Background Verification in IT Company: An Empirical Study

Ms. Anita Singh*

Key Words:

1. IT Companies

2. Background Verification

Abstract: In current scenario, involvement of individuals from corporate in various crimes has led to increased realization about the value for background verification of all the employees at all levels in the recruitment process. The organisation's reputation is at stake in case if they hire someone with questionable background. Brand equity & brand value can be adversely affected. Thus, even less number of checks or lack of background verification on current or potential employees is something that hampers any organisation ---either through reduced business, adverse impact on its public perception and inability to retain better employees.

Introduction:

Security is one of the key issues to emerge in a globalised world, especially for the Information Technology (IT) industry. The industry is making a significant positive impact on the Indian economy and the people of this country. The industry is expected to employ more than 2.3 million employees currently. With such large scale hiring, it is extremely challenging even though critical, to track the background of each employee hired by a company. Given the growth projections of the industry, human resource (HR) departments are under a lot of pressure to recruit in large numbers, and sometimes these time pressures keep them from doing due diligence before hiring. Security is often said to be a three-dimensional problem: involving people, process and technology. Employing the best practices on an assured workforce for better security, background checks have become de rigueur for Indian IT companies, which operate in a globally competitive environment.

According to NASCOM, lack of industry ready talent (the numbers are available but the skill sets are lacking), the intensely competitive recruitment environment, relatively high attrition rate of the sector, although internal to the industry and possible fudging of skill sets and salary details by potential employees are serious issues, and given the intense pressure to recruit in large numbers, recruitment teams are unable to sieve these 'fake' CVs and sometimes end up hiring such candidates as well. Against this background, even though it is a remote possibility, ignoring background checks of potential employees can unknowingly lead to inclusion of individuals with a criminal record, or simply undesirable elements into the industry's workforce, thereby

*The author is Area Chairperson- HR & OB at Institute of Management Studies, Ghaziabad and can be reached at anitasinghims@yahoomail.com

making background checks indispensable for this industry.

Surveys on human resource professionals indicate that 80-90 percent of large employers in the U.S. now run criminal background checks on their prospective employees (Society for Human Resource Management, 2004, 2010). Some employers may conduct criminal background checks on job applicants voluntarily to identify those who may commit criminal acts in the workplace in order to minimise loss and legal liability of negligent hiring that could result from such acts (Bushway, 1998). For some job positions involving vulnerable populations, such as children and the elderly, laws require employers to conduct such background checks (Hahn, 1991). In addition, employers may use criminal history records to assess character flaws such as lack of honesty and trustworthiness (Kurlychek, Brame, and Bushway, 2007; Pager, 2007). Also, occupational licensing laws could disqualify many individuals based on the requirement of "good moral character" (Harris and Keller, 2005). As the use of criminal background checks by employers has become widespread, criminal records could have lingering effects on employment prospects as "invisible punishment" or collateral consequences of contact with the criminal justice system (Travis, 2002). Many employers show considerable reluctance to hire individuals with criminal records (Holzer, Raphael, and Stoll, 2003; Pager, 2003; Schwartz and Skolnick, 1962; Holzer, Raphael, and Stoll, 2004); others have shown the relationship between criminal records and poorer employment prospects (Bushway, 1998; Grogger, 1995; Nagin and Waldfogel, 1995; Western et al., 2001).

Background Verification:

Background Verification is the process of looking up or compiling criminal records, financial records and commercial records (in other words employment verification) of an individual. Background verification is also known as Background check. Background verification is an integral part of HR activity. Human

capital is being acknowledged as the most important investment for any company. Finding the right talent in the right job at the right time is a humungous challenge that the HR teams are facing in today's scenario.

Background verification are traditionally administered by a government agency for a nominal fee, but can also be administered by the private companies. Result of Background verification includes criminal history, past employment verification, credit score, address verification etc. Employers often use these checks as a means of evaluating a candidate's qualifications, character, fitness, and to identify potential hiring risks for safety and security reasons.

Background verification is used in various organisation to thoroughly investigate the potential candidate to be given a security clearance. However this verification sometimes used for illegal purposes such as employment discrimination, identify theft and violation of privacy.

