

Beating the Odds: Does Stacking Integrity Testing with Background Checks of Mississippi Casino
Employees Decrease Casino Internal Theft?

A Research Proposal

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Introduction

The Department of Commerce statistics indicate that national costs associated with staff theft and fraud tops \$40 billion per year (Cunningham & Ash, 1988, p. 54). The latest U.S. Bureau of Labor (2009) reveals a nationwide unemployment at 9.4 percent. Consequently, in this period of economic recession, it is conceivable that employment pools will be flooded with new applicants, both honest and dishonest.

In Mississippi, casinos generated \$312,123,981.27 in tax revenue for the fiscal year 2008 (Mississippi Gaming Commission Online Revenue Report, 2009). Because casinos cater to patrons who take chances, the industry may potentially attract employees of similar behavior patterns and mindset. In the September 2008 issue of *The Catwalk*, World Game Protection organizer, Willy Allison, reported that ninety percent of respondents of an online survey, most of whom were surveillance and gaming managers, attributed casino theft to employees instead of patrons (Florence & Allison, 2009). In his follow-up survey in December 2008, seventy-eight percent of the respondents positively affirmed their belief that internal theft within the casino is increasing (Florence & Allison, 2009). Therefore, applying appropriate “filters” to finding honest employees is a task of paramount interest to all casinos.

Research Problem

Currently, in the State of Mississippi, background checks are statutorily required of casino employees (Mississippi Gaming Control Act, 1990, Section J. 1(a-f) (MS Gaming Commission, 2009). However, pre-employment integrity testing of casino employees is not required or commonly practiced at any employment level. According to Mississippi Gaming

Commission's director of enforcement, Rich Randall, internal thefts continue to exist despite background checks (R. Randall, personal communication, June 9, 2009). Due to the confidentiality of the internal thefts reports, the actual number of thefts is not published and therefore, unavailable.

Research Objective

Integrity testing is a pre-employment screening filter that is low cost, simple, quick, and relatively nonintrusive test (Budman, 1993). According to Matthew Budman (1993), pre-employment integrity tests clearly can eliminate bad apples from consideration. The purpose of this study is to determine if the addition of integrity testing to casino employees' background checks would decrease internal theft.

Literature Review

Integrity Testing

What is integrity? Gleaning from literature by Mayer, Davis, and Schoorman (1995), and McFall (1987), Becker references two types of integrity, "personal integrity refer[ring] to one's own personal subjectivism, [and] "moral integrity refer[ring] to someone else's subjectivism" (Becker, 1998, p. 155).). Adding to previous literature, Becker advocates an "objectivist" view of integrity, which separates integrity from related concepts of honesty and conscientiousness (Becker, 1998). While the purpose of this study is not to strictly define integrity, a review of the body of literature on integrity enables one to better understand the varied responses to integrity testing.

Professionals have researched integrity testing over many decades and with significant gains to aid employers in their quest for the honest worker. A review of literature reveals

various approaches to integrity testing. The Personnel Selection Inventory (PSI) is an integrity testing application that was used in a five-year study of a chain of home improvement centers to analyze inventory-shrinkage rates and employee theft terminations. The first three years, employees were not given the PSI and the remaining two years employees were tested and hired based on PSI results (Brown, Jones, Terris, & Steffy, 1987). The PSI-tested employees showed a fifty percent reduction in theft (and other forms of counter-productive behavior) related terminations and the company experienced a two million dollar shrinkage loss over a two-year period (Brown, Jones, Terris, & Steffy, 1987, p. 146-47). However, the study cannot relate the entire shrinkage loss to employee theft (Brown, Jones, Terris, & Steffy, 1987, p. 148). Building on this theory, Jones, Slora, & Boye (1990) overtly tested supermarket employees, where there is widespread employee theft, to examine again the impact of integrity testing on reduction of employee theft. This study reported “statistically significant findings” for reduction of employee theft when pre-employment integrity testing was given (Jones, Slora, & Boye, 1990, p. 277). It should be noted that the authors of these two studies have personal interest in London House, which promotes the PSI. While there are many vendors and versions of integrity testing approaches, Jones, Arnold, and Harris (1990) later introduced the model guidelines for pre-employment testing to promote consistent use of these tests.

Since the positive results of integrity testing were promoted by vendors with vested interest in the success of integrity testing, independent research were conducted to authenticate the results of these studies. Researchers Bergman, Mundt, and Illgen (1990); Moore and Stewart (1989); and Sackett, Burriss, and Callahan (1989) harbor the belief that the use of integrity testing was only advanced as a measure of honesty due to the banning of

polygraph tests enacted by the Employee Polygraph Protection Act of 1988 (Dalton & Metzger, 1993). Merchants Behavior Integrity Test estimates that 20 percent of the one million employees tested annually will fail, while John Jones, the leading authority on integrity testing, states that 35 percent will fail (Budman, 1993, p. 34-35). Widespread acceptance of integrity testing as a valid honesty measurement tool meets many obstacles such as false positives (Martin, 1989; Dalton & Metzger, 1993) and lack of independent research (Congressional report). Among Martin's concerns for false positives, he included speculation that such could be a concern in a tight labor market (Martin, 1989).

Bernardin and Cooke (1993) noted several studies (American Psychological Association, 1991; Inwald, 1990; Logan, Koettel, & Moore, 1986; Sackett, Burris, & Callahan, 1989) exposed the drawbacks of testing potential employees for honesty. Additionally, the U.S. Congress, through the Office of Technology Assessment (OTA), neither approved nor dismissed the validity of integrity testing but noted the praise of such testing comes largely from those with vested interest in the promoting the proliferation of integrity testing in the workplace (Bernardin & Cooke, 1993). The OTA investigation cited by Bernardin and Cooke (1993) further identifies the small sample size as a limitation to the accuracy of the studies. Based on these shortcomings, Bernardin and Cooke (1993) conducted independent research on predictive value of integrity testing using detected theft as the criterion. Their study validated prior research conducted by proponents of integrity testing at a moderate success rate in predicting theft among convenience store employees.

Nathan Luther (2000), studied application of integrity testing beyond the typically tested low-level jobs. He found there may be significance to integrity and job performance in self-

managed work teams to within four to six percent (Luther, 2000). Luther (2000) suggested integrity testing may be a useful tool in selection of high performance work teams.

Background Checks

The literature review suggests that background check has emerged as a highly utilized tool in pre-employment practice. The number of employers requesting pre-employment background checks today is more than twice the number a dozen years ago (Emsellem, 2007). Thorough background checks cost the employer time and money and can involve legal exposure, but they can help ensure a safe and secure workplace (Johnson, 2008).

Background checks have been shaped by evolution of law through the identification of significant or possibly discriminatory limitations. Virgil W. Peterson, former FBI agent and Director of the Chicago Crime Commission, offered suggestions for preventing employee dishonesty in an article entitled *Why Honest People Steal* (Peterson, 1947). According to Peterson (1947), "it is highly essential that the employer possess complete knowledge concerning all persons who are to occupy positions of trust," (p. 101). Accordingly, complete knowledge is garnered from a "comprehensive application blank . . . requir[ing] detailed information regarding the personal history of the applicant and his family, . . . outstanding financial obligation . . . [and] the nature of his associates and information regarding family background" (Peterson, 1947, p.101). Needless to say, today this would be a human resource nightmare considering current employment laws.

Throughout the ensuing decades, federal employment laws and policies benefitting both employer and putative employees have been codified. Eighty percent of large employers in the United States screen their employees, and the driving force behind the growth of the

private screening industry is concern for both national security and public safety (Emsellem, 2007). In 2004, the FBI conducted nearly five million checks specifically for employment and licensing purposes (Emsellem, 2007). Emsellem further testified that “an estimated one in five adults in the United States have a criminal record on file with the states.” Under federal law, states are authorized to investigate applicants in both the public and private sectors and prevent those with criminal backgrounds from working in certain occupations (Emsellem, 2007). The cost of FBI checks can range from \$40 to \$75, in addition to licensing fees (Emsellem, 2007). Extensive investigations involving higher tier employees can reach several thousand dollars, even up to \$100,000 (R. Randall, personal communication, June 9, 2009).

Because of the surge of interest in background checks, employers should be aware of the types of background checks available. “Examinations of credit history, criminal background, motor vehicle records, verification of prior employment and verification of educational credentials” can be included in a background check (Johnson, 2008, p. 14). Often the human resources department or similar office holder will conduct in-house investigations in some of these areas, but if the task is outsourced to a professional firm the Fair Credit Reporting Act (FCRA) must be followed in conjunction with laws of the individual states (Johnson, 2008). Usually the employee candidate is required to provide written authorization in this instance (Johnson, 2008). Credit history reports and criminal records checks are required of applicants for money-handling positions or jobs with high degrees of honesty and are viewed as indicators of financial responsibility (Johnson, 2008). Credit reports are also useful in determining whether the employee would be “vulnerable to accepting bribes or other types of payoffs” (Johnson, 2008, p. 15). Many of the stringent requirements of the FCRA have been

relaxed recently, but the employer is still subject to penalties commensurate with the degree of violation (Steinbach, 2005).

