

The Untouchables

Protecting your organisation from leadership risk

About HireRight

HireRight is a leading global provider of candidate and leadership due diligence services.

We carry out background screening of employees and job applicants to help organisations mitigate employee and leadership risk, make informed hiring decisions and meet compliance obligations.

The HireRight family of companies works in more than 200 countries and has offices across the globe, including the UK, USA, and Hong Kong. More than one-third of the Fortune 500 uses the HireRight companies' services.

www.hireright.co.uk

About the report

The Untouchables report is based on detailed interviews with 140 senior HR leaders in regulated and non-regulated UK companies with over 5,000 employees.

The research includes a representative sample of companies in the financial services, IT & technology, oil, gas & energy, pharmaceutical, professional services and retail industries.

Contents

Foreword: trouble at the top	2
Slipping through the net: where leaders are bypassing recruitment best practise	4
Recruitment	
Promotion	
Mergers and acquisitions	
Getting away with murder: why leaders are untouchable	6
Complacency abounds	
It's who you know	
Inconsistency issues	
Leaders less scrutinised	
What lies beneath: the risks of not knowing your leaders	8
Internal vs. external threats	
Leadership vs. employee threats	
The biggest risk	
How are you doing? Industry focus	11
In focus: financial services	
IT & technology: utterly untouchable	
Oil, gas & energy: connections are key	
Pharmaceuticals: scandals lurk	
Professional services: overly trusting	
Retail: most aware	
Conclusion: tackling The Untouchables	16

Foreword: trouble at the top

Steve Girdler, Managing Director EMEA, HireRight

Any organisation looking to recruit a new leader faces an age-old problem: finding someone with the passion and creativity to be inspirational and the experience to make exceptional decisions.

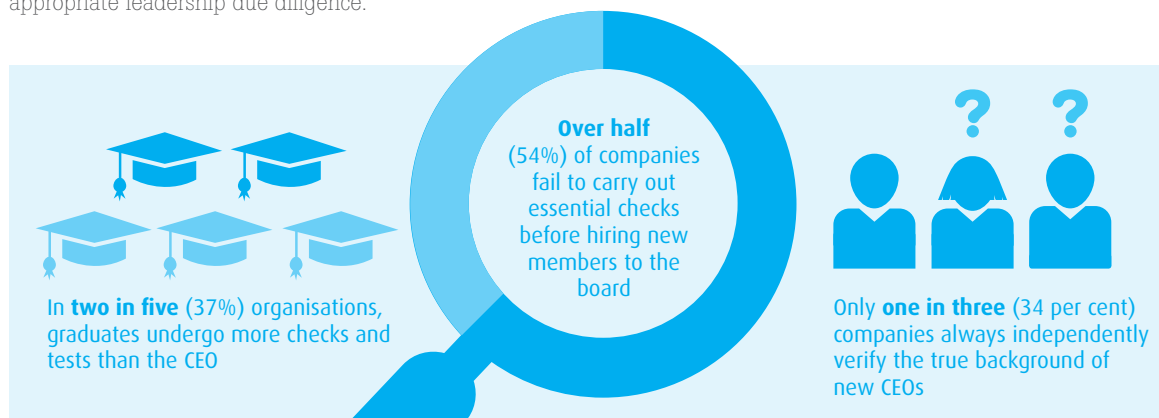
Today, technological advancements have created an additional consideration. This person must be the embodiment of the business every minute of the day. Citizen journalism, social media and the increasing importance of online over traditional media mean that leaders are no longer figureheads only at carefully orchestrated press conferences. An entire organisation's reputation can be damaged with a mobile phone image or an inaccurate CV, followed by the click of a mouse.

With reputation becoming an increasingly significant economic force and necessary differentiator to attract customers and clients, we spoke to 140 HR leaders in the UK's largest organisations to investigate whether they are aware of the risks of failing to carry out appropriate leadership due diligence.

Of course, people at any level in an organisation can cause harm through bad performance, fraud, theft and so on, but it is a wrong step by those at the top which damages shareholder confidence and captures the public and media attention. Almost all the HR professionals we spoke to told us that they are confident that their processes for checking their leaders are up-to-scratch, so it is worrying to find that:

- In two in five (37 per cent) organisations, graduates undergo more checks and tests than the CEO.
- Over half (54 per cent) of companies fail to carry out essential checks before hiring new members to the board.
- Only one in three (34 per cent) companies always independently verify the true background of new CEOs.

2



An entire organisation's reputation can be damaged with a mobile phone image or an inaccurate CV, followed by the click of a mouse

- A third (33 per cent) of HR directors admit their organisation could suffer a reputational scandal because their screening process is inadequate.
- Almost one in three (29 per cent) admit high profile people in their organisation go unchecked because they are 'untouchable'.

This report clearly reveals that UK business leaders are slipping through the net of best practice due diligence, with new board members facing minimal – or indeed no – checks. It then examines why this is happening, the risks that businesses face as a result, and possible solutions.

Many studies have aimed to quantify the importance of strength of leadership and maintaining an excellent reputation. This report assumes that readers understand the impact these factors have on the success of their own organisation and how this differs by industry – banks, for instance, need to be trusted to protect individuals' money and professional service firms must be trusted to offer first-class council.

We have honed in on a number of key industries, including IT & technology, oil, gas & energy, pharmaceuticals, professional services and retail as well as the highly regulated financial services industry. I have no doubt that these findings in particular, will surprise you.

Thank you to the human resources departments who took part in this research for their openness and insights.

I hope that the findings outlined here provide food for thought on how you carry out C-suite appointments in your own organisation.



Almost **one in three** (29%) admit high profile people in their organisation go unchecked because they are 'untouchable'



Slipping through the net: where leaders are bypassing recruitment best practice

Almost all HR directors believe they carry out an adequate amount of due diligence on all their employees (94 per cent), including their new leaders (93 per cent).

Yet as many as a quarter (27 per cent) have hired people that they would not have if they had been properly background screened. And a similar proportion (24 per cent) of UK boards include members who may never in their career have had their qualifications, experience and criminal record checked.

Recruitment

Chief Executives are less likely to have their references checked than other members of the board. A third (31 per cent) of CEO referees are not always contacted, compared to a fifth (19 per cent) for the rest of the board.

Just a third (34 per cent) of organisations independently verify the background of their board members. This is only marginally higher for all-important CEOs (35 per cent).

4

We investigated the different routes through which people can join a board to identify the gaps that clearly exist in UK PLCs' processes.



A **quarter** of companies have hired people that they would not have if they had been properly background screened

94% of HR directors think they have an adequate process for background screening – do they?

Find out more @HireRight
<http://bit.ly/1D0syfs>



Promotion

Companies are even less likely to carry out complete leadership due diligence when promoting current employees to the board – under a third (29 per cent) ensure all of the details on their CV are accurate.

Mergers and acquisitions

In half (49 per cent) of organisations senior leaders that join as a result of a merger or acquisition are not researched beforehand. A third (34 per cent) of HR directors know of a potential scandal that could affect their organisation as a result, leaving the company open to reputational risk.

The most vital checks to carry out on senior leaders

Proportion who believe these checks are very important



Getting away with murder: why leaders are untouchable

Why is due diligence falling by the wayside when it comes to those at the very top of organisations?

Complacency abounds

It's no surprise that checks are often not carried out on leaders when half (49 per cent) of HR directors admit that their management team assumes people applying for senior positions have not lied on their CV or application. Over a quarter (26 per cent) rely instead on 'gut instinct'.

It's who you know

In addition, the 'Old Boys Club' is still rife, with connections winning half (49 per cent) of all high level positions in UK organisations. Many boards (46 per cent) rely on personal recommendations when hiring new members and also pay close attention to industry reputation (52 per cent).

These personal connections may well decrease the chances of the right level of due diligence being carried out because people presume they know more than they do – or feel embarrassed to ask.

6



A **third** of HR directors admit that every time they recruit somebody to the board, they use a different process

Connections win half of senior positions in UK organisations.

Find out more @HireRight
<http://bit.ly/1D0syfs>



Inconsistency issues

Our research reveals that even when checks do take place, they are inconsistent.

A third (31 per cent) of HR directors confess that every time they recruit to the board, they use a different process.

Screening can also be rushed, with a quarter (25 per cent) of companies being put under pressure to fill senior roles quickly.

Leaders less scrutinised

Employees that pose far less of a risk to a company are being put under more scrutiny than figureheads. We found that CEOs go through fewer tests and interviews than graduates in as many as a third (37 per cent) of UK companies.

Certainly graduates should prove that they are the right fit for an organisation, but surely it is significantly more important for appropriate measures to be introduced to ensure leaders are assessed to the highest level?

The cumulative effect of all this is that high profile people become 'untouchable' in many organisations (29 per cent).



Half of HR directors admit that the management team assumes people applying for senior positions have not lied on their CV



Connections win **half** of all high level positions in UK organisations

What lies beneath: the risks of not knowing your leaders

Internal vs. external threats

Just a fifth (16 per cent) of the HR directors we spoke to believe internal issues are their business' biggest threat, fearing external risks such as cyber security and data theft instead. However, almost three quarters (72 per cent) of frauds affecting companies involve an insider¹. Overall fraud is falling but internal fraud continues to rise². In fact, staff fraud rose sharply last year – up 18 per cent compared to the year before³.

Leadership vs. employee threats

HireRight's *Quarterly Candidate Health Check* takes the pulse of how truthful UK jobseekers are currently. The latest data shows that over half (55 per cent) of successful applications contain errors.

In many businesses (49 per cent) it is presumed that someone applying for a leadership position will be more trustworthy and their application and interview will be entirely accurate. But people at all levels are equally capable of lies or embellishment and our research shows a leadership lie has been exposed by screening in one in three (36 per cent) of the UK's largest organisations.

While current levels of due diligence are obviously working in some cases because they are revealing the truth before an appointment is made, a quarter (27 per cent) of HR directors still think that it would be easy for a determined but unqualified candidate to join their senior leadership team.

¹ Kroll (October 2013), Kroll Global Fraud Report 2013-14 – http://www.kroll.com/media/krl_fraudreport2013-14_usletterpress_revised_10182013.pdf

² CIFAS (January 2014) Fraud Trends 2013 – https://www.cifas.org.uk/twentythirteen_fraudtrends

³ CIFAS (January 2014), Insider Fraud in 2013 – https://www.cifas.org.uk/insiderfraudtrends_janfourteen

“ People are a company’s greatest asset as well as a sizeable threat.

You would not buy an asset such as a house without carrying out a survey.

In the same way business leaders need to realise that if they fail to ensure appropriate levels of due diligence are carried out, they risk hiring unqualified or dishonest workers who pose a significant threat to finances, reputation and future commercial success. ”

Steve Girdler,
Managing Director EMEA,
HireRight



It would be easy for a determined but unqualified candidate to join a **quarter** of senior leadership teams



A leadership lie has been exposed by screening in **one in three** UK organisations

“ It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently. ”

Warren Buffet

The biggest risk

In companies where leaders may not be exactly who they claim to be or do not have the appropriate skills and background, what are the risks?

Damage to the reputation of the business is viewed as the biggest issue of not background screening leaders effectively. This is closely followed by leadership that negatively affects business performance, and damage to culture.

Financial concerns – such as fraud, falling share price and a decrease in company profits also make the list of top ten biggest concerns of not screening leaders effectively – a knock on effect of inadequate or damaging leadership.

