

Book provides guidance on preventing employees from ruining your business

## **Preventing Employees From Ruining Your Business**

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# **Chapter 1**

## **Theft by Employees**

Micah, an Old Testament minor prophet, was the first-recorded victim of employee theft when a priest absconded with the temple ornaments. Employee theft has plagued employers ever since.

The extent of employee theft is unknown, but many researchers estimate that it exceeds \$30 billion a year. Others estimate that inventory loss due to employee theft exceeds 5 percent of the inventory cost. Approximately 2 percent of all employees are caught stealing each year. Many researchers conclude that approximately 50 percent of all employees steal at least one item per month from their employers.

A study by Dale Systems of Garden City, New York, concluded that there are 415 known ways for employees to steal from employers and new methods are being discovered almost every day. In one case cited by the Dale Systems study, a clerk in a busy New York candy store under-rang every sale by a penny, making an extra \$5.00 per day for 22 years. In another case, a supermarket manager set up an extra cash register and pocketed the \$75,000.00 a year rung up on this register.

Many thefts continue for years before they are discovered. A department store discovered that its employees had established a barter system using the store's inventory. For example, the manager of the men's wear department was trading men's clothes to the manager of the housewares department for pots and pans. Both managers would then juggle their inventories to cover the losses.

Researchers conclude that all industries are affected by employee theft. Documented employee thefts range from petty cash to railroad boxcars. Many studies indicate that 60 percent of all employee thefts are of noncash items. Employers have a natural tendency to watch cash registers; however, they do not exhibit the same degree of concern for the security of their property and merchandise. Although small, useful consumer items may be and are more easily stolen; it is the theft of larger and more expensive items that causes serious problems for most businesses with employee theft problems.

Studying the possible methods of employee theft in your specific business and location is important because localized methods of theft may not be affected by general conventional control strategies. The three major factors that influence employee theft are employment environment, employee personal problems, and employee psychological make-up. Each of these will be discussed later in this

chapter. Most researchers agree that, of the three factors, the most important in reducing employee theft is the employment environment. If the environment is not conducive to employee theft, then there will be few if any thefts. The employment environment is, of course, the one area in which the company has the most control.

### **Problems with Detecting Employee Theft**

The following factors and concepts prevent business owners and managers from realizing the extent of employee theft in their businesses.

1. It is difficult to separate employee theft from customer theft. The general tendency is to assume that inventory shrinkage is due to shoplifting, although most studies indicate that the major cause of inventory shrinkage is employee theft.
2. In many cases, employees fail to report thefts by their fellow workers. This failure may be because the observer is also a thief. For example, "I do not worry that Fred will report me; I have seen him steal too many times." In addition, nobody in our society wants to be considered a "rat" by fellow employees.
3. Employers are reluctant to suspect employees, especially long-term ones, of dishonesty. Long-term employees usually hold positions of trust and are familiar with the checks and controls instituted by the company. In addition, employers tend to assume that employees in positions of high responsibility are highly responsible. Note that managers and supervisors have greater opportunity to steal than do other employees.
4. Many otherwise honest employees consider theft a form of job enrichment.
5. In some instances, employees are permitted to steal company cash or property in lieu of a raise. In one case, an employer determined that his office manager was stealing several thousand dollars a year from the petty cash fund but decided not to take corrective action since it would cost more than the loss to hire and train a new manager.
6. It may be cheaper to allow employee thefts than to prevent them. For example, if the employees are stealing \$200.00 a month, it is less costly to allow them to continue to steal that amount than to pay \$250.00 a month to prevent the thefts.
7. Employees are encouraged to steal by observing thefts by their managers or supervisors. Management personnel should be made aware that they are role models and their conduct on the job establishes the employees' norms and values in many situations.

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8. An employee will steal not only for material enrichment but because his or her job is boring and theft creates excitement. In many cases, the employee gives away the merchandise after it is stolen from the company. As one researcher noted, "Theft serves as a safety valve for employee frustration in many situations."
9. Some employees steal to get even with the company for not giving them a promised raise or one they feel they deserve.
10. Businesses with few controls and a trusting and casual attitude regarding the use of company resources make employee theft easy and in many cases encourage it. Research indicates that attitude plays a significant role in creating a favorable climate for employee theft.
11. Most employees do not condone thefts, but those who do steal justify their actions with statements such as "I am not stealing, just getting even for what is due me"; "Everybody is doing it, it's included as part of the wages"; or "This job is boring, beating the system adds excitement."
12. Many times the hardest workers, the eager beavers, those who arrive early, never take breaks, and stay late are the ones stealing from the company.
13. Beginners start with basic tactics and small amounts, and then graduate to more sophisticated means and larger amounts. Normally, when an employee is caught stealing from the company, he or she has been at it for an average of eight months.
14. When a thief is caught, he or she will never admit to the true value of his or her thefts. As a rule of thumb, always triple the amount of the theft that the person admits to for a more accurate estimation of the amount stolen.

#### **Who Steals?**

Despite the size of the employee theft problem, only a limited number of studies on the subject are available. Some of the conclusions drawn from these studies are that (1) employee thefts are most often committed by sales clerks, engineers, and nurses; (2) dissatisfied employees are more frequently involved in thefts, as are persons who have personal or financial problems, young employees, and employees who are not closely supervised; and (3) preventive measures and programs have a definite effect on employee theft.

