



**HOW TO MANAGE**  
**RISK**  
**IN STAFFING:**  
**AN OWNER'S MANUAL**

# HOW TO MANAGE RISK IN STAFFING:

## AN OWNER'S MANUAL

*Temporary staffing* is a fast moving industry with a particular set of risks, and the degree to which you can understand and manage those risks can be the difference between staying in business and shuttering your doors.

*Risk management* is the term used for the procedures that a staffing business uses to protect itself, its clients, and its workers from risky situations. Most of the risks of staffing fall into these major categories:

1. **Fraud risks**
2. **Credit risks**
3. **Financial risks**
4. **Liability and safety risks**

Over many years helping clients in this industry, we have seen all manner of risks play out. If it can happen in staffing, we have seen it happen! We have entire departments dedicated to managing risk for our clients, and now we want to share that knowledge with you. We will cover each of the different categories of risk and what you can do as a staffing owner to mitigate them.

# RISK #1: FRAUD RISK

**AKA: when people inside or outside your staffing firm steal your hard-earned cash.**

## WHAT IS FRAUD RISK?

Fraud risk refers to temporary employees, in-house employees, or employees at your customer's company that attempt to steal money from your staffing company in various ways. For instance:

- A temporary employee who is inputting fraudulent time or inflating their hours
- An internal bookkeeper with no checks and balances fudging the ledger
- A project manager at your client who tweaks invoices in order to save money



## HOW TO MANAGE FRAUD RISK

Fraud risk can be one of the harder risks to fight against because it is not always obvious. And in many cases, it is people you know that take advantage of you. That said, there are some measures you can put in place to fight fraud:

### Separation of Duties

One of the most important things you can do to fight fraud is to have a separation of duties or a system of checks and balances. One person should not hold too much power, especially when it comes to signing checks or managing invoices.

*Quick Tip: Have two people sign off on checks over a certain dollar amount.*

### Constant Vigilance

It is important to constantly be aware of what is happening when it comes to your business, because it is what you do not know that will hurt you in the end. You do not have to be a financial wizard to check over financial statements each week or month to make sure everything is copacetic.

*Quick Tip: Make it a point to check in on all your partners, both internal and external, at least once a month. Sometimes it can happen that you contract with someone and never check back in, which opens the door to fraud.*

### Frequent Site Visits

One way that staffing firm customers get away with fraudulent behavior is by keeping you in the dark about what is actually going on at their site. For example, an oil field manager operating in a remote area of the country might be able to submit fraudulent invoices to a staffing firm knowing that site visits would be unlikely.

*Quick Tip: If something seems fishy when it comes to one of your clients, trust your gut and go visit them in person.*

# RISK #2: CREDIT RISK

**AKA: when your clients cause you financial losses.**

## WHAT IS CREDIT RISK?

When we refer to credit risk, we are talking about the financial risks related to your customers and their ability to pay you for your services on time or at all. These risks often occur when you do not know or understand the financial strength of your customers. It mostly comes down to this: **is your invoice going to be paid?** Many staffing companies eat bad debt because customers are not strong financially and cannot pay their invoices. In some cases, a large enough hit can put you out of business.

## DEFINING A “GOOD CUSTOMER”

When it comes to managing credit risk, it is all about knowing your potential customers before you sign the contract. In staffing, a “good” customer is hard to define because what is good for one firm may not be for another. In general though, here are some qualities of a good potential customer vs. a riskier potential customer:

### Good Customer

- Has a track record of success
- Has been in business more than a few years
- Has a sizable employee base
- Has financial statements available
- Has available credit information to review

### Riskier Customer

- No track record/bad track record of success
- Unwillingness to share information such as credit facility, financial information
- Lack of digital presence such as no website or no legitimate email address.
- Avoids meeting in person/resistant to site visits

## ASSESSING RISK OF POTENTIAL CUSTOMERS

While a big contract may be tempting, your potential new customer may be a bad employer or have terrible financial strategies that could hurt you in the end. You or a trusted partner should carefully look at a few factors while deciding if a new client is good for business or not:

- Financial documents like bank references and income statements/balance sheets
- Credit check
- Overview of client's business operations
- Specific job descriptions
- Personal protective equipment (PPE) requirements
- Safety requirement

- Potential hazards
- Existing safety manual(s)
- OSHA reports
- Loss runs from at least the last three years

## ASSESSING RISK OF CURRENT CUSTOMERS

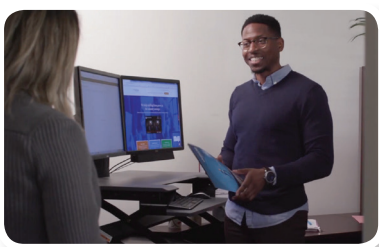
Things can change quickly in business, especially during uncertain economic times or downturns. Here are a few “warning signs” that your current customers might be running into financial trouble:

- ***Going beyond the payment terms on invoices.*** If your customer typically pays on time but starts paying later and later, it might be cause for concern.
- ***Major fluctuations in billings.*** Fluctuations are normal in a cyclical business like staffing, but major fluctuations could be a sign of a struggling business.
- ***Sudden changes in payment habits.*** Two things to look out for are changes in 1) frequency of payment and 2) type of payment. Going from check to ACH/wire is not bad, but the other way around could be a bad sign.
- ***Communication goes radio silent.*** If your customer stops responding to your attempts to communicate, that could be a sign that they are in trouble.
- ***Kicking invoice issues down the road.*** If your customer keeps saying they will “pay you next week” indefinitely, that is not good. Be specific when you follow up – ask for a check number and due date and ask when it will be resolved.