Why Background Verification?

According to some data, which shows that, individuals with questionable background tend to join organisations that do not conduct background verification of its employees.

Hence when these organisations do start background verification they found many discrepancies i.e. Number of employees who have misrepresented facts or figure on their resumes or have a criminal records go through huge attrition (as employees or candidates who have represented facts or have negative background they prefer to leave organisation when they announce background verification).

This is a good proof of how background verification becomes a deterrent against prospective employees or any other employees who have misrepresented facts on their CV or employment applications. Thus background verification proves to be a good or fair insurance against risk to reputation related to bad hires. Also according to Cook (1988) background verification is conducted less in Britain as compared to United States. There are many trends, which suggest that company/organisations have to rely on Background verification of factual information in pre-employment verification. Employers are now more aware of inaccuracy & subjective evaluations given by personal references.

Employers who have a questionable background were vulnerable to damages as they were failed to check background information relevant to determining the fitness of the applicant for the job. If we take an example of today's liabilities, it is not surprising that most of the companies do some of pre-employment background investigation, while few conduct background investigation on consistent basis. For example, according to one recent survey (bureau of National affairs, 1988) of 246 U.S companies, 81% of the respondent reported that their organisation/company verifies the education of some job applicants/candidates, but only 31% reported checking education for all applicants.

Background Verification process before the hiring is the key to avoid high turnover rate, theft, work place violence ,unqualified and incompetent staff, fraud and dishonesty by employees, negligent hiring law suits, escalating training cost ,ballooning

recruitment cost ,high staff turnover and low employee morale. Thoroughly pre-verification of job applicants/candidates will help the organisation to save time and money, avoid negligent hiring Law suits, detect falsified employment applications and provide a safer work environment.

Background Verification in India:

Background verification is still in its nascent phase in India. There are many organisations which do share information, with third parties for verification process or purposes. For some organisations, which do not mind sharing information, it is a very long process as databases are manually maintained & verification procedure involves going through very old data, which is maintained physically.

Basically the concept of Background Verification was introduced in India about seven years a back. This was triggered by the changed security environment post the 9/11 attacks in the USA. As we all know that the number of fortune companies is 1000which is initiating business in India either through setting up their own offices or outsourced work to India and it was expected that their India based partner/entities (especially IT and BPO/ITES companies) followed process that were integral to their recruitment process or policies. It has been noticed that more than 90% of Fortune companies have a formal policy of Background Verification of their employees as well as their outsourced staff. Concept of Background Verification is now no more limited to just IT/ITES or the BFSI segments. Growing number of organisations in the manufacturing, petroleum, travel, telecom, educational institutions, hospitality, health care, retail etc are adopting Background Verification process. It is also become a part of the standard outsourcing contract & therefore Indian companies continue to proactively adopt a part of their business process. Especially booming IT industry is seeking services for employee background verification. Types of background verification vary from organisation to organisation and is determined by the need (mainly the budget)- from ascertaining whether the permanent address given on CV is actually trying to find out other details, for example the kind of work being done by the candidate: performance standard, verifying qualifications, whether he was sacked from the previous company or left in his own; any criminal records, investigate the entire family background verification of the employee whether a womanizer/alcoholic.

Credible background verification company will ensure that the process will conducted only through the legal route of getting verifications (which may imply relatively later verification as compared to some other agencies which may not be able to stand the scrutiny of law) through the some official channels & by accessing information in public domain. Excellent way of managing background verification anywhere globally is to ensure that these are done by organisation which specializes in conducting background verification. It is better to go for background verification service that have a global coverage as they would follow local geography specific requirements and would be able to better understand and know the specific sources of information along with the some related challenges.

Infinite screening:

Infinite screening is the new concept. Companies are exploring the newly introduced concept of "Infinite screening", particularly for criminal record verification, for all their current employees. Trends and Experience prove that background verification acts as deterrent & thus remain a strong effective risk mitigation strategy. Just by introducing the concept of Infinite screening, concerned organisations or companies will have candidates with criminal records leave their jobs rather than get exposed. It is also recommended that criminal records of employees be conducted at least once a year.

