



Small Business, Big
Risk – A Look at Why
Small Businesses Must
Engage in Background
Screening

April 27,

2011

This paper will examine current trends within the small to mid-sized business sector as they relate to pre-employment screening practices, and the risks inherent in foregoing proper screening.

Few people question the rationale behind the need for proper pre-employment background screening. Proper screening works to keep your workplace safe, which in turn protects your workforce and your company's assets.

“Safe” does not just refer to physical safety, as proper background screening goes well beyond flagging applicants with prior convictions for violent crime. Screening, when done properly, should weed out prospects that pose a number of risks to your company, including financial and reputational damage. Imagine hiring a bookkeeper, only to discover well after the fact that she was on probation for embezzlement. Or hiring a driver for your bus company who, upon crashing your bus, you discover had a history of DWI and manslaughter. Unfortunately, two business owners in New York don't need to imagine these scenarios, as they are currently experiencing them—and these are two of just hundreds of thousands of examples of companies that could have avoided significant loss and tragedy with simple background checks.

The owners of small businesses, like those that run larger companies, understand the benefits of proper screening. One bad hire can mire a company in costly litigation and expose the business to millions of dollars in risk. However—the argument usually starts—small businesses just do not have the same financial resources to invest in screening as the Fortune 1000. At a time when every dollar spent in a small business needs to be accounted for, those that screen potential new-hires are often left with few choices. The cost-effective screening products available to smaller firms are often Web-based databases that are outdated, inaccurate and not FCRA compliant. So instead of spending money on inaccuracy, small businesses have been left to handle screening in-house, which requires a large investment of time and resources. From making phone calls to checking past employment and verifying education credentials, to learning the state laws and making sure all of the correct forms needed for employment are used and signed – it is a daunting task. Many small business owners, in the face of limited personnel and funds, have been left to rationalize that because they vet and handpick new hires personally, their risk is limited; after all, they have a gut for these things.

If gut was enough, it is unlikely that the more than 80% of companies who conduct some form of background screening would invest in the resources to do so. This number is driven by fear of negligent hiring lawsuits, the need to comply with state and federal mandates, and the high cost associated with employee turnover. The goal, typically, of this 80% of companies, is to find solid, trustworthy employees who are looking to stay with a firm for an extended period of time.

Achieving this goal has become significantly more difficult in the past few years, as the economic downturn has led to an increase in applicant misrepresentation in a desperate attempt to find and secure employment. For those small businesses that bypassed the screening process, 51% of which hired new workers in 2010 according to a recent [Gallup Poll](#), the future may be ripe with surprises that simple background screening could have prevented.

A recent case in upstate New York highlights the need for small businesses to take screening as seriously as the Fortune 1000. While on probation for embezzling funds from a former employer, a woman secured new employment and ultimately committed the same crime against her new employer. Her first scheme, which was discovered only because she went on vacation and bounced checks, led the bank to call the company's owner in her absence, and cost her employer over \$300,000. The woman in question was charged with grand larceny, but was only sentenced to weekends in prison and probation, leaving her free to find another job during the week. Her next employer failed to conduct the proper

screening—which ultimately cost his architectural firm more than \$50,000 before she was caught and sent to jail.

This is one of hundreds of thousands of examples of small businesses being harmed by fraud in the workplace. Approximately one third of all business failures are due to fraud-related losses. According to a 2008 [Association of Certified Fraud Examiners](#), the median loss caused by the occupational frauds in the study was \$175,000—more than one quarter of the frauds involved losses of at least \$1 million.

The risk to small businesses choosing to forego screening is not limited to financial scenarios, however. Not conducting pre-employment screening can lead to physical harm, as well. Look at the case in New York that grabbed headlines in March, 2011. After a tragic bus accident that killed 15 and injured more, it was discovered that the driver not only had a criminal background with convictions for manslaughter and grand larceny, but he also had a lengthy history of traffic violations. How then, was he in a position where he was responsible for the lives of others? Simple—no one checked his background, and he never told his employers about the darker areas of his past.

In both of these examples, and in thousands more, where misfortune caused by the failure to screen employees befell a company, there is another form of damage done as well. Reputational damage. Everyone has heard about the small business owner who got bilked for \$300,000—what a fool. And the even bigger fool? The one who hired that bilker after the fact! And who now will book a tour or ride on a bus from the company that hires murderers? The damage that these instances and others like it do to a company can be detrimental and unfixable—and could be avoided with little effort and minimal investment.

So, imagine that you've decided you need to screen your potential new hires. As a small business owner looking for an affordable, accurate screening solution, what factors should be considered when choosing a screening service? To begin, price should not be a deciding factor. The experience of the company backing the screening is critical, as is that the report is FCRA compliant. These two points will ultimately lead to a report that is more accurate than the lowest-priced, fly-by-night options available online. In addition, look for a service that is flexible with your needs—instead of long term contracts that require a minimum number of searches, partner with a service that allows you to pay as needed. Small businesses may only be hiring once every six months, and only one employee per hiring cycle. To accommodate for that, products that are geared toward small businesses should not charge monthly or retainer fees.

A leader in background screening, CARCO Group, Inc., recently released a new product tailored for small and mid-sized businesses. [CheckToHireSM](#) was developed specifically to help small and mid-sized business owners ensure that the employees they hire are trustworthy, honest and unlikely to cause harm to the businesses' reputations and assets. CheckToHireSM, a pay-as-you-go service, offers solutions tailored to the needs of each individual business. With CheckToHireSM, there are no “cookie cutter” approaches, as with most of the “\$9.99 Instant Results” background screening products found on the Internet. Instead, backed by the information power of CARCO, a NAPBS-accredited company, CheckToHireSM provides clients an automated online portal, available 24/7.

CARCO, a background screening and HR workflow solutions provider for 30+ years, lists many of the Fortune 1000 as clients. Their experience and accuracy in screening is unquestioned, which makes the unveiling of a product tailored for small to mid-sized businesses even more exciting. Never before has

peace of mind been so attainable for smaller companies, and now, it is available 24/7. To learn more and experience peace of mind for just a small investment, visit www.checktohire.com.