

Sterling

WHITE PAPER

Practical Considerations to Outsourcing a Background Screening Programme





Common Misconceptions of Outsourcing

For many, just the word “outsourcing” brings up negative connotations linked to taking jobs offshore and compromises in quality and cost. This is further exacerbated by many outsourcing vendors failing to adapt to changing market demands, or their inability to meet the needs of a customer base they don’t intimately know. It can be particularly prevalent within larger functions such as information technology (IT) or customer services. However, contrary to popular belief, outsourcing doesn’t have to become a trade-off between cost and quality. When used strategically, outsourcing can represent a valuable tool delivering flexibility and cost savings.

The differences between outsourcing and offshoring can often be confused, although it is not uncommon for outsourcing and offshoring to coexist simultaneously amid the rise of globalisation. So, what are the differences?

- Outsourcing refers to the movement of internal operations to an external organisation – this can be within the same country or overseas.
- Offshoring relates to the process and geographic activity of relocating a business function to a different country, internal or external to the organisation and quite often to benefit from cheaper economies.

Technology is leveling the playing field when it comes to outsourcing. The cost benefits of outsourcing back office administration are coupled with advancements in new-generation technologies such as process automation, big data, analytics and cloud services.

Within this white paper, we explore how organisations of all sizes can benefit from outsourcing their pre-employment background screening and detail the practical action points towards doing so.

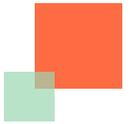
Typically, outsourcing generates positive results when it involves:

- **Non-core Competencies** – Generally focusing on a core mission and accessing resources to build a business “just in time” through scalable expertise.
- **Managed Growth** – In a cycle of high growth, it is difficult to determine what new resources are needed, when and for how long. Outsourcing can support growth while controlling costs, particularly in administrative functions.
- **Shared Ownership** – Where multiple businesses share costly infrastructure resources, such as warehouse space.

Many businesses, especially those positioned for high growth, can benefit from well-targeted outsourcing.



The global market for business process outsourcing is estimated to reach \$332.4 billion by 2025¹



Outsourcing Background Screening

What's New?

Changing Compliance Landscape

Exclusive Sterling research within the Background Checks 2018: UK Trends & Best Practice Report² indicates that improving regulatory compliance is currently the number-one reason why companies perform pre-employment background screening. In part, this may be due to constantly evolving rules and regulations that are often perceived as new obstacles for businesses to overcome. The introduction of the GDPR may be a good example of this. Similarly, the looming uncertainty and legislative developments around the future of the UK post-Brexit is also likely to result in new regulatory considerations for human resources (HR) professionals. Additional regulatory complexity within the EMEA region, particularly in the Middle East, comes in the form of legal systems based on Sharia law as found in some of the more complex jurisdictions such as the UAE, Qatar and Lebanon³.

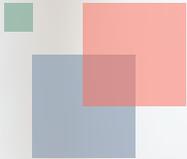
As regulation continues to evolve, leading to increased complexity, companies are increasingly turning to external organisations to navigate the way. Sterling's survey found that 60% of UK-based companies chose to turn to their legal counsel for advice, but significantly 35% turn to their background screening provider – which represents a 12% rise from 2016, demonstrating an increasing confidence in the trust of their providers to support with compliance issues.



Source: Background Checks 2018: UK Trends & Best Practices Report

Practical Considerations

If an organisation currently screens in-house, the onus is on that business to enable their staff to be properly trained in this area and stay up to date with any changes to employment laws. Whilst an external screening provider shouldn't replace a legal advisor, a trusted provider may offer ongoing education and training on changing regulations.





A Growing, Complex and Diverse Workforce

Today's workforce represents a challenge due to the incredibly diverse variety of demographics. For example, EU nationals form up to a quarter of the workforce in almost half of the businesses surveyed in Sterling's UK Trends and Best Practice Report. Additionally, the workforce can be categorised into five generations of employees⁴:

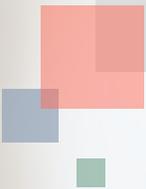
Generation Z – born 1996 and after

Millennials/Generation Y – born 1977 to 1995

Generation X – born 1965 to 1976

Baby Boomers – born 1946 to 1964

Traditionalists – born 1945 and before



Emerging industries such as the gig economy, fueled by the development of technology, have allowed greater employment flexibility and resulted in surges to the contingent workforce. The number of people working within the gig economy has doubled in the last three years, with almost one in 10 working-age adults now working in this way at least once a week compared to one in 20 in 2016⁵. This increase is consistent with statistics for the general workforce. Indeed, Sterling research has shown that 57% of businesses say staff levels have increased in the last year, while 56% expect the size of their workforces to rise over the next 12 months.

