



# THE HIDDEN RISKS OF RECRUITMENT:

How to recognise them  
and protect your organisation

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# CONTENTS

SUMMARY .....	3
INTRODUCTION: WHY SCREEN? .....	4
THE COSTS OF ABSENT OR INSUFFICIENT SCREENING .....	4
THE HONESTY GAP .....	5
NEW CASE STUDIES ON PRE-SCREENING FAILURE .....	6
BACKGROUND SCREENING BECOMES BEST PRACTICE .....	8
MEETING THE IMPLEMENTATION CHALLENGE .....	9
KEY CHECKS .....	10
CONCLUSION .....	12

## SUMMARY

“Clearly some of the best fiction being written today is on resumes.”

– US hiring consultant Pierre Mornell, Hiring Smart

The task of hiring new people is presenting an ever-tougher challenge to organisations in Australasia and around the world.

Most employers are well aware of common employment risks such as bullying, discrimination and misrepresentation. But what about hidden risks including fraud, employee theft and even violence?

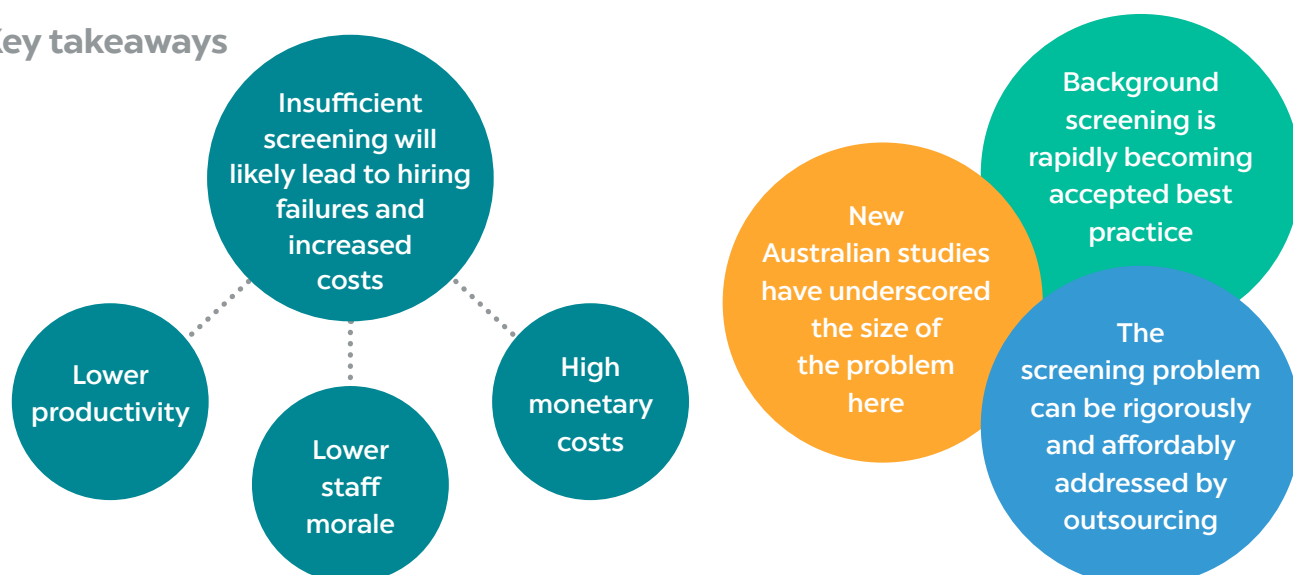
This paper assembles hard facts about this global challenge, including insights from two new Australian assessments. The conclusions from the data are clear. Today’s hiring processes need to improve dramatically.

An important part of that improvement is better background screening processes, to give organisations more confidence that they are getting the best people for their needs. Current processes are rushed, and frequently omit the most important checks.