While many employers value the credit report for validating financial responsibility and honesty, the practice is not without detractors. With the current downturn in the U.S. economy, many honest and responsible people have been placed under financial duress. A February 13, 2009 article in USA Today addressed the “mischaracterized data” collected by security consultant Kroll, who claimed 43 percent of applicant checks have credit problems. Amidst the staggering layoffs and job losses, relying on credit reports could preclude “needy and trustworthy people” from finding work (USA Today, 2009, p. 01a). At least five states (Hawaii, Connecticut, New York, Missouri, and Texas) are contemplating limiting or restricting credit checks, and Washington state enacted legislation in 2007 restricting to avoid civil rights violations (USA Today, 2009). Although credit checks are legal, the EEOC may investigate complaints for discrimination involving race, gender, and age when not essential to a hiring decision (USA Today, 2009). A 2007 Freddie Mac study claiming “48% of blacks had ‘bad’ credit records compared with 34% of Hispanics and 27% of whites” has sparked the interest of an EEOC attorney to investigate potential racial discrimination (USA Today, 2009, p. 01a). The lesson to be learned is that the wise will scrutinize credit checks with due care. Employers rely on them to help prevent negligent hiring suits; however, current economic conditions may need to be weighed before rejecting one who may otherwise be a valuable employee.

Criminal reports raise some significant issues and therein, significant problems. Among these issues are resume fraud. The declining economy is a factor in proliferation of resume fraud, according to Keith J. Winstein who wrote in the November 11, 2008 Wall Street Journal

that Marsh & McLennan Cos have found that approximately 20 percent of applicants “exaggerate” educational backgrounds, and is complicated further by “lax vetting at entry-level employers in high-turnover industries” (Winstein, 2008, p. B4). A USA Today article dated March 20, 2008 claims that background checks may not be of much help, and indicates more civil rights concerns. This article focuses on the problems Major League Baseball encountered when conducting background checks on club employees. Union spokesman Lamell McMorris relayed umpire applicants complaints that investigators questioned neighbors about issues such as spousal abuse and KKK membership (USA Today, 2008, p. 10c). Civil rights violations can be avoided if the investigators are well trained and remain within the prescribed investigative parameters. The president of the Leadership Conference on Civil Rights, former ACLU lawyer Wade Henderson, stated “A background investigation shouldn’t be seen as a hunting license” (USA Today, 2008, p. 10c). Another significant problem occurs when an ex-offender applies for work. Many employers will not consider hiring one with a criminal history and employers are within their rights to choose not to hire someone that has a record of damaging person or property (Lam & Harcourt, 2003). But at what point is a record sufficiently stale such that employment is viable? A method of eliminating this type of discrimination is to give consideration to recidivism rates which has been measured in terms of age and type of crime committed (Blumstein & Nakamura, 2009).

The dilemma created by relying on background checks for casino workers is two-pronged—they are necessary as required by law, and they have limitations. Background checking is a highly fragmented industry (Wells, 2008). Contributors to the chain of documenting data include public-record and court researchers which often are the efforts of

legal-research companies, and investigators who rely on the validity of the cumulative background data (Wells, 2008). Error rates are not usually reported, and therefore not tracked, but factual errors do occur (Wells, 2008). Collected data is often sold and the information you buy from a firm could be old data that no one bothers to update (Wells, 2008). When the information is based on invalid, incorrect information carelessly attributed to the wrong individual, an applicant's opportunity to work can be damaged (Wells, 2008). Likewise, an error of omission that permits a criminal to get through can potentially result in harm to the employer's business (Wells, 2008). No national crime database exists, but states have their own, which may not always be reliable (Wells, 2008).

In an effort to improve the quality of background investigations, the National Association of Professional Background Screeners (NAPBS) has developed a six-prong certification and accreditation process that will be instrumental in bringing structure to industry practices (Wells, 2008). Formed in 2003 in the wake of September 11 security concerns and the subsequent mushrooming effect the attack had on increasing the number of investigative firms, the organization hopes to "identify 'gold standard' pre-employment background screening firms that excel in the areas of consumer protection, legal compliance, client education, data quality, verification and business practices" (Wells, 2008, p. 47). With at least a thousand vendors offering this type of service and a \$2-3 billion estimated annual revenue, formalizing industry standards is overdue (Wells, 2008). Others in the investigation industry support regulatory oversight similar to Medical Licensure Boards instead of relying on industry memberships to provide review such as the NAPBS promotes (Wells, 2008). While the industry

professionals work to construct uniform standards, relying solely on background checks to reduce internal theft in casinos may result in a proliferation of theft rates.

Faltermayer stated “[l]ess than half of theft crimes committed are discovered,” (as cited in Cunningham & Ash, 1988, p. 55). Although background checks may not expose criminal conduct, they are necessary due to the litigious nature of our society wherein negligent hiring law suits are often pursued against employers (Lam & Harcourt, 2003). Criminal background checks by the FBI can take several weeks, while the state checks vary in both length of time and costs; some take up to six months to complete (Lipman, 1988).