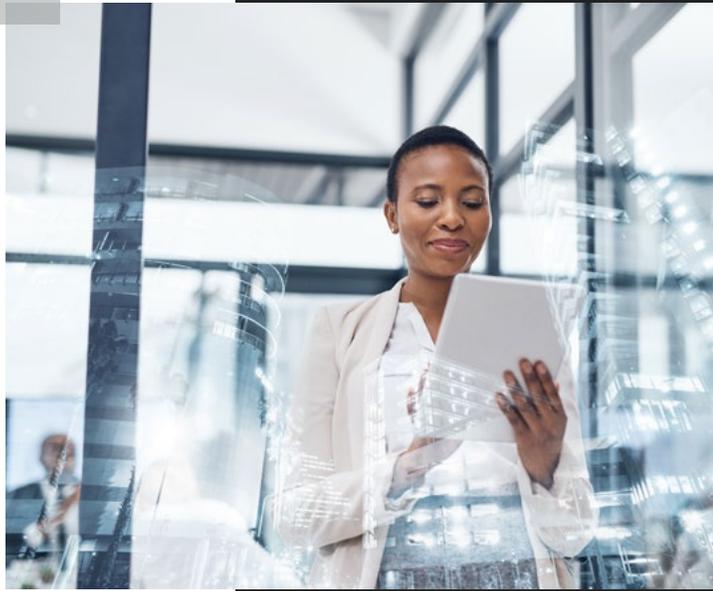
This research also shows there has been a 7% rise between 2016 and 2018 in the number of organisations conducting background checks on their contingent workforce. This suggests a steady appreciation by hiring organisations that such workers can pose the same risks as full-time employees due to their access to company resources, employees and clients. Additionally, 60% of organisations screen contractors and contingent or temporary workers compared to 53% in 2016. It is notable that a gap of 40% remains.

A diverse and growing workforce encompassing a variety of nationalities and roles elicits the need for a broad range of background screening solutions, including right to work, criminal record checks and adverse media searches which are becoming particularly prominent within the gig economy.

Additional Types of Checks

An increase has been seen in the use of additional types of checks such as social media, which may reveal unlawful, violent, racist, intolerant and sexually explicit behaviours that may not show up during the interview process. In contrast, this may also present positive characteristics including a candidate's goals and cultural fit. It is important to enable such checks to be conducted as part of a structured and robust screening programme, in an objective manner. Sterling's trend report shows that 60% of organisations do not currently perform any social media searches, which may suggest that some employers are carrying out "off-the-record" checks.

There is a real risk for employers exposed to information that should not be used to make employment decisions, such as "protected characteristics." These can include race, religion, sexual orientation, age, disability, sex, gender reassignment, marriage or civil partnership and pregnancy and maternity. This may present grounds for discrimination or data protection claims. Significantly, 36% of UK employers have rejected a candidate based on their Facebook, Instagram, Twitter or LinkedIn profiles⁶. It is also important to note that the candidate must provide authorisation prior to a check.