One study indicates that 60 percent of all employee thefts are committed by hourly workers, and that managerial level employees make up a good portion of the remaining 40 percent. Another study indicates that managerial-level employee theft accounts for over 50 percent of all thefts in terms of cash value.

*Cliff Roberson*

Accordingly, hourly workers steal more often, but their thefts generally are of less value, whereas managerial employees generally steal items of higher monetary value.

Most employees who steal are young and begin stealing only occasionally. After they discover how easy theft is, they find it difficult to stop. However, this does not mean that only the young steal. The records are replete with cases of trusted, long-term employees who have been stealing from their employers for years.

### **The Employment Environment**

Most criminologists list four workplace factors that contribute to employee theft: opportunity, differential association, managerial dishonesty, and low job satisfaction.

#### **Opportunity**

Many companies, because of lack of controls and a casual attitude toward employee theft, provide an inviting opportunity for an employee who has a tendency to steal. In many cases, employees, provided with a wealth of opportunities to steal, consider company property as their own.

#### **Differential Association**

Differential association is a criminal behavior causative theory that contends that the influence of those persons with whom we associate determines to a great extent our own behavior. Thus, if our associates either directly or indirectly encourage theft from the company, we are likely to be influenced by them to steal. This explains why when employee theft is discovered many employees are involved in it. Under this theory, if the majority of employees steal from a company, then more likely than not a new employee will begin to steal from the company.

The differential association theory was developed by the late Edwin Sutherland of the University of Chicago, considered by many to be the dean of American criminology. His crime causative theory is probably the most widely accepted criminal causative theory today in the United States.

Differential association theory is based on the laws of learning, that is, we learn to commit thefts in much the same manner that we learn to drive a car or to play basketball. Sutherland's principles include:

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1. The processes that result in systematic criminal behavior such as stealing from an employer are learned in the same manner we learn other things. For example, an employee learns to steal in much the same way that he learns the other aspects of his job.
2. Systematic criminal behavior is learned in the same process of association with those who commit criminal conduct as lawful behavior is learned in the process of association with those who do not commit criminal behavior.
3. That a persona will commit certain criminal behavior such as theft generally is determined by the frequency and consistency of that person's contacts with fellow workers who steal or observes acts of stealing, the chances are far greater that she or he will also steal.
4. We learn to commit criminal behavior. Criminals are not born. A person does not inherit criminal tendencies. Such tendencies are attained in a series of learning experiences that establish accepted norms of behavior. The effects of differential association vary in persons according to the frequency, duration, priority, and the intensity of the association because of the individual physical, psychological, and social differences in people.
5. Criminal behavior is learned in the process of interaction with others. According to this theory, television and other forms of communication are not that important in our learning process, rather it is the interaction with others that formulates our behavioral tendencies.
6. Our most influential learning occurs within small, intimate, personal groups. Accordingly, the employee thief learns to steal from other employees within his or her close personal groups. Close personal contacts or associations are the key factors in shaping our value system or developing tendencies toward or away from criminal behavior.

Sutherland's theory fails to explain why every person who comes in contact with criminal behavior does not commit crimes. However, the theory is valid to the extent that criminal behavior has an almost contagious nature to it. Many criminologists state that, although to a large extent our criminal behavior is learned, differences in biological and constitutional make-up explain why some employees resist the learning processes favorable to criminal behavior.

#### **Managerial Dishonesty**

Managerial dishonesty is closely associated with the differential association theory as a causative factor in employee thefts. If managerial-level employees set a bad example by misusing company property, other employees are

encouraged to take company property. Both managerial dishonesty and differential association establish that theft of company property is an acceptable behavior norm.

### **Low Job Satisfaction**

Low job satisfaction is the least understood of the job-related influences on employee theft. In many cases, the employee uses controlled thefts as a means of job enrichment. Employee job dissatisfaction also leads to vandalism. Although it often is difficult to increase job satisfaction, any steps taken in that direction normally tend to reduce the incidence of employee theft. Low job satisfaction is discussed in more detail under the theft prevention section of chapter 9.

### **Personal and Psychological Causes**

Walter Reckless, a noted criminologist, developed a theory of the techniques of rationalization used by criminals to neutralize their conduct and thereby discount their wrongdoing. He contends that the majority of criminals knows the difference between right and wrong and believes in doing right. Accordingly, they must justify to themselves why they are committing criminal behavior. In the area of employee theft, the techniques of rationalization are readily apparent. The most common ones are: the company owes it to me since they either are not paying me enough or have failed to promote me; everybody does it; the company can afford the loss without any problem; it is a chance to get back at the boss; and management expects it.

Personality characteristics of employee thieves include those eager beavers and employees who are very protective of their jobs, roles, and functions. Dishonest employees include those who live beyond their means, chronic complainers who feel they are underpaid and also are superior to others, and those who feel frustrated and complain that they are not appreciated.

Personality traits provide only potential clues of employees to watch and mean only that these persons are more likely to engage in misconduct in general.

### **Motives**

In one study of over one thousand cases of employee theft, the researchers assigned four general motives for stealing: (1) to allow the employee to live beyond his or her means; (2) to pay gambling debts; (3) to support drug abuse

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habits; