

MAKING MORE INFORMED HIRING DECISIONS

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ABSTRACT

Making an accurate hiring decision is extremely important for most employers. The cost associated with making a poor hiring decision from a productivity, customer service, and liability prospective have been widely studied and has been estimated to be three times the annual salary of the individual involved. Also, in recent years numerous studies have reported that applicants for employment have grown increasingly willing to misrepresent their credentials in the application process. This growing phenomenon has further complicated the hiring decision for employers attempting to hire the right individual for a position. The purpose of this paper is to examine the problems created by this increased willingness of job applicants to misrepresent their credentials, and to present policy and practice suggestions that employers can utilize in order to reduce their legal liability and the cost associated with making poor hiring decisions.

COSTS ASSOCIATED WITH MAKING A POOR HIRING DECISION

The cost associated with making a poor hiring decision have been widely studied. A 2004 studied conducted by SHL and the Future foundation concluded that "the hidden cost of selecting the wrong candidate for a position equals an annual sum of \$105 billion in the United States" (BIZCOMMUNITY.com, 2007). This estimate, derived from an analysis of managerial earnings and the time spent managing poor performance only captures part of the cost of making a poor hiring decision. Often the eventual remedy utilized to correct a poor hiring decision is either voluntary or involuntary termination. In those situations, the most obvious costs the firm will incur are those associated with filling the vacated position. Severance payments, cost associated with re-advertising the job, recruitment, assessment, selection process cost, and training a new hire are incurred again and possibly again if the organization repeats the same mistakes it made the first time. Poor hires can also lead to lost production, sales, and customer satisfaction in addition to poor morale as competent and productive employees develop resentment at "being on the same team with losers" (Burke, 2007).

In those situations where involuntary termination occurs, the potential for wrongful discharge allegations is usually greater (Dinse, Knapp & McAndrew, 2006). The potential legal cost associated with wrongful discharge allegations can add up very quickly in today's litigation happy society. With the wide array of protected class status options available to unhappy former employees, the possibility of having to defend an allegation of some type of discrimination and or retaliation is very real. An often cited study by ELT and Littler Mendelson, identified both the hard and soft costs and their average dollar and time amounts incurred by an organization to defend itself against a single claim in the employment law area:

Table 2

Defense Hard Costs

Attorney Fees if the case goes to trial	\$250,000
Attorney Fees if the case settles prior to trial	95,000
Manager time expended in the claim process	40 hours
Employee time expended in the claim process	40 hours
Employee time spent investigating the claim	60 hours
Employee time spent preparing for trial	60 hours
Range of settlement costs or jury awards	\$150,000 to \$250,000

Defense Soft Costs

Impact on the work group in terms of distraction and reduce morale.
 Impact on the cost of insurance if company is covered and experiences losses.
 Impact on stock price and reputation if there is publicity around the claim.
 Potential of copycat lawsuits or other claims due to internal and external publicity.
 Impact on attracting the best employees given potential negative publicity of a claim.
 (ELT and Littler Mendelson, 2002).

One of the more expensive hiring mistakes that a company can make is associated with applicants that lie. If an untruthful applicant is eventually connected to a negligent-hiring lawsuit, "settling or losing such a suit can cost an employer \$1 million or more" (Babcock, 2003).

CHALLENGES TO MAKING MORE INFORMED HIRING DECISIONS

Applicant misrepresentation of academic and work experience is a growing challenge for employers, and numerous studies have been reported in the literature. In one, a 2002 Hiring Index study by ADP's Screening and Selection Services, reported that 40% of individuals' resumes showed discrepancies in employment and education history. In a 2002 Federal Bureau of Investigation (FBI) study they cited, the FBI estimated that approximately 500,000 people falsely claimed to have a college degree (Matejkovic and Matejkovic, 2006). Another study cited by Ron Aumann, estimated that more than one million fraudulent degrees had been purchased in the past decade and that one provider of false degrees had sold more than 200,000 diplomas (Aumann, 2006). Aumann reported on some recent high profile individuals that had been exposed for overstating their academic credentials including David Edmondson, who stepped down as CEO of RadioShack Corporation, Laura Callahan, a senior director in the U.S. Homeland Security Department ousted in 2004, and Sandra Baldwin, of the U.S. Olympic Committee in 2002. An October 12, 2006 Associated Press story reporting on a federal wire and mail fraud case involving an online diploma mill, noted that a White House staff member and national Security Agency employees were among 6,000 individuals who purchased online college degrees from the company. Many of the degrees were sold to foreign residents seeking entry into the United States, raising national security concerns (Associated Press, 2006). The New York Times reported that 14 New York Fire Department employees "had used, or tried to use, bogus diplomas to be promoted or hired" purchased from the same diploma mill currently facing federal wire and mail fraud charges (Buckley, 2007). Another troubling set of statistics reported by Matejkovic and Matejkovic was on a study of college students that reported that 95% of the students in the survey stated that they would lie to get a job and that 41% reported that they had already done so (Matejkovic and Matejkovic, 2006).