“By rushing through the hiring process, employers may not be collecting all the information needed on a candidate,” says Craig Sharp, Legal Counsel at CVCheck. “Bad hiring decisions are costly, as research and statistics prove. But employers can affordably and easily screen and test potential employees early in the recruitment process, ultimately saving time and money.”

As this paper demonstrates, by conducting thorough due diligence on all candidates, employers mitigate the ‘undercover’ risks of the recruitment process and in doing so, ultimately save time, money, and reputation, and limit their exposure to litigation.

### Key takeaways



## INTRODUCTION

### Why screen?

Hiring presents many organisations with one of their biggest challenges. A study tracking 20,000 new hires at one consultancy found that 46 per cent failed within 18 months.

In the face of such statistics, background screening is increasingly being acknowledged as a vital part of the effort to recognise, manage and mitigate risk during and after the hiring process.

### The costs of absent or insufficient screening

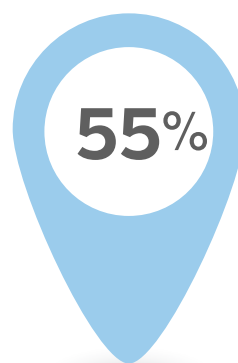
Surveys, real-world incidents and reports from human resources (HR) professionals all confirm that most organisations have multiple gaps in their background screening processes.

Gaps and failures in the screening process leave organisations at risk of being staffed with unproductive or unreliable personnel. Such employees hobble organisational performance because they:

- Complete less work, at lower quality.
- Need additional support from colleagues at all levels.
- Alienate clients, who may then take their business elsewhere.

Additionally, these gaps open up organisations to:

- Reduced internal morale and loss of reputation and trust within the organisation and externally.
- Litigation for breach of duty of care.



**Proportion of Australian hiring managers who say lower productivity is the biggest cost of poor hiring choices.**

Finally, when an underperforming or unqualified staff member is eventually removed, repetition of the hiring process incurs additional hiring costs for the organisation. The more senior the staffer, the greater the cost of a hiring error. For a senior manager, this cost can be up to 400 per cent of the employee's annual salary.

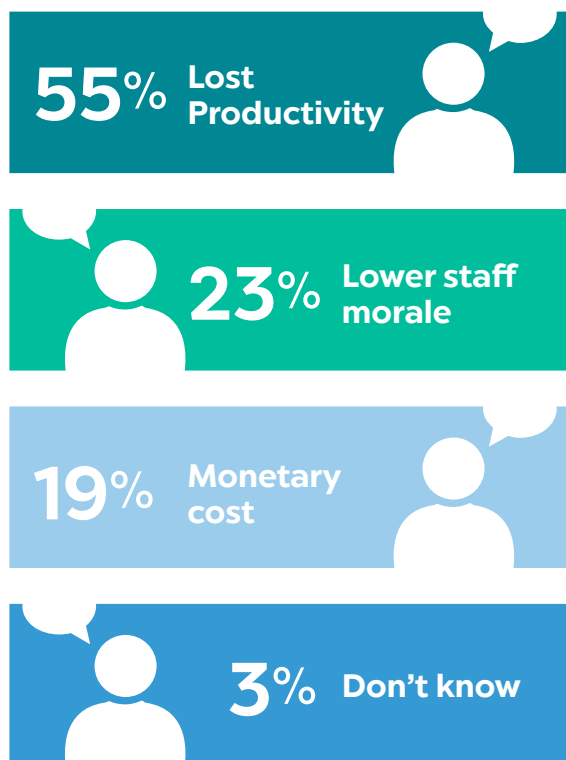
Potentially even more costly is the havoc a bad hire can wreak on an organisation's reputation. Often, embarrassing publicity – such as the examples following – reflects directly on the HR team itself. Running background checks on everyone who will be associated with your company ensures you're hiring those who'll uphold the brand and reputation of your business.