## HOW CAN A THIRD PARTY HELP?

A third party that helps with credit monitoring or research can assist you with the following:

- ***Monitoring accounts receivables (A/R)***  
A good credit team will help you watch invoices that go beyond payment terms closely and run aging reports.
- ***Collecting invoices***  
Collection is a tricky business, but it does not have to be “pay me now or else!” A trained team can help get your money while not alienating customers as well as sending them reminders that their account is coming due to help them get ahead of it.
- ***Doing credit research***  
A credit research team can help you know who you are doing business with by assessing potential customers through a variety of public and private credit databases. They can also run Dun & Bradstreet reports to give you a financial snapshot of any potential customer.



**Note:** If you work with us, we will take a deep dive in to the credit history of each of your potential customers to help you decide whether it is worth it to pursue business. Our online credit application system also makes it easy to get quick credit decisions for customers that meet certain criteria.

# RISK #3: FINANCIAL RISK

**AKA: mismanagement of money**

## WHAT IS FINANCIAL RISK?

Financial risk refers to the risks you take by not properly managing your staffing business. This can include not properly tracking expenses, taking bad contracts, waiting too long to be paid, settling on bill rates that do not make you any money, etc.

Sometimes these risks are calculated, and other times it is a matter of just not having the financial expertise needed to manage them properly. It could be that your strengths are in sales or operations but not in managing finances. If that is the case, consider getting an outside CPA, CFO, or bookkeeper to do it for you.

## TYPES OF FINANCIAL RISKS

- ***Out of Control Expenses***  
If you do not monitor your expenses carefully, they can quickly add up and eat in to your profit.
- ***Fluctuating Payroll***  
Covering payroll for temporary workers weekly or biweekly can be one of the biggest challenges a staffing firm faces, especially if they face a surge in volume.
- ***Stalled Cash Flow***  
Cash flow can be a major issue for staffing firms, which must pay temporary employees and vendors weekly while waiting 30, 60, 90 or even 120 days for client payment.
- ***Temporary Employee Bad Performance***  
If your temporary employee fails to show up for a job or does a poor job, you can lose credibility with clients and that can hurt your bottom line.
- ***Outstanding Invoices***  
If your customer is not paying on time, that is a huge issue considering you have to keep the lights on and your employees paid.



# HOW TO MANAGE FINANCIAL RISK

1

## *Keep tight control on expenses.*

Put policies in place for travel, rent, office furniture, purchasing and more.

2

## *Consider outside financing.*

In a negative cash flow industry like staffing, there are a couple of options available for cash flow. You should examine the variety of financing options available to find one tailored to your firm's needs and business structure.

- a. *Payroll funding:* selling your outstanding receivables for cash is one option to help ensure you have enough money on hand to cover everything.
- b. *Bank financing:* If you qualify, getting a bank loan can help cover expenses but may limit the amount you can borrow.

3

## *Set up your bill rates carefully.*

Don't take a bad contract expecting that the volume will make up the difference – this almost never works.

4

## *Establish solid payment terms.*

Establishing clear and rock-solid payment terms is one way of managing this risk.

5

## *Outsource non-core competencies.*

If financials are not your thing, get a third party to help.

6

## *Thoroughly screen employees.*

Do the full gamut of drug testing, background checks and prior work history in order to find reliable employees.



# RISK #4: LIABILITY & SAFETY RISKS

AKA: when your employees get hurt

## WHAT ARE SAFETY RISKS?

Temporary staffing agencies face unique risks and exposures due to the fluidity of their workforce and their lack of control at the client facilities. The fact that in most cases the agency assumes liability for the actions of its off-site employees only compounds the challenge.

As tempting as it may be to grow your business as rapidly as possible, it may prove more profitable in the long term to refuse potential clients who engage in hazardous work or have a checkered safety record. Often, the short-term influx of revenue does not make up for increased insurance premiums or the elevated threat of a lawsuit.



## WHAT ARE LIABILITY RISKS?

Liability risks are what your staffing firm could get sued for by your internal employees, temporary employees, or clients. Here are a few examples of those risks:

- **Insurance risks**  
When you own a staffing firm, there are several types of insurance that you must have. If you fail to meet insurance policy requirements, you are leaving yourself vulnerable to lawsuits as well as penalties and fines from state regulators.
- **Misrepresentation**  
If an employee misrepresents his or her credentials or makes errors that cost the client money, your agency could be held liable. Background checks are key.
- **Hostile work environment**  
A temp who alleges a hostile work environment could sue both the company and the staffing agency. And, if the agency isn't paying a fair wage, the company could be the target of a lawsuit.