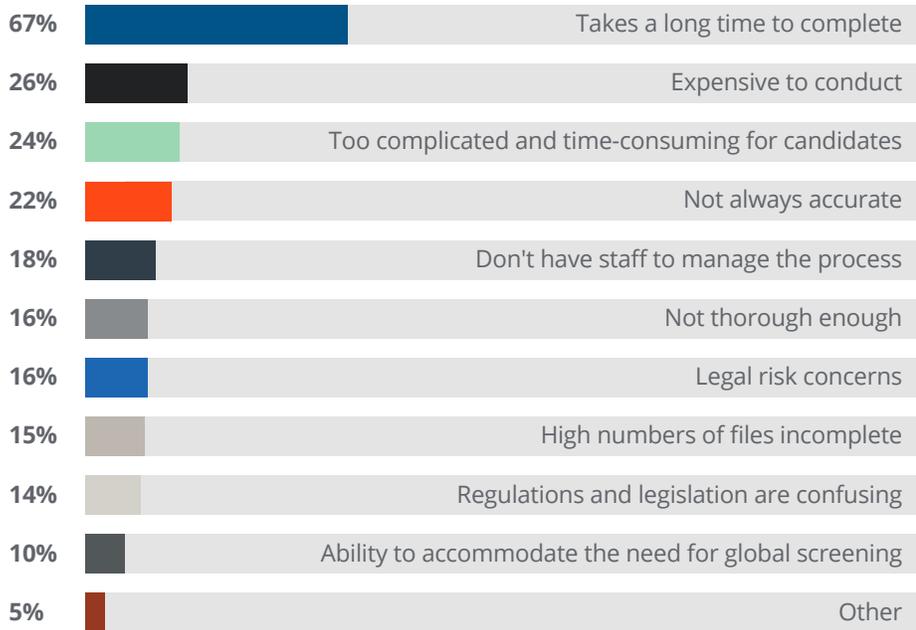


Why Outsource Background Screening?

How an Organisation Can Overcome Its Biggest Challenges

According to Sterling research, some of the biggest challenges facing companies when conducting background screening comes down to the complexity and time-consuming nature for the candidate, the high costs incurred, concerns over how accurate it would be and not having enough staff to manage the process. These results illustrate the continued challenges facing organisations and gives justifications behind why many companies outsource their background screening programmes.

Top Background Screening Challenges



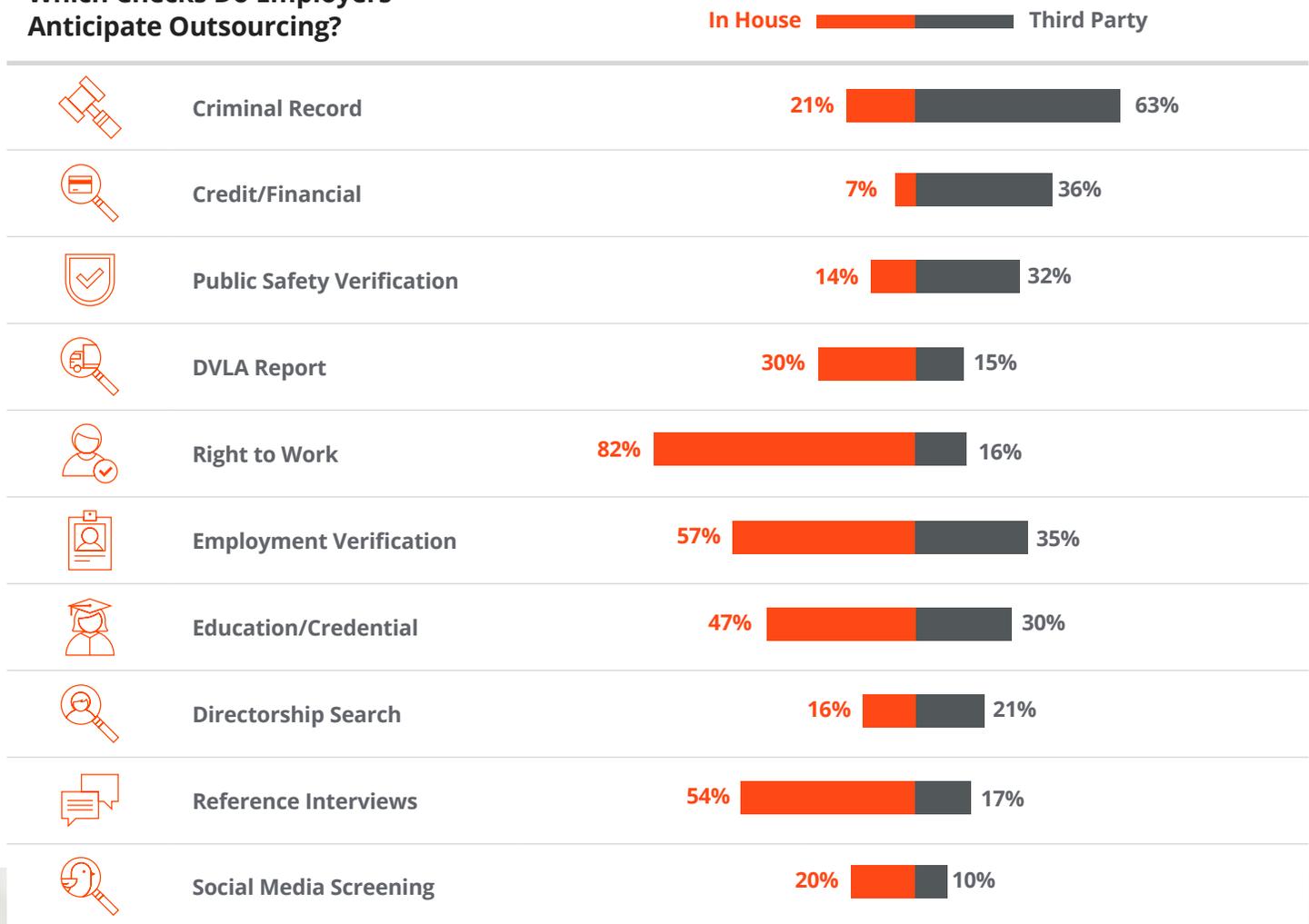
Source: Background Checks 2018: UK Trends & Best Practices Report