## THE HONESTY GAP

Available research indicates that in many industries, half or more of all resumes contain some fraudulent element. A late 2016 research study showed that more than 70 per cent of job candidates were prepared to lie to potential employers, and many are using deceptive methods such as bogus referees. Of those surveyed, 56 per cent of candidates admit to choosing favourable referees, rather than the most appropriate. Meanwhile, 51 per cent of candidates admit to encouraging a referee to lie on their behalf.

### Impacts of poor hiring choices

Australian HR managers were asked: “Which one of the following, in your opinion, is the single greatest impact of a bad hiring decision?”



Source: Independent survey of 100 Australian HR managers commissioned by consulting firm Robert Half.



## NEW CASE STUDIES ON PRE-SCREENING FAILURE

Few rigorous programs have been carried out to identify pre-screening failures systematically across multiple organisations. However, two important studies have been conducted recently across organisations in the Australian public sector, one in Victoria and the other in WA.

Their reporting suggests a substantial gap between expectations and actual practice in government screening processes.

### **STUDY 1: The Victorian Ombudsman on pre-employment screening in government**

Reporting on issues in employment across the Victorian public sector, the Ombudsman noted that “inadequate pre-employment screening” was a recurring theme. Managers had not ensured that previous employers were contacted, and in some cases had not performed checks required by law.

“In many investigations it became apparent, from the public officer’s background, employment history and the manner in which they were engaged, that the officer concerned should never have been employed in a government agency...

“Employment... should not be based solely on the skills and experience of individuals but must also take into account the character and past behaviour of prospective employees.”

**– From Report on Issues in Public Sector Employment, Victorian Ombudsman**

Screening is usually optional in the private sector – unlike government agencies where screening is mandatory. We would therefore expect that private sector performance is similar to, or worse than, the performance of public sector agencies.

7  
10

Number of agencies rated 'poor' for screening of new employees in the WA Auditor General's study.

### **STUDY 2: The WA Auditor General on employee screening**

The WA Auditor General carried out an investigation into whether government agencies had implemented suitable policies, procedures and controls for screening employees. All 10 agencies examined needed to improve their practices.

“We found many instances where the identity, qualifications, right to work in Australia and criminal backgrounds were not checked with the risk that inappropriate or unqualified staff are employed.

“In [7 out of 10] instances, there was no monitoring of staff for changes in their circumstances. Consequently, these agencies would be unaware if their staff were, subsequent to employment, convicted of an offence which may represent a risk.”

**– From Verifying Employee Identity and Credentials, WA Auditor General**



### STUDY 3: *The First Advantage Asia Pacific Employment Screening Report 2016*

*The Asia Pacific Employment Screening Report 2016*, which studied two million checks between January and December 2015, found that 25 per cent of all candidate screening results in Australia and New Zealand contained some form of discrepancy. Employment discrepancies are the most common at 65 per cent, followed by education (20 per cent) and database, where inconsistencies in a candidate's personal and professional information are found by cross referencing different databases (10 per cent). Education discrepancies saw a steady rise to 20 percent of all discrepancies found.

In regards to employee screening, the report states: "Workplace misconduct has shown a disturbingly sharp increase as employees and dubious business partners commit not only employment fraud but even violence in the workplace.

"The dangerous threat posed by the rise of workplace misconduct has become prominent to foreign companies as well as large domestic corporations. Security management and background screening is now being handled holistically so as to ensure safety in the organisation and society as a whole.

"Contingent background screening is also being taken more seriously as employers place greater emphasis on integrity screening in a bid to create a safer, more secure work environment."

#### Discrepancy by types of checks in Australia and New Zealand (%)

\*Data sourced from the First Advantage Asia Pacific Employment Screening Report 2016



## RESUME FRAUD TAKES OFF

The following cases have come to media attention. The vast majority of resume fraud avoids this attention and goes undetected.

