



Careers

Investigating The Executives

Penelope Patsuris, 04.21.05, 6:00 PM ET

The search for new CEOs will never be the same. Everything from Dennis Kozlowski to Sarbanes-Oxley has seen to that.

The biggest winners in this brave new and very litigious world: private investigation outfits.

"There's a big trend in doing due diligence on high-level executive job candidates," says James Rowe, vice president of the investigative firm the James Mintz Group. A lifetime ago, Rowe was an investigator for the U.S. Senate Watergate Committee. "And we're also vetting lots of potential board members. This has really boosted our business; it's a real growth area."

Rowe says his firm's bread-and-butter used to be deal-related due diligence work, checking out executives ahead of mergers, acquisitions and partnerships. "Now we do as much work on CEOs and board members as we do on deals." These background checks can cost anywhere from \$2,000 to as much as \$20,000, depending on how extensive they are.

The clients that come to James Mintz are generally the executive search firms such as Spencer Stuart and Heidrick & Struggles. "They talk to colleagues about the person's capabilities," says Rowe, "while we look for a criminal past or financial troubles like bankruptcies or tax liens."

Spencer Stuart partner John Wood says his company now uses outside investigative firms to vet all of its senior-level hires. "That didn't used to be the case," he adds.

And you'd be amazed at what firms such as **James Mintz** and Kroll sometimes turn up. "We find that in 10% to 15% of C-suite searches we see red flags, like fake degrees and criminal filings," says Peter Turecek, a managing director at Kroll's business intelligence and investigations practice. "We came across one guy once with a child-rape conviction, and an executive at an acquisition target company who turned out to have been a bagman in a murder. We also discovered a CFO that stole his neighbor's sod because he couldn't wait to finish his lawn. What's he doing if he can't meet his quarterly numbers?"

Thanks to Sarbanes-Oxley, investigators are also now on the hunt for matters that sound more mundane but are just as critical in picking a new executive. "Now a major focus for us is corporate stewardship," says Rowe. "Were there any securities issues during this person's tenure that would raise issues about their judgment? We look for filings with the Securities and Exchange Commission, OSHA, the Environmental Protection Agency and the Federal Trade Commission, depending on the person. Companies want a much more comprehensive look."

What's more surprising than the skeletons that these investigations turn up is that they've stayed hidden in the first place. That's why the folks at Verified Person, a startup co-founded by former Apple and Pepsi CEO John Sculley, conduct continual screenings of existing employees every few weeks. The New York-based outfit also checks out C-level candidates as well.

"If it's your first offense you generally don't go to jail," says Verified Person CEO Tal Moise. "Only 5% of felons get prison time. Most just get probation or community service. People use vacation or sick days to go to court."

And he says there is no law that says employers must be notified when a staffer runs afoul of the law. "Employers assume that they'd be aware of something like that," says Moise. "But for every 1,000 employees we check, we find one or two felonies or major misdemeanors--like assault and battery or drug possession--in that population."

To be sure, such transgressions are far less common among the executive ranks. "By and large these people are so busy doing their jobs that they don't have much time to get into trouble," says Spencer Stuart's John Wood.

But for those who do, it's now a lot harder to keep their misdeeds under wraps.