

The Value in Conducting Thorough Background Checks on Executives

Ed. Note-today we have a guest post by Scott Lane, President of the Red Flag Group.

Internet giant Yahoo! has now been forced to undertake another extensive search for a Chief Executive Officer to help salvage its underperforming business. Today it was announced that Scott Thompson would be stepping down from his recently appointed position at the company in the wake of allegations surrounding the accuracy of his education record. The scenario that Yahoo! is now in serves as a reminder to organisations of the importance of conducting thorough background checks on new senior executive appointments as a means of avoiding potential shareholder disputes and detrimental publicity.

Not long after Scott Thompson was appointed CEO of *Yahoo!* in January 2012, rumours began circulating about the authenticity his academic credentials as detailed on his CV. Mr Thompson's CV listed an accounting and computer science degree from Stonehill College in the United States. Daniel Loeb, the boss of the hedge fund *Third Point* who own 5.8% of *Yahoo!*, claimed that Mr Thompson had not in fact graduated with a degree in computer science. The discrepancy in Mr Thompson's record was deemed to be the result of an "inadvertent error" by *Yahoo!*. Mr Loeb initiated a number of inquiries on behalf of other shareholders as to how *Yahoo!*'s vetting process had not picked up that Mr Thompson never graduated with a degree in computer science.

This case divided opinion as to the seriousness of Mr Thompson's misrepresentation, particularly as his performances in previous roles had earned him considerable acclaim. However, *Yahoo!* had exposed themselves to potential litigation by using Mr Thompson's degree information on regulatory filings, and the ongoing discussions about his background continued to be a distraction from becoming established in his new role. So much so that the decision has been made that Mr Thompson is to step down as CEO. Not only will *Yahoo!* now have to undertake another expensive and time consuming search for his replacement, his departure also comes at the expense of other existing directors who were responsible for his employment. More so, over the past number of weeks *Yahoo!* has been the focus of considerable media attention for all the wrong reasons, and its board's reputation to make decisions in the best interests of all stakeholders tarnished.

This is certainly not the first time a company has suffered the indignity of having to replace senior executives. Last year the chief executive of InterContinental Hotels Group's Asia-Pacific operations, Patrick Imardelli, resigned after it was discovered that he had misrepresented his academic record on his CV.

This issue could have been addressed if companies:

- Conducting a detailed background check to ascertain the overall accuracy of an individual's CV including all previous work and study credentials

- Detailed research into the person's profile in International media in each of the markets where they have lived, carried on business or managed people
- Interviews with other colleagues, business associates, and previous employers to address the overall integrity of the person in all markets in which they have worked
- Interviews with the person to assess their understanding of compliance and legal risks, their approach to ethical and integrity issues and their answers to a series of hypothetical corporate situations posing ethical challenges and testing their responses along the way
- The conducting of psychometric testing based on integrity issues to assess independently the responses to certain situations

Background screening and integrity assessments should be an essential part of the hiring and promoting process. This is important with all new employees, but even more so with those moving into senior positions. The incident involving Mr Thompson will for some time remain a blight against *Yahoo!* in the eyes of some of its shareholders, but they will no doubt adopt screening measures to heavily scrutinise all candidates in the future. Whilst undertaking extensive screening operations can be time consuming and costly, it is not as damaging to an organisation as disharmony amongst shareholders when it is discovered that a recently appointed individual's credentials are false.