- The **Myer** retail chain had to sack its group general manager of strategy and business development days after announcing his appointment; a company he claimed to have worked for saw media reports and made it known they had never employed him. One report said a recruitment agency had presented "several detailed and glowing references from senior executives at the companies he claimed to have worked for."
- A nurse employed by a **Sydney nursing home** deliberately started a fire. The subsequent investigation found his references had not been checked and he had created "a series of disturbing incidents" in his previous employment.
- The **WA Corruption and Crime Commission** had to sack a senior investigator found to have lied about his work history. He had reportedly been interviewed by the head of the commission's security vetting team.
- **The New Zealand Ministry of Transport** discovered that a senior manager had used techniques such as fake invoices to steal more than \$NZ700,000 of taxpayers' money. The ministry had contacted referees but had not detected her previous fraud issues, or performed a criminal record check. A subsequent **EY report** said the ministry needed to set out when and how it should do pre-employment screening.

## BACKGROUND SCREENING BECOMES BEST PRACTICE

Background screening – using information from third parties to help in assessing a hiring choice – is now acknowledged as a necessary element in the hiring process. It minimises the risk of a bad hire and builds confidence that the organisation is hiring the best available talent.

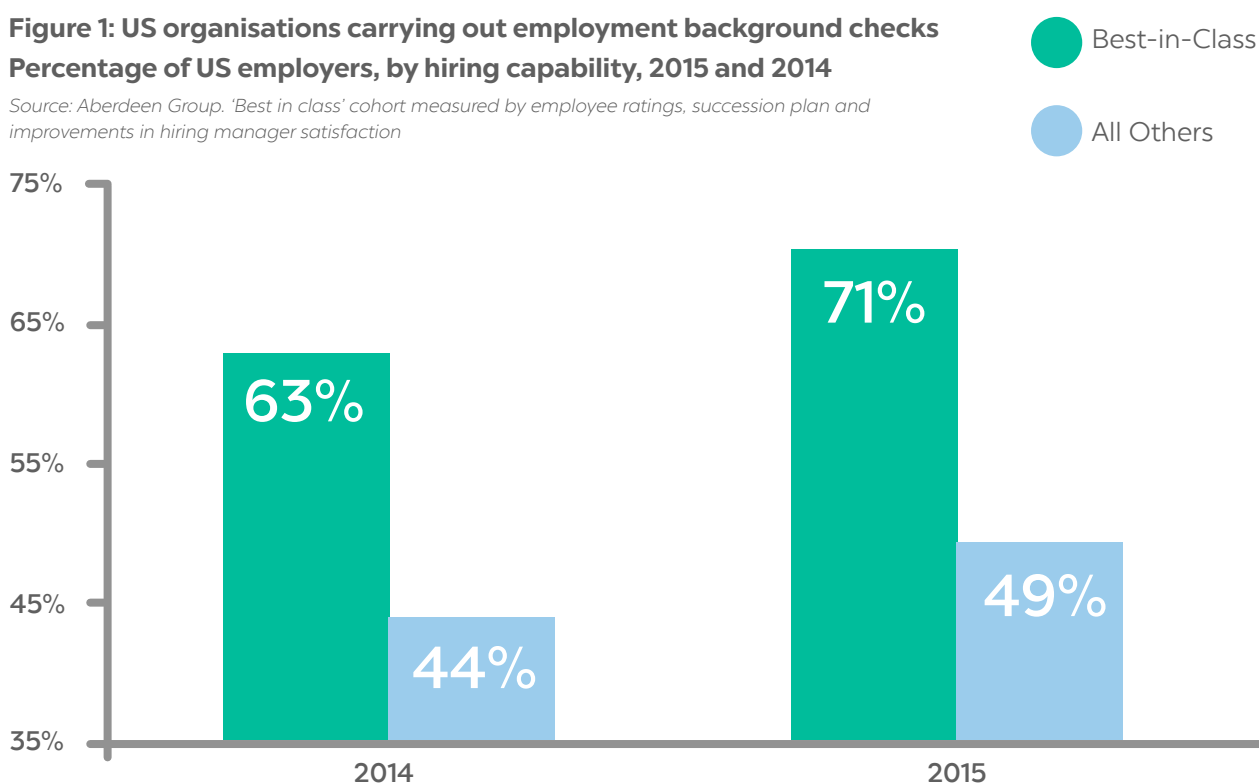
The two Australian government studies described above underline how standards are evolving in Australian markets, and how much work is required to meet those standards.