Acknowledging the Importance of Outsourcing

Sterling research suggests a growing awareness for the importance of background screening with eight out of 10 companies conducting some sort of pre-employment background check, compared to six out of 10 in 2016. Encouragingly, 78% also indicate that they would continue to do so, while 80% plan to carry out checks in the next year or so. However, one in 5 employers do not currently have a documented background screening policy in place. This is a concern, as a written policy can help businesses remain transparent and compliant throughout the screening process.

Sterling's survey also found that 52% anticipate outsourcing to a third-party background screening organisation in the next year. Businesses are more likely to use in-house resources to screen for Right to Work, reference interviews and education credentials, while they are inclined to use a paid third party for criminal records, credit/financial history and public safety verifications, which is consistent with our 2016 data. Notably, 57% of companies screened in-house for employment verifications, compared to 72% in 2016. This would suggest that more businesses are outsourcing employment verifications because it can be less time-consuming and deliver more consistent results.

Which Checks Do Employers Anticipate Outsourcing?



Source: Background Checks 2018: UK Trends & Best Practices Report

The Business Case

Workplace Safety

The safety of employees is of utmost importance to many organisations and a comprehensive screening programme can be a significant step towards mitigating risk in this area. This is particularly relevant if a role involves working with vulnerable populations or in positions of trust within industries such as healthcare, financial services or sectors of education, although it is not only limited to these areas. A business can be held liable – particularly if the employee has a prior criminal record and goes on to cause harm. The crime survey for England and Wales reported that there were an alarming 694,000 incidents of violence at work in 2017/2018⁷.

A criminal record check can be a crucial step towards mitigating these risks. In the UK, there are three distinct levels of criminal record checks: Basic Disclosure, Standard Disclosure and Enhanced Disclosure. A trusted background screening provider will help determine the correct level of disclosure dependent on the position, which must be justifiable in relation to the specifics of the role. It is also worth noting that an employer shouldn't turn someone down for a job because they've been convicted of an offence if the conviction or caution is 'spent' – unless an exception applies.

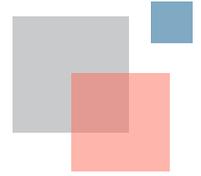
Litigation & Reputational Damage

In some countries, employers can be held financially liable if they knew — or should have known — an employee presented a potentially foreseeable risk of harm. Employment screening is one of the most effective ways to reduce an organisation's liability if and when a crime occurs in the office. Even if a business is not taken to court, its reputation and brand can suffer in the court of public opinion. This is particularly prevalent in today's age of social media and viral news, where anyone can share an opinion online. According to the Institute for Crisis Management, business and news stories about sexual harassment saw a 13-fold increase⁸ and can be detrimental as they create significant financial exposure for companies. Performing pre-employment background checks can be an instrumental step in mitigating these risks.

Hiring the Wrong People

"If I only knew then what I know now," is a common refrain with recruiters. Recruiting the wrong people is a huge business expense. This can cost anything from five to 27 times the cost of an annual salary due to direct and indirect costs⁹, although it will vary with the role. A poor hire at mid-management level with a salary of £42,00 can cost a business more than £132,000¹⁰. Aside from the monetary expenses, according to a Robert Half study, the top three consequences of a bad hire, as reported by managers, is the increased workload for colleagues, increased stress and the loss in productivity¹¹. Employee fraud and corporate espionage are also very real threats. PricewaterhouseCoopers report that globally, 52% of all frauds are perpetrated by people inside the organisation, whilst fraud committed by senior management saw the biggest increase of 2018, reaching 24%¹². Thorough background checks, including confirming work history and references as well as credit history as appropriate, can provide tools to help avoid poor hiring choices.