Our research shows that when it comes to recruiting senior leaders, intangible qualities such as leadership and trustworthiness are the most important issues, and yet these are not being effectively checked for. Media profile, which is clearly imperative in this area, is believed to be one of the least important checks for high profile positions and nearly half of (44 per cent) of companies do not check this before appointing a CEO.

Businesses need to wake up to these issues. As Warren Buffet states “It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently”.

The biggest risks of not screening leaders

Proportion who believe it is very important



How are you doing?

Industry focus

In focus: financial services

Financial service firms are highly regulated so it might be assumed that this industry would perform well when compared to others. In fact, it consistently finishes last. It is clear that businesses in this industry are falling down in two areas in particular.

Merger and acquisition loophole

Firstly, they are allowing risk into their organisation following mergers by not screening new leaders.

- One in three (33 per cent) board members of financial service firms who have been through a merger have not undergone any due diligence at all.
- As a result, a third (33 per cent) of HR directors know of a scandal that could affect their organisation.

Financial services: merger and acquisition loophole



One in three financial service boards include members that have not been screened at M&A

Lack of consistency

Secondly, they are failing to ensure the appropriate amount of screening is being carried out based on the level of risk posed by individuals.

- In almost half (45 per cent) of financial service firms, graduates go through more tests than a new CEO; higher than any other sector.
- A third (31 per cent) use a different process each time a new board member is recruited.
- In fact, one in three HR directors (32 per cent) admit it would be easy for a determined candidate to bypass screening processes entirely – substantially higher than the overall average of 19 per cent.

One of the reasons that financial service firms performed poorly is that HR leaders in this sector appear to be more aware of the importance of due diligence and therefore are most likely to see where their own processes are inadequate.

Financial services: lack of consistency



One in three HR directors (32 per cent) admit it would be easy for a determined candidate to bypass screening processes entirely in the financial services sector

IT & Technology: utterly untouchable

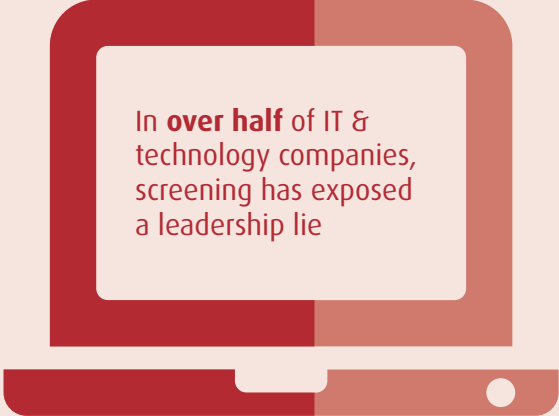
In over half (53 per cent) of IT & technology companies, screening has exposed a leadership lie – which is perhaps why it is the industry in which reputational risk is most likely to be rising up the boardroom agenda.

Yet organisations in this sector are least likely to conduct detailed background screening on senior leaders during a merger or acquisition (70 per cent of firms do not always carry it out compared to a 49 per cent average). It is no surprise then that leaders in this sector are also most likely to become ‘untouchable’ as people are too in awe to check their claims (35 per cent).

There are also signs that technology companies rely too much on their own relationships, with three quarters (76 per cent) being swayed by personal recommendations.

The result is that as many as a third (35 per cent) admit that people have been hired who would not have been if proper due diligence had been conducted.

IT & Technology



In **over half** of IT & technology companies, screening has exposed a leadership lie

Oil, gas & energy: connections are key

The oil, gas & energy industry is overly reliant on unverified personal endorsements.

Three quarters (75 per cent) of high profile positions are won based on connections. This is 50 per cent higher than on average.

Similarly personal recommendations play a significant role in the recruitment process, with half (45 per cent) of companies trusting in these.

This could be why, almost a quarter (23 per cent) of companies do not carry out any checks at all other than contacting referees when recruiting to the board.