Similar changes are happening in other markets. A [2017 US survey](#) reported that 96 per cent of employers with their own HR staff conducted one or more types of employment background screening; and 83 per cent screened all their full-time employees.

In an earlier [2015 survey](#) by the Aberdeen Group, [71 per cent of US best-in-class employers](#) conducted a formal and comprehensive background check process, compared to 49 per cent of other employers.

**Figure 1: US organisations carrying out employment background checks**  
**Percentage of US employers, by hiring capability, 2015 and 2014**

*Source: Aberdeen Group. 'Best in class' cohort measured by employee ratings, succession plan and improvements in hiring manager satisfaction*



It is clear from these and other assessments that background screening is moving rapidly towards being standard practice in high-performance organisations.

The next challenge, then, is to ensure the right background screening processes are implemented with rigour and consistency.



# MEETING THE IMPLEMENTATION CHALLENGE

## The HR time crunch

HR professionals are under more time pressures than ever before. Organisational leaders expect them to play a broad strategic role, shaping the organisation by hiring the best possible staff and creating the best possible conditions for those staff to work under. At the same time, few HR departments consider themselves fully resourced.

In such an environment, background screening can be pushed aside or truncated. A [US survey](#) of HR professionals found that while 98 per cent of respondents believed it was very important to their organisations to get accurate results, 62 per cent said the time needed to perform screens was “the most significant challenge” in the process.

## Outsourcing screening

Outsourcing background screening to specialist service providers delivers multiple benefits.

- The expertise offered by specialists means hiring processes can run more rapidly without consuming valuable staff time.
- Increased affordability means outsourced screening now presents less of a financial challenge.
- The best specialists have the historical test data needed for fine-grained assessments in psychometric tests.

Perhaps most importantly, the variety and depth of processes offered by outsourced background screening allow HR professionals to build trust and confidence in the hiring process.

“In [7 out of 10] instances, there was no monitoring of staff for changes in their circumstances. Consequently, these agencies would be unaware if their staff were, subsequent to employment, convicted of an offence which may represent a risk.”

– From *Verifying Employee Identity and Credentials*, WA Auditor General

## KEY CHECKS

### Predictive psychometric assessments

These tests can help an employer quickly and objectively assess candidates' cognitive skills and competencies in particular jobs. There is substantial evidence that test results are much more strongly correlated with actual job performance than unstructured interviews. They are most effective when results are assessed against a large body of other results for a similar role.

Expert testers can improve the effectiveness of their assessments over time by comparing test results for a cohort group to job outcomes, making these checks a strong candidate for outsourcing.

"This is not dating; this is work... You cannot make emotional decisions."

– Priscilla Claman, president, Career Strategies

### Reference checks

These should confirm an individual's work performance and capabilities with references provided directly from the referee in writing. Documents such as letters are insufficient on their own; their source must be verified.

Often, reference checking is deemed a mere formality however, a recent report showed that in 2016, two in three jobseekers had discrepancies on their resumes (incorrect work history details, inaccurate job titles, errors in employment dates, for example). By outsourcing reference checks, diligent HR managers are better poised to detect fraudulent or inappropriate references, and gaps in a candidate's job application.

### Work entitlement checks (visa validity and work entitlement status checks)

These provide verification via the Department of Immigration and Border Protection of an individual's right to work in Australia.

On 18 April, 2017, the Temporary Skill Shortage (TSS) Visa replaced the former 457 (working) Visa in Australia, subjecting businesses that hire foreign employees to stricter regulations and higher penalties for non-compliance.

To protect against liability, business should conduct an internal audit on all existing employees, perform thorough background checks on future employees and commit to regularly checking employees to ensure their visas remain valid.