Why Outsourcing Makes Sense:

The Benefits of Contracting out Background Screening

Ensure Regulatory Compliance

As highlighted by Sterling's exclusive research, improving or meeting regulatory compliance has become the prime consideration for conducting background checks, in part due to the complex and ever-evolving regulatory landscape. For example, hiring foreign-born workers or employees who have been educated or worked abroad is an excellent way to source specialised talent, but can present complex challenges when it comes to background screening and meeting compliance obligations.

Challenges can be particularly prevalent in the European Union (EU), where the free movement of workers is a fundamental principle enshrined in the EU Treaties. EU nationals are currently entitled to look for a job in another EU country, work there without needing a work permit, reside there for that purpose and even stay there after their employment has finished. Few organisations, even those with general counsel, have the breadth and depth of expertise to manage these challenges internally. However, amid the regulatory changes expected to come post-Brexit, it is also important to note that organisations should turn to their legal counsel for further guidance. A trusted screening provider should possess the global reach, resources and human capital to help tackle these important issues. While they shouldn't be a substitute for a legal advisor, they can offer their own expert perspective on new rules and regulations, which can help navigate this complex compliance minefield.

Leverage Industry Expertise

Using a well-established and respected screening provider allows an organisation to leverage the collective wisdom learned from different risk management programmes in place, at a local level and across the globe. Additionally, this continuous learning can be used to adopt and apply programmes that have worked for other organisations, or to proactively identify opportunities to improve a screening programme. Expertise is one of the largest benefits of outsourcing. It is also one of the most commonly overlooked.

This can also be utilised to provide ongoing education, training and relevant thought leadership – that can enhance an organisation's knowledge base. Where an organisation would have previously been responsible for researching and organising specific training and communications to keep staff abreast of HR developments, now the screening vendor can provide this information regularly as part of its contracted services. This may be as simple as regular email newsletters and communications, timely webinars, or in-office training.

Increased Speed and Accuracy

Background screening can be a complex and time-consuming process, which can take its toll on HR departments when conducted in-house. This may also divert HR professionals from other important responsibilities, such as recruiting new talent or focusing on payroll. Opting to screen in-house can become a tedious process due to the required research, administration and time. As such, clerical errors may appear due to corner-cutting or even accidental and unintentional illegal actions as a result of not following the correct compliance procedures. Outsourcing to a trusted background screening provider can provide HR with peace of mind and may alleviate the accompanying burdens, as a provider can offer an automated, simple and paperless turnkey solution, allowing access to the information when required. These results are also returned on the whole much more quickly and with a higher degree of accuracy and consistency than many in-house checks.



Better Candidate Experience

Candidate experience is a major driving factor in the modern hiring process. A positive or negative candidate experience can have a direct impact on an organisation's reputation and profitability, with the added possibility of dissuading new talent. By choosing to outsource background screening, an organisation can improve their candidate experience through a more efficient onboarding process. This can have significant results and can increase employee retention by 82%¹³. It is important that a reputable background screening provider can clearly support as well as communicate with the candidate throughout the screening process.

This can take the form of a dedicated support team, which may provide a status update or the next steps of the process. By offering continual and transparent support, a candidate can gain more control over the process, helping to alleviate any potential anxiety and uncertainty by replacing it with trust and confidence.

In this digital age, screening providers should be taking strides to invest in and offer mobile-optimised candidate platforms, allowing easy access from any device, anywhere in the world and at any time – in the choice of language applicable to the candidate. The transition to mobile platforms has been increasingly vital with 2.71 billion smartphone users in the world today, accounting for 35.13% of the total population¹⁴; this is only likely to increase.

Cost

Besides the completion of the due-diligence process, which is part and parcel of background screening, it's important not to forget the bottom line for HR professionals. Human capital can represent one of the largest expenses on the balance sheet, particularly within industries such as staffing, which can account for the majority of expenses according to Sterling's How to Calculate Your ROI on Background Screening white paper¹⁵. Implementing a robust background screening programme can help reduce qualification embellishments and contribute to mitigating the risk of occupational theft or fraud. The latter is of great concern, with £3.2 trillion as the

estimated annual cost of occupational fraud worldwide¹⁶. When this occurs, the cost implications can be far higher than any money or resources taken without consent.

Partnering with a reliable background screening provider can help reduce employee turnover. The true cost of an organisation's turnover rate varies and is dependent on the business in question. Estimates put this figure between 100% and 250% of the employee's annual salary plus benefits, as highlighted in Sterling's ROI white paper. Therefore, a major advantage of pre-employment screening is the opportunity to save a company in terms of reputation, time and real cost savings by helping ensure a business hires the right person – which in turn helps to decrease turnover rate in the long run. Once an organisation is aware of the financial implications of not conducting an employee background check versus having a robust screening programme in place, it's likely that it may be financially significant for the organisation in question to implement these policies.