Hypothesis

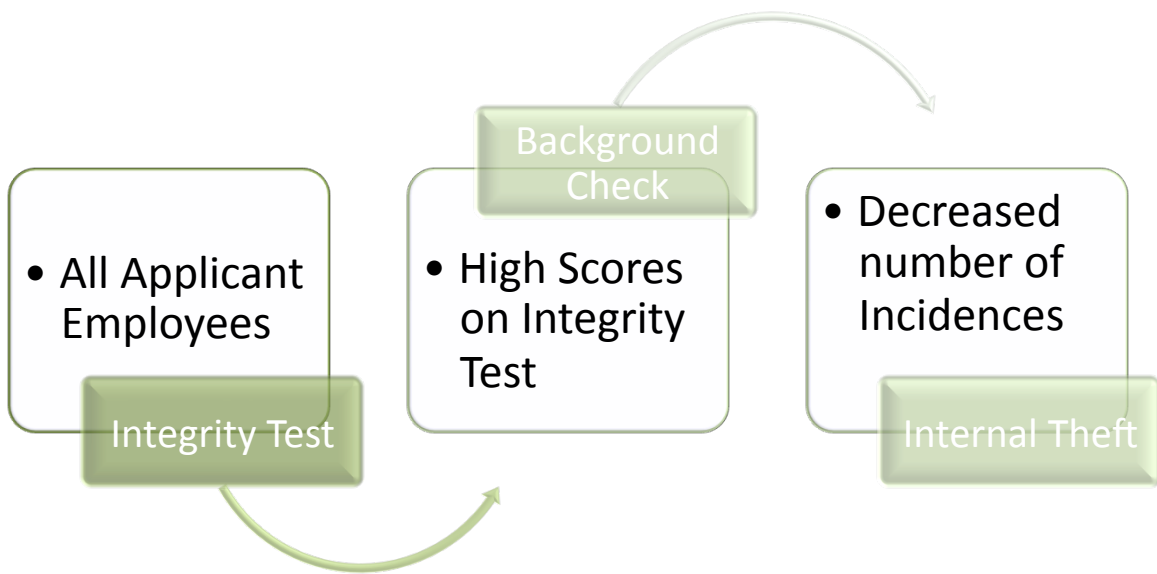
As indicated in the literature review, there are limitations to background checks as a pre-employment filter. Since integrity testing is found to be a relatively low cost and nonintrusive (Budman, 1993) pre-employment filter tool and empirical studies (Bernardin & Cooke, 1993) indicate moderate success of its application to reducing employee theft, this study will apply integrity testing to the pre-employment screening of casino employees in Mississippi. The hypothesis of this study is that the addition of integrity testing to background checks will demonstrate a decrease in internal theft in Mississippi casinos. The results of this study will add to the body of research as to the validity of integrity testing as an effective pre-employment tool to high performance work teams.

Methodology

The study will be based on data collected from the internal theft reports submitted by Mississippi casinos to the MGC and results of integrity testing applied to job applicants participating casinos. The dependent variable is number of internal theft, represented by the

number of internal theft incidences reported to the Mississippi Gaming Commission. The independent variable is integrity testing, with background checks a constant. Integrity testing is represented by the integrity test scores. Background checks are represented by the number of work permits issued. The model predicts that giving all potential employees integrity testing will significantly reduce the pool of employees who undergo background checks. Controls should be established to consider any changes or variations in internal controls in the integrity test casinos. The procedure for administering this test model follows in Diagram 1.

Diagram 1



Data Collection:

The researcher will invite two to three Mississippi casinos in the Mississippi Gulf Coast to participate in this study. Quantitative data will consist of internal theft reports on all employers for a period of two years immediately prior to the date employees are given an

integrity test as submitted to the Mississippi Gaming Commission (MGC) by casino operators. Additional quantitative data consisting of the number of work permits approved for the same time period will be collected, preserving the number of work permits denied during this collection period for future consideration. Finally, quantitative data will include integrity test scores on all new employees (control group) over the immediately following period of two years. At the end of the period, the control group should be analyzed for theft incidences, and compared with the number of theft incidences resulting from those undergoing only background checks.

The test casinos' human resources department will administer integrity testing and provide scores on these employees to the researcher. The MGC will provide the researcher with internal theft reports. Independent Samples T Test will be used to compare the number of internal theft incidences in Mississippi casinos that implement only background checks vs. the control group of Mississippi casinos that implement the combination of integrity testing and backgrounds checks.

Validation

A comparison of theft incidences based on data collected will validate the results. The data compared are the number of theft incidences attributed to the control group with the number of theft incidences attributed to those having only background checks. The theft incidences from each group will be compared for any differences that may result in internal theft due to the addition of integrity testing. Results will be reported and compared with the hypothesis statement for validation.

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