

Screen Now, Save Later



Why background screening is the most critical step of the hiring process

Despite all the hiring committees, phone screenings, in-person interviews, tests and other vetting methods, employers and recruiters make bad hires all the time.

In this paper, **we explore some of the ways that employers and recruiters can ensure they hire the right people** and protect their staff, customers and businesses.



Noteworthy Statistics

53% of job applications contain inaccurate information

34% of application forms contain outright lies

37% of organizations have experienced economic crime in the past 24 months

46% of times internal actors were the main perpetrators of crime

78% of job applicants who have misleading resumes

21% of aforementioned applicants with misleading resumes that list fraudulent degrees

40% of misleading applicants include inflated salary claims on resumes

14% of companies that don't perform criminal background checks on potential employees (up from 7% in 2010)

350,000 number of cases of workplace violence each year in Canada.

20% of incidents from above that occur in victim's workplace

40% of workers reporting that they have been bullied by colleagues

The Price of a Bad Hire

Finding the perfect candidate can be like searching for a needle in a haystack. For many employers, it is tempting to hire people right away without performing due diligence or background checks on the applicants. According to HR.com, **53% of job applications contain inaccurate information, with 34% of all application forms containing outright lies** about experience, education and the ability to perform the basic functions of the job.¹

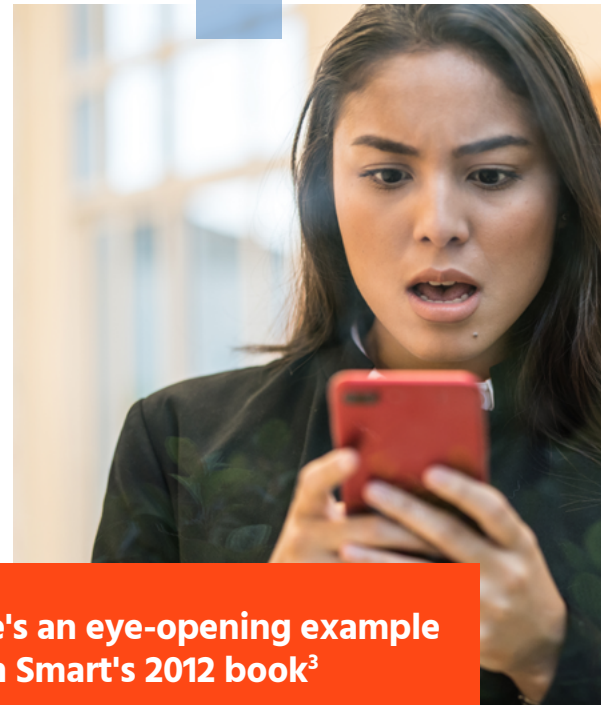
A bad hire can result in a number of uncomfortable and costly outcomes, including:

- Attrition and wasted hiring budgets
- Theft or embezzlement
- Damaged employee relations and morale
- Endangerment of employees, clients and business associates
- Lost productivity
- Litigation
- Public scandals and negative publicity

In the background screening industry, there is a commonly repeated statistic from a 1998 U.S. Department of Labor booklet that hiring the wrong person can cost an organization roughly three times that person's annual salary. Today, the true number is much higher. Hiring guru Bradford Smart estimates the cost of a mis-hire to be anywhere from four times annual salary for supervisors all the way up to 15 times annual salary for vice presidents and executives.²

This is made even worse if the employee commits fraud on the job. Of the Canadian companies that participated in PriceWaterhouseCooper's Global Economic Crime Survey 2016, **37% of organizations have experienced economic crime in the past 24 months**. Global respondents of the survey noted that **46% of the time, internal actors were the main perpetrators of crime**.³

Bad behaviour in the past or during the hiring process is a possible indicator of future on-the-job issues. It's essential that you identify a bad hire before he or she becomes a new hire.



Here's an eye-opening example from Smart's 2012 book³

SALES REPRESENTATIVE

Hiring Costs **\$23,500**

Compensation **\$151,000**

Maintenance **\$14,000**

Severance **\$25,000**

Opportunity Costs **\$250,000**

Disruption Costs **\$100,000**

TOTAL COST \$563,500



The Wrong People Are Everywhere

The main challenge for recruiters and employers is that the job market is flooded with people who appear to be suitable candidates—but, in reality, may not be. **There are two types of red flags to look out for during the hiring process.**

1. Resume Fraud

Scott Thompson was CEO of Yahoo for only a few months in 2012 before it was revealed that he falsely claimed on his resume to have a degree in computer science. Yahoo's board became ensnared in an embarrassing public feud over the revelation. It eventually led to Thompson's firing as well as several board members stepping down.⁴

Resume fraud is not just limited to the United States, but is common worldwide. **In February 2014**, Michael Vukcevic, CEO of Baldwins, an intellectual property law firm in New Zealand, resigned his position after it was discovered he falsely claimed to hold a law degree from Victoria University.⁵

In March 2010, Rhiannon Mackay became the first woman in the United Kingdom to be imprisoned for lying on a CV, receiving a six-month jail term. She had claimed to have two A-levels and fabricated a number of references, and with these falsehoods, managed to secure a position in the NHS as a capital projects administrator.