There are five key steps to calculating the return on investment (ROI) of background screening endeavours.

STEP 1 Calculate how much the organisation will save by reducing its staff turnover

STEP 2 Calculate how much the organisation spends on bad hires

STEP 3 Calculate the savings achieved by implementing a background screening programme

(Reduction of Turnover + Cost of Bad Hires = Savings)

STEP 4 Calculate the cost of the background screening programme

STEP 5 Calculate the value of the screening programme and ROI

(Savings – Cost of Background Screening = Value)

How to Pick a Screening Partner: A Checklist for Hiring Organisations

If an organisation decides to explore outsourcing all or part of their background screening programme, they should ensure they work with a qualified and reputable partner.

Here are six key things a business can look out for and request from a screening partner before moving forward:

1 Comprehensive Toolkit

Think of the “future state” of the company. As business expands, so do the talent needs. This may require different levels and kinds of screening, which could include credit history reports, professional licensure checks and more.

2 Global Footprint

Even if an organisation is not hiring foreign workers right now, the screening partner should provide international background checks as necessary and have local expertise in key markets like the EU, US, China, India and elsewhere.

3 Technology Investment

While some criminal record checks may extend turnaround times for a complete background check, other screening processes are now automated, thereby reducing human error. A screening partner should demonstrate financial soundness, ability and commitment to investing in new technology and talent.

4 History of Trust

With screening becoming a primary risk mitigation tool for companies big and small, there has been a wave of unproven and illegitimate “background check” companies flooding the market in the last five years. A business should avoid placing their trust in fly-by-night operators.

5 Robust Compliance Team

It’s not enough to promise “full compliance.” An organisation’s screening partner must go beyond the basics and offer proactive solutions to improve the screening programme as the business evolves. A “hands-off” approach should be unacceptable.

6 Dedicated Training & Customer Service

Part and parcel of a robust compliance team is a dedication to education and learning. A screening partner should be just that: a partner. Seek out a partner that takes a consultative approach and who wants to help improve the business.



The Sterling Difference

Around the world, organisations of various sizes and industries rely on Sterling to help them hire quality talent. Simpler is better when it comes to background screening as we help cut through complexity to hire with confidence.

Here's what sets us apart from other background screening companies:

Compliance – Domestic and General

Our experienced global compliance team monitors relevant legislation to establish current processes and keep clients informed. With more than 20 offices across nine countries, we deliver global service with local knowledge.

Candidate and Customer Experience

Dedicated account service focused on anticipating an organisation's needs and responding quickly to requests. Our candidate portal not only offers the ability for candidates to complete consent forms and sign consent documents online, but each touch point can be consistently branded to bolster the employers visual identity.

Data Security

We provide multiple layers of security and disaster recovery to prevent service interruption and support globally compliant processes. Our Information Security program promotes ISO27001 compliance, and our dedicated data security team continuously monitors systems and operations.

Process and Technology

Every year, Sterling screens millions of candidates, resulting in continuous learning and process refinement. Our unique verification technology, including a proprietary global verifications directory, encourages email contact over telephone, producing higher completion rates and lower timeframes for references, employment/education verifications.

Continuous Innovation

Our commitment to innovation and excellence has propelled continual growth since 1975. Our approach to new technology has changed the background screening industry, including:

- **eConsent**, a convenient online portal for candidates to complete consent forms and provide their signature using an online signature tool
- **Verifications Directory**, a proprietary database that facilitates rapid and efficient validation of education, employment and reference histories

International Services

Located in more than 20 offices across three continents, we provide global solutions with multilingual support for Criminal Record Checks, Reference Checks, and ID validation. Criminal Record Checks are retrieved from local government agencies, police or the most reliable sources from over 195 countries.



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About Sterling

Sterling—a leading provider of background and identity services—offers a foundation of trust and safety that spans across industries, professions and borders. Our technology-powered services help organisations create great environments for their workers, partners and customers. With office locations around the world, Sterling conducts more than 100 million searches annually. Visit Sterling online at sterlingcheck.co.uk.

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In addition to this report, Sterling regularly publishes cutting-edge research and insight on the latest trends in human resources, talent management and hire processing.

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