

# The ROI of Background Screening: Avoiding Costly Mistakes

According to an article published in HR Management magazine, “The ROI of Background Screening,” the annual return on investment (ROI) for background and reference checking can be a whopping 900 percent! How can that be?

To arrive to this figure, the authors calculated all the various ways that lax screening and checking techniques can cost firms money—from employee turnover to occupational fraud. We were curious, ourselves, so we gathered information, not only from the article but also other sources. Here’s what we found out:

■ **Replacement Costs:** Replacing a lost hire costs firms between 25 percent (per the Employment Policy Foundation) and 150 percent (per the Saratoga Institute) of salary and benefits, based upon the skill level and position of the employee. In his book, “Topgrading,” Dr. Bradford Smart postulates that the replacement cost for a senior executive can be as high as 2,400 percent.

■ **Negligent Hiring:** Employers lose more than 70 percent of negligent hiring cases, and the average settlement is more than \$1.6 million.

■ **Drug and Alcohol Use:** The National Council on Alcoholism and Drug Dependency reports that 35 percent of employees who are hospitalized for work-related injuries are problem drinkers.

■ **Employee Theft or Fraud:** The United States Department of Commerce reports that 30 percent of all business failures result from theft or embezzlement. A study by the University of Cincinnati found that 64 percent of small businesses report employee theft, with the average amount stolen being \$20,000.

A comprehensive drug screen, background and reference check should cost no more than \$500. Therefore, the real question has to be, “Can an employer afford not to perform background and reference checks, as well as drug screens, on employment candidates?” As the old adage goes, “It’s always better to be safe than sorry.”



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