Background Verification Process in IT Company:

Background verification process either is requested by the present employer of the company or by a National Skills Registry (NSR) subscriber of the company which is authorized by the professionals. If an Organisation has requested background verification, its term & conditions, reporting requirements are also determined by the company. A background check or background investigation is the process of looking up and compiling criminal records, commercial records and financial records (in certain instances such as employment screening) of an individual.

In addition to reporting the results to the company, the EBC will also record the results of background verification on NSR against the details of the professional. This creates a permanent verified profile of the professional. In order to keep their NSR profile ready with background check results, the professional can also request for a background check on details recorded by them on NSR. Verification request can be for personal details like date of birth, father's name, passport number, Permanent Account Number (PAN) or for present and permanent address, academic qualification, technical qualification and employment details. In this case, verification request of the professional is referred by NSR system to one of the EBCs. In this case as the verification is requested by the professional, the verification charges will be payable by him/her to the EBC directly. The EBC will get in touch with him / her for collecting the required documents and fee for processing the verification. The EBCs crosscheck the information submitted by professional from the source of the information e.g. address is verified by personal visit, qualifications with the concerned organisation and employment details with the employer companies.

Baseline Verification:

In order to facilitate that professionals registered in the database are verified for important details, a concept of "Baseline Verification" is introduced. Baseline Verification of a profile includes verifying date of birth, father's name, passport number, PAN, present and permanent address, one academic and one technical qualification and one employment details. The fee is to be paid by the verification requesting professional directly to the concerned EBC and will be paid before EBC starts verification process.

Verification Comments:

After verification is completed, the EBCs record their findings in the form of verification comments against the professional's details on NSR system. These comments can be seen by the professional, his / her employer and the company authorized by such professional.

Few entities have been empanelled to provide background checking services on National Skills Registry (NSR) like, Auth Bridge Research Services Private Limited, CRP Technologies [India] Private Limited, EV Aluationz India Private Limited, Footprints Collateral Services Private Limited, First Advantage Private Limited, Integrity Verification Services Pvt. Ltd, and KPMG, Matrix Business Services India Private Limited PAMAC Finserve Private Limited, ONICRA Credit Rating Agency of India Limited, PINKERTON Consulting & Investigations (India) Pvt. Ltd, Premier Shield Private Limited, TOPS Security Limited ,Vibrant Screen Private Limited etc.

Purpose of the study:

Many organisations in India do not maintain online databases or records for temporary employees which later on lead to unavailability of such appropriate or crucial information. Criminal background information, which is available through online databases in US & UK, is not comparable with other geographies, which is available. But in India where 15-24% of resumes are fake and1 in 3 CVs misinterpret facts (source KPMG India Fraud survey) and where 75% of IT security incidents are caused within the company not by the hackers (Gartner group) criminal background information need to be sought locally in the concerned jurisdictions. Online databases involves all parties concerned i.e. the candidate, the verifier, the recruiter and also the verifying authorities, which will help in developing a pre -qualified & pre-checked ready to hire the talent candidate which is the need of the hour in today's scenario.

The purpose of the study is to identify the importance of background verification and also to highlight the factors fostering background verification .The risk of hiring a wrong candidate is far more expensive than conducting employment background verification/background check.

Research Methodology:

The research is exploratory in nature. The sample element for this paper is the employees working in the IT firms at different levels and sample size taken was 100. Source of information are primary as well as secondary Data was collected by personal investigation through Interview method and questionnaire only from the office located in the NCR. The method of purposive sampling was used to identify the respondents in the organisation.

Analysis and Discussion:

As the purpose of the study is to highlight the importance of background verification and also to identify the factors fostering background verification in an IT Company, an exploratory factor analysis has been carried out after editing 100 questionnaires comprising of 13 statements (Refer to Annexure 1)

Exhibit 1: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.596
Bartlett's Test of Sphericity	Approx. Chi-Square	562.415
	df	78
	sig	.000

The KMO and Bartlett's Test indicates the suitability of the data for factor analysis. Kaiser-Meyer-Olkin Measure of Sampling Adequacy's value is 0.596 which is greater than 0.500. This indicates that a factor analysis will be useful with our data. The value of significance level is 0.000 that is less than 0.05. So there is a significant relationship among the variables. (Refer to Exhibit 1) Principal component Analysis with varimax rotation is employed for extracting factors (Refer Exhibit 4 and Exhibit 5). The factors having Eigen value greater than one are considered significant, all other factors are considered insignificant& disregarded.   Exhibit 2 shows that after factor extraction, the communality is 0.729 for variable 1, 0.649 for variable 2 and so on.