## HOW TO MANAGE LIABILITY AND SAFETY RISKS

### *Thoroughly screen all potential employees during the hiring process.*

Although background checks do present some costs, they are an invaluable risk management tool and, overall, the benefit they offer generally outweighs the upfront costs.

### *Help sick or injured employees return to work.*

If an employee is injured on the job and is unable to continue in their current role, try to place the worker with another client who can accommodate the employee's work restrictions.

Return to work programs have been shown to reduce employee turnover and lower workers' compensation costs.

### *General safety training.*

Although there is little your agency can do to prevent occupational accidents and injuries once an employee is placed at an off-site location, you can start with general safety training for all temporary employees.

### *Frequent site visits.*

Make sure you are aware of the conditions at the clients site, particularly in industries that require a lot of physical activity like Light Industrial.

### *Good communication.*

Even if day-to-day employee supervision is your client's responsibility, you should maintain periodic communication with your employees to ensure that small issues are addressed before they escalate and that clients are following the safety guidelines outlined in their safety manuals, including providing workers with the proper equipment.

### *Safety suggestions.*

If you work with other similar clients, make safety suggestions. For instance, if you work with Light Industrial clients, you can look at what other companies are doing and make suggestions based on that.

### *Document everything.*

Documentation is key. Contracts and agreements are a legal requirement for business that should protect both the firm and its employees.

## AVOID RISK THROUGH PROPER INSURANCE

In the staffing industry, insurance is vital. Various insurance policies are required for temporary staffing, the most expensive and complex being Worker's Compensation insurance.

### *General Liability*

You'll need this type of coverage to protect yourself from a variety of claims (including, but not limited to bodily injury, property damage and personal injury), that may arise from your business.

### *Property Insurance*

This insurance can protect your business' physical location from a sudden disaster or incident that damages your property such as fire, theft, vandalism and weather events (check for exclusions).

Home-based business insurance is also available if you plan to work out of your home.

### *Errors and Omissions*

This type of insurance protects you if you place an employee who makes a mistake costing your client a lot of money. This may be required by contracts from your customers.

### *Employment Practices Liability*

EPL insurance is a policy intended to cover most employment-related lawsuits that a company will face. The most common are wrongful termination, discrimination, and sexual harassment.

### *Cyber Liability*

Staffing firms collect privileged data from candidates, so an information breach can be very costly. Many firms opt for protection from the aftermath of a wide variety of cyber security hazards.

### *Business Interruption*

Business Interruption Insurance covers you when your business is forced to temporarily shut down. Specifically, it insures your business's income. If your business can't perform its usual operations due to an event covered by your Property Insurance policy, your insurance benefits help you meet your expenses.

### *Umbrella Liability*

In an accident or property damage situation, victims can sue if you exceed liability limits on your insurance policies without paying them. With an umbrella policy, you can avoid losing your savings.

### *Workers' Compensation*

Workers' compensation insurance pays for an employee's medical bills, loss of wages, disability benefits, rehabilitation, and retraining when they are hurt or made ill by the work they do for your employment agency. Carrying this insurance is mandatory in most states and required by most clients. Workers' compensation will most likely be your most expensive and complex insurance to deal with, and many staffing agencies struggle to find affordable workers' compensation coverage from an insurance carrier.

While there are inherent risks that come with staffing, taking the proper steps to carefully manage risks can help you avoid issues and stay profitable for many years to come. We hope this guide was helpful to you. If you have any questions or want to know more about how our services can help you manage your risk, contact us at [www.advancepartners.com/get-in-touch](http://www.advancepartners.com/get-in-touch) or 866-653-1810.

#### YOU MIGHT ALSO BE INTERESTED IN:

- [Safety Guide for Your Staffing Firm](#)
- [Beyond Pricing: 10 Ways to Make Your Staffing Firm More Profitable](#)
- [The Staffing Firm's Guide to Navigating a Recession](#)
- [Being Prepared for Financial Uncertainty](#)



#### ABOUT THE AUTHOR

## CRAIG COHEN

After graduating from Ohio State University with a BBA in Finance and then earning his MBA from John Carroll University, Craig built his career in corporate and commercial banking.

He gained extensive experience in credit underwriting, risk management and loan workout, both at small community banks and large regional banks.

At Advance Partners, Craig oversees credit and underwriting functions and also supports clients with risk management, acquisitions and business valuation. In 2017, Craig was awarded the Commercial Finance Association's 40 Under 40 Award, which recognizes the high achievers and rising stars in the commercial finance industry.

*Note: The information contained within is not legal advice. These issues are complex and applicability depends on individual circumstances. Businesses should consult legal counsel before taking action on any of the items identified above.*



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