POLICY AND PRACTICE ISSUES FOR EMPLOYERS

Whether hiring in health care, child care, or any other service related occupation, employers that are truly interested in making an informed hiring decision, must include a criminal background check as part of the applicant screening process. Socolof and Jordan believe that especially in health care related situations, "criminal background checks are the single most important component of a thorough screening process"(Socolof and Jordan, p. 9, 2006). Their rationale is supported by the widely held view that "prior behavior is often the best indicator for future behavior", and that "criminal records are the first records searched by litigant attorneys and the press after an accusation is made against an employee"(Socolof and Jordan, p. 9, 2006). In conducting criminal background checks, employers must be aware of federal and state laws that govern most background information on applicants and employees. The most important federal regulations in this area are associated with the Fair Credit Reporting Act (FCRA). State laws can vary with none being more imposing for employers than the regulation in California. California statutes include the California Consumer Credit Reporting Agencies Act and the California Investigative Consumer Credit Reporting Agencies Act (Stivarius, 2006). FCRA provisions have been broadly applied to both "consumer reports" and "investigative consumer reports". Employers utilizing third-party background screening companies must be aware that these companies are defined as consumer reporting agencies under FCRA and that the reports they prepare are defined as "consumer reports" (Zeidner, 2006).

Another widely cited effective element in any applicant screening process is the use of a standard application (Babcock, 2003). In developing the application form, employers must remember that these forms are subject to federal and state antidiscrimination laws and that any inquiry must be job-related and nondiscriminatory in nature (Bettac, 2003). Basic information application forms should require applicants to provide is their name and other names they have used, their social security number, address and phone numbers. An employment history section that goes back at least 10 years with addresses and phone numbers of the previous employers should also be obtained (Bettac, 2003). If certain degrees, certifications, or licenses are required applicants should also be required to provide that information as well. The address information will be critical if the employer is to do a criminal record search (Babcock, 2003). Applicants should also be asked if they have ever been convicted of a crime but employers should be cautioned against inquiring about arrest records. The Equal Employment Opportunity Commission (EEOC) has generally viewed arrest records as irrelevant and the potential for utilizing them may cause an adverse impact on protected class individuals in some parts of the country (Twomey, 2005). Finally, applicants should also be required to sign the application forms, attesting to the truthfulness and accuracy of the information provided, and that providing false, inaccurate, or incomplete information may be grounds for being denied employment or dismissed (Babcock, 2003, Bettac, 2003). The application form should also contain the "employment-at-will" disclaimer and, if applicable, that the employer will be requiring a drug test (Bettac, 2003).

Collecting relevant job related information is important in making an accurate hiring decision, but unless the organization is willing to extend resources to verify the information provided by the applicant, making an informed hiring decision will be difficult. Individuals charged with verifying information must be trained to employ objective methods in verifying information. Without physical evidence, spotting lies based on feelings and observation of how individuals respond in interviews is a very risky approach.

An employer attempting to verify information supplied on an application form faces a formidable task if they are not going to outsource the process. Verifying degrees, certificates, and licenses, while potentially much easier utilizing the internet, can still be time consuming and thus expensive. One often cited source for verify degrees is the National Student Clearinghouse at <http://www.studentclearinghouse.org/> (Aumann, 2006).

Organizations looking to avoid the public embarrassment associated with the publicity that often surrounds press coverage when individuals in high places are identified as having bogus degrees, let alone the potential legal fallout, should verify employee and applicant claims in this area.

Other tell-tale signs that experienced evaluators of application form information recommend include looking for time gaps between employment, incomplete information, and failing to sign the application, "which could shield the candidate from being accused of falsification, or not consenting to background screening" (Babcock, p. 52, 2003).

SUMMARY AND CONCLUSIONS

Employers looking to hire and promote the most qualified applicants though, should remember the downside cost of not making every necessary effort to make more informed hiring decisions. While press releases would seem to support the idea that the biggest downside costs are associated with negligent hiring, employers should also calculate the "hidden cost" of selecting the wrong candidate for a position identified in the SHL and the Future Foundation study and the "soft cost" detailed in the ELT and Littler Mendelson study. It would appear that the propensity of applicants to lie when applying for both entry level and upper level positions in all kinds of organizations is a rampant and growing problem in our society. This cultural phenomenon will require employers intent on making informed hiring decisions to allocate even more resources in the future to make more informed hiring decisions.

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