up something much more serious, such as a criminal charge. While a three-month discrepancy may seem irrelevant at first, it becomes much less irrelevant when those three months were spent in jail over an assault charge.

Choosing a Screening Provider

Employers can benefit from faster turnaround times, improved accuracy and lower costs by using a background screening provider. By outsourcing screening services to an objective third-party provider, it also puts the employer at arm's length from the background investigation, which results in a more objective approach. Not all background checks or providers are equal, so don't make your decision solely based on price. There are a number of factors that you should consider when selecting a screening provider, but **here are a few that you may not have thought of:**

- Method of delivery for results (platform & data security)
- Ability to provide local police information
- Process for identifying diploma mills
- Consideration of privacy and human rights concerns in system and product design
- Experience in executive investigations
- Additional informative support such as training, best practices, regulatory changes, etc.
- Quality/accuracy and turnaround times

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Sources

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- 5 **Robert Half. (2018, May 23). Two in five businesses realise they've hired the wrong candidate within two weeks** <https://www.roberthalf.co.uk/press/two-five-businesses-realise-theyve-hired-wrong-candidate-within-two-weeks>
- 6 **Background Screening in the UK: Best Practices to Make Informed Hiring Decisions** <https://offers.sterlingcheck.co.uk/background-screening-in-the-uk>



About Sterling

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