In 2015, a Canadian federal worker, name withheld, lost her job for lying about her resume in five different applications for various jobs in public service.⁶ A recent report by the Society for Human Resource Management found that an astounding **78% of job applicants have misleading resumes**. Of those, **21% state fraudulent degrees and 40% include inflated salary claims**.⁷

One study found that job candidates frequently give misleading information on their resumes about the length of stay with a former organization, job titles, job responsibilities and university credentials. The misinformation is not limited to resumes. HR.com found that **34% of all application forms contain outright lies about experience, education and the ability to perform essential functions of the job**.⁶


A best practice for employers and recruiters is to institute a consistent program of employment verifications and reference checks on all candidates, no matter how big or small the job role.

2. Criminal Records and Behavioural Problems

Past bad behaviour of job candidates is another serious concern. Recruiters and employers must take extra steps to obtain all pertinent information from candidates.

Unfortunately, this is not always the case. A 2012 survey by the Society for Human Resource Management found that **14% of companies don't perform criminal background checks on potential employees, up from 7% in 2010**.⁸

Workplace violence is also a very real concern. According to the Bureau of Labor Statistics, each year nearly two million American workers report being victims of workplace violence. Workplace violence entails everything from bullying and intimidation to assault and other crimes.



"A best practice for employers and recruiters is to institute a consistent program of employment verifications and reference checks on all candidates, no matter how big or small the job role."

There are about **350,000 cases of workplace violence each year in Canada. Nearly 20% of these incidents including physical assault, sexual assault or robbery**, occurred in the victim's workplace.⁹

Workplace bullying is also a growing concern with **40% of workers reporting that they have been bullied by their colleagues**. While the physical effects may not be immediately obvious, the underlying stress, depression and anxiety caused by workplace bullying can lead to serious and long-term health problems. All of these could have serious legal repercussions as well as damage to an organization's brand, reputation and ability to attract good candidates.

For example, a candidate may omit work experience from his or her resume if employment ended on bad terms or if there is a long time between jobs due to a variety of reasons.



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Bad Hires Can Be a Serious Legal Problem

Recruiting a bad employee can not only inflict damage on a business but also put it on the wrong side of the law. Laws imposing obligations on organizations to conduct the right checks on candidates and employees are becoming more common throughout Canada.

Legislation Impacting Employers

There are a number of areas where the law imposes specific requirements on all employers and recruiters, including the requirements under human rights and privacy laws. Other laws regulate specific sectors to ensure that correct due diligence is carried out.

Bad hiring choices in these key areas can result in expensive litigation, not to mention a tsunami of negative publicity. As we saw during the Great Recession, dishonest workers in the financial sector can rock whole economies.

All this legislation is intended to foster safe workplaces and just societies. Yet it places a huge burden on employers, forcing them to walk a very fine legal line—often with scarce resources. When these requirements are coupled with data protection laws and anti-discrimination laws, employers may sometimes need to navigate a legislative minefield to ensure they remain compliant.



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Why Pre-Employment Screening is a Challenge

Though pre-employment background screening is becoming more common, screening practices and policies still vary widely. Each organization can create their own background screening program depending on their business's needs.

For some businesses, a background check may amount to no more than a simple Internet search or a couple of telephone calls to a previous job and personal references. For others, it may entail everything from validation of education, certifications and work history to criminal record and credit checks.

Resource and Expertise Requirements

Performing thorough pre-employment background screening in-house is costly in both time and resources. This is a challenge for all organizations, but particularly for small and medium-sized businesses.

Pre-employment screening also requires specialized expertise that most recruiters and employers lack. Laws about background checks can differ among provinces, making screening tricky at times, and rarely does everyone know all pre-employment applicable laws or limits of specific data sources.

Background screening entails more than just the actual checks. Employers must also obtain formal documented consent from candidates, as well as manage the process and the documents.

It can all add up to a huge resource drain for most organizations.



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The Best Protection is Professional Background Screening

Though inadequate background screening and not performing due diligence poses the greatest threat to employers, outsourced recruiters are not immune to issues either. Bad hires can tarnish recruiters' reputations even if the recruiters have agreed with clients in advance that background screening is a client responsibility.

Yet both recruiters and employers know that it is extremely expensive and time-consuming to perform adequate background screening and manage the end-to-end process with just internal resources.¹²

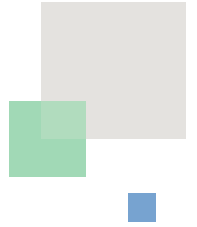
TYPE OF CHECK	TOTALLY OUTSOURCE	PARTIALLY OUTSOURCE
Criminal Background	78%	10%
Credit History	81%	6%
Reference Check	28%	20%

Retaining a professional screening firm offers a number of benefits, including:

1. **Speeds up** the hiring process
2. **Allows for** more knowledgeable screening
3. **Frees up** staff to focus on revenue-generating activities
4. **Promotes compliances** with all applicable federal and provincial laws.



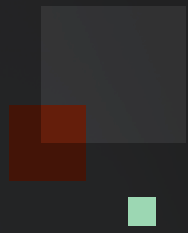
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- 9 **Public Alliance of Canada**





About Us

Sterling Backcheck—Canada’s industry leader in background and identity services—provides a foundation of trust and safety that spans across industries, professions and borders.

Our technology-powered services help organizations create great environments for their workers, partners and clients. Sterling Backcheck is part of Sterling, which has 20 offices in nine countries and conducts more than 100 million searches annually.

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In addition to this report, Sterling regularly publishes cutting-edge research and insight on the latest trends in human resources, talent management and hire processing.

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