Exhibit 2: Communalities

Communalities		
	Initial	Extraction
A1	1.000	.729
A2	1.000	.649
A3	1.000	.614
A4	1.000	.723
A5	1.000	.742
A6	1.000	.755
A7	1.000	.876
A8	1.000	.880
A9	1.000	.518
A10	1.000	.619
A11	1.000	.672
A12	1.000	.541
A13	1.000	.436

Extraction Method: Principal Component Analysis.

Exhibit 3: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.060	31.234	31.234	4.060	31.234	31.234	3.051	23.469	23.469
2	1.985	15.272	46.507	1.985	15.272	46.507	2.633	20.254	43.724
3	1.540	11.847	58.354	1.540	11.847	58.354	1.596	12.275	55.999
4	1.167	8.976	67.329	1.167	8.976	67.329	1.473	11.331	67.329
5	.947	7.288	74.617						
6	.765	5.882	80.499						
7	.702	5.403	85.902						
8	.592	4.557	90.460						
9	.405	3.119	93.579						
10	.322	2.475	96.054						
11	.247	1.903	97.957						
12	.165	1.270	99.227						
13	.100	.773	100.000						

Extraction Method: Principal Component Analysis.

Exhibit 4 shows that which variables are to be clubbed together to form a common factor. The initial extraction using principal component analysis revealed 4 factors having Eigen values more than one .About 67.329 % of the total variance in the 13 variables is attributable to the first four components. Also we can judge how well the four-component model describes the original variables, by examine the Exhibit 3 and concluded that Component 1 explains a variance of 3.051, which is 23.4692% of total variance of 13; Component 2 explains a variance of 2.633, which is 20.254% of total variance. Similarly, same kind of conclusion can be drawn for other components. The varimax rotation was applied (Refer to Exhibit 5) and the rotated matrix also extracted 4 factors which captures 67.329 of the total variation. From Exhibit 6 (Factor Analysis) following 4 factors have been extracted as explained below:

Ethics and Information:

This factor has emerged as a most important determinant of research with a total variance of 31.234. Major element of this factor include appropriate employee information, Organisation makes clear to the candidate about each type of verification and organisation has a right to know about the employee, which they are bringing in the organisation. This factor depicts that employee background verification (EBV) reduces reputation risk associated with employee related wrongdoing and helps the organisation to provide ethical environment

Honesty and Integrity:

This factor has emerged as the second most important determinant of research with a total variance of 15.272. Major elements of this factor include, the employee of the organisation feels that EBV helps in getting the information about employee's honesty & integrity and it is an integral part of HR activity. It should be made mandatory requirement of the organisation because nowadays job seekers present false data to make their profile impressive.

Effective Hiring:

This factor emerged as the third important determinants of research with a variance of 11.847. Major elements of this factor, highlights the requirement of the Background check for positions classified as interim and also suggests that EBV helps in reducing turnover rates as HR successfully compete for and hire the most qualified staff.

Profitability & productivity:

This factor has also emerged as the effective factor of research with a total variance of 8.976. The first element in this factor shows that employees are the most effective resource who contributes to company success and productivity and EBV helps to increase profitability by reducing internal theft and fraud.

Exhibit 4: Component Matrix before Rotation

Component Matrixa				
	Component			
	1	2	3	4
Productivity	.309	.144	.604	.498
Information through interview and C.V	.532	-.539	.276	.002
Increase profitability	.429	-.145	.322	.553
Mandatory requirement	.778	.019	-.338	.054
Rights to know about employee	.785	-.128	-.312	.106
Clear to the candidate about verification	.707	-.240	-.223	-.386
Possessions classified as interim	.359	.240	.581	-.593
Hire the most qualified staff	.174	.820	.384	-.173
Integral part of HR	.413	.531	-.219	.129
False data to make profile impressive	.653	.413	-.113	.094
Employees honesty and integrity	.735	-.282	.137	-.185
Reduce risk.471.457-.319.088Ethical environment	.508	-.329	.260	-.042
Extraction Method: Principal Component Analysis.				