### Employment and qualification verification

A verification of the candidate's qualifications, memberships and employment claims with confirmed representatives of named organisations. Note that sophisticated document creation tools and services mean that a physical certificate may be fraudulent and is no longer sufficient to verify a qualification or membership.

## Traffic and licence checks

These checks with the relevant government authority will ensure that candidates for positions that need driving skills have a current licence and good driving history.

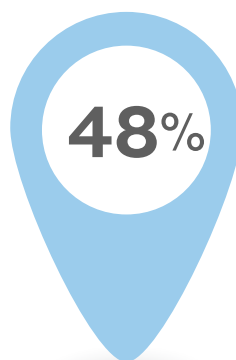
## Credit and bankruptcy checks

These checks will identify conflicts of interest and employment risk factors, particularly for staff placed in positions of responsibility. Note that the Australia's Privacy Act bars employer access to an individual's credit history, but checks can be made for bankruptcies, disqualifications and some unpaid debts.

## Criminal background/police check

Properly conducted by an accredited organisation, these checks will detail all disclosable criminal history entries recorded for an individual in any Australian or New Zealand police agency.

Many of these checks may involve overseas as well as Australian or New Zealand authorities.



**Proportion of employees who had been the subject of criminal background checks in the WA Auditor General's study.**

## Working with children checks

In Australia, it is mandatory for anyone who works or volunteers with children to have a valid Working with Children Check (WWC Check). Currently, each state and territory has its own working with children legislation with certifications valid for a period of time (for example, three-years in Western Australia). During this time of validity, individuals do not have to undergo repeated screening when they change employment. To eliminate the risk of fraud and expose unrelated convictions, WWC Checks should be coupled with regular Police Checks.

In New Zealand, recent legislation changes to the Vulnerable Children's Act 2014 has made the Children's Worker Safety Check a legislative requirement for all new and existing paid employees, contractors, unpaid volunteers, students and trainees working with children in state-funded organisations. For some employees, obtaining the check may mean passing up to seven assessments including:

- Identity Verification Check
- New Zealand Police Vetting Check
- Reference Check (professional or personal)
- Employment Verification Check
- Professional Membership Check
- Interview with the Applicant
- Risk Assessment

In New Zealand, CVCheck was recently appointed the background check provider for the Ministry of Health, Ministry of Social Development and Ministry of Education.

## CONCLUSION

“Pre-hire assessments can provide the influence necessary to ensure that companies hire better candidates.”

– Aberdeen Group, *Pre-Hire Assessments: An Asset for HR in the Age of the Candidate*

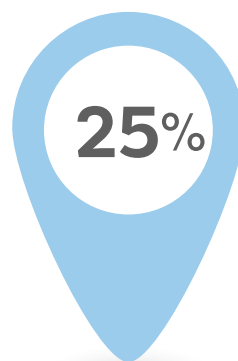
## Convincing organisational leaders

The bottom line is that background checks simply make good business sense.

HR professionals must get buy-in from organisational leadership for a truly rigorous background screening process.

As part of that effort, they can present the data on background screening provided in this paper. The evidence points to the need for Australian and New Zealand HR professionals to step up and include a range of pre-employment checks in the hiring process.

By doing so, they will avoid a range of hidden employment risks and reduce the company's exposure to litigation, protect its hard-earned reputation, and ultimately save time and money.



**25 per cent of all candidate screening results in Australia and New Zealand contained some form of discrepancy.**

## ABOUT CVCHECK

CVCheck reimagined the way people exchange personal and professional information to help employers reduce risk and increase confidence in their hiring process. CVCheck's aim is to help its customers build trust and grow honest relationships.

Established in 2004 and ASX listed, CVCheck now have offices in Australia and New Zealand conducting more than 250,000 screening and verification checks each year for private and government organisations, employers and individuals.

Offering over 1000 online checks across 190 countries, candidate's information can be verified quickly and easily, ensuring employers find the right person for their team. Visit [CVCheck.com](https://www.cvcheck.com)

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