Pharmaceuticals: scandals lurk

HR directors in the pharmaceuticals industry are the most likely to believe that their leaders are complacent about the risk from their own people (53 per cent, which is 61 per cent higher than on average).

Perhaps it's not surprising then that almost half (44 per cent) of pharmaceutical companies do not always screen senior leaders following a merger and that consequently a scandal is lurking on over half (56 per cent) of these boards – two-thirds (65 per cent) higher than in other industries.

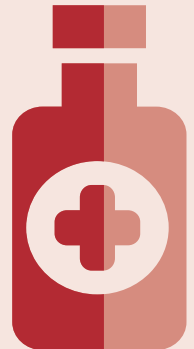
Oil, gas & energy

Three quarters of high profile positions in the oil, gas & energy sector are won based on connections



Pharmaceuticals

There is a scandal lurking on **over half** of pharmaceutical boards who have been through a merger, two thirds higher than in other industries



Professional services: overly trusting

This has been identified as the most trusting industry, with nearly two thirds (59 per cent) of HR directors conceding that the management team simply assumes people being considered for a senior role have not lied about their experience. However, it is time to wake up to the risks of this, as in a third (35 per cent) of professional service companies screening has exposed a person who has lied on their CV in the hopes of gaining a senior role. All HR leaders in this sector think that they have an adequate screening process in place at every single level (100 per cent). However this appears to be somewhat complacent. A quarter (24 per cent) do not even review a job application and contact the referees when hiring new members to the board. Over a third (39 per cent) are aware of a potential leadership scandal as a result of a lack of screening following a merger.

Retail: most aware

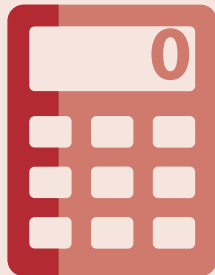
HR directors in the retail industry appear to be the most people-focused: two fifths (40 per cent) believe that their organisation is more at risk from internal people than external issues such as hacking. This is 122 per cent higher than on average.

Possibly due to this awareness, holes in recruitment procedures have been identified by HR departments in this sector: two thirds (60 per cent) realise that they do not have adequate processes throughout their organisation, compared to 45 per cent on average.

Retailers have high levels of temporary seasonal workers and this is where screening levels are falling down. Only half (53 per cent) of temporary employees have undergone any sort of screening – the lowest for any job type in any sector.

Professional services

A quarter of professional service firms do not even review a job application and contact the referees when hiring new members to the board



Retail

Two thirds of retailers do not have adequate processes at all levels



Conclusion: tackling The Untouchables

While there is clearly more to be done to ensure that the UK's largest businesses are hiring and promoting the finest leaders, there are steps that can be taken to lessen your own organisation's risk.

Investigate: have your screening and recruitment policy and processes examined from top to bottom. Find out if you have an auditable, transparent and measurable system in place.

16

Update: ensure your policy is assessed regularly to keep it up-to-date in light of the constantly changing business environment and international laws.

Interrogate: placing any person within your organisation requires great confidence, trust and belief in their ability and intentions, but it is your leaders who are your business and everything it stands for. Look around your boardroom and ask, who exactly are these people? If you are not certain, find out. Have they all undergone the same level of rigorous due diligence? If not, preventable damage could be caused to your business – to its reputation, its operations, its culture and its success.

Quality of leadership is what powers organisations to endure and prosper. These are the people shaping your business now and for the future. Have they become untouchable?



Steve Girdler
Managing Director EMEA
HireRight

“ Look around your boardroom and ask, who exactly are these people? If you are not certain, find out. ”

For help with your candidate and leadership due diligence process, get in touch:



01273 320160



emeasales@hireright.com



@HireRight



uk.linkedin.com/company/hireright

**To receive future reports from HireRight,
please contact Debbie Hatfield:**

dhatfield@hireright.com

www.hireright.co.uk