Exhibit 5: Rotated Component Matrix

Rotated Component Matrixa				
	Component			
	1	2	3	4
Productivity	.046	.079	.221	.820
Information through interview and C.V	.738	-.131	-.042	.293
Increase profitability	.267	.122	-.124	.716
Mandatory requirement	.522	.659	-.128	.022
Rights to know about employee	.602	.571	-.217	.078
Clear to the candidate about verification	.763	.324	.042	-.259
Possessions classified as interim	.348	-.022	.869	-.006
Hire the most qualified staff	-.276	.386	.795	.152
Integral part of HR	-.067	.702	.128	.068
False data to make profile impressive	.200	.720	.184	.163
Employees honesty and integrity	.779	.181	.137	.118
Reduce risk.024.733.057-.011Ethical environment	.607	-.019	.081	.246
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.				
Extraction Method: Principal Component Analysis. 4 components extracted.				

Exhibit 6: Rotated Component Matrix

Factors	Variables
1. Ethics and Information	1. Appropriate Employee information cannot be gathered through interview or C.V.
	2. Organisation makes clear to the candidate about each type of verification.
	3. Organisation/Company has a right to know about the employee, which they are bringing in the organisation.
	4. EBV reduces reputation risk associated with employee related wrongdoing.
	5. Background verification provide ethical environment in the organisation
2. honesty and integrity	1. EBV helps in getting the information about employee's honesty & integrity
	2. Background verification is an integral part of HR activity.
	3. Employee background verification (EBV) is a need of the hour as nowadays job seekers present false data to make their profile impressive.
	4. Background Verification of Employee is mandatory required by the company/organisation.
3. Effective hiring	1. Background check is required for positions classified as interim.
	2. EBV trim turnover rates as HR successfully compete for & hire the most qualified staff.
4. Profitability & productivity	1. Employees are the resource who contributes to company success and productivity.
	2. EBV helps to increase profitability by reducing internal theft and fraud.

Conclusion:

Human capital in today's scenario is being acknowledged as the most important investment for any company. Finding the right talent in the right job at the right time is a humungous challenge that the HR teams are facing in the today's hiring scenario. Actually the reality is that the organisation's reputation is at stake in case if they hire someone with questionable background. Brand equity & Brand value can be adversely impacted. Overall response of the employees regarding the Background verification is positive, they agree that it should be conducted in an organisation as it provide safe or ethical environment, helps in productivity & profitability, reduces the reputation risk associated with employee related wrong doing.

Limitations:

As the study is empirical in nature it cannot be generalized. The sample was collected from a single organisation and a single office only and therefore it cannot be applied to all IT companies even if the sample size is more. However this preliminary investigation provides some direction for conducting detailed studies in future.

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Annexure 1

Questionnaire

Please indicate your preferences on the basis of following scaling:

1. Strongly Agree 2. Agree 3. Neither Agree nor Disagree 4. Disagree 5. Strongly Disagree

S No.	Statements	1	2	3	4	5
1	Employees are the resource who contributes to company success and productivity.					
2	Appropriate Employee information cannot be gathered through interview or C.V.					
3	Background Verification of Employee is mandatory required by the company/organisation.					
4	Background verification is an integral part of HR activity.					
5	Employee background verification (EBV) is a need of the hour as nowadays job seekers present false data to make their profile impressive.					
6	Organisation/Company has a right to know about the employee which they are bringing in the organisation.					
7	Organisation makes clear to the candidate about each type of verification.					
8	Background check is required for positions classified as interim.					
9	EBV helps to increase profitability by reducing internal theft and fraud.					
10	EBV trim turnover rates as HR successfully compete for & hire the most qualified staff.					
11	EBV reduces reputation risk associated with employee related wrongdoing.					
12	EBV helps in getting the information about employee's honesty & integrity.					
13	Background verification provide ethical environment in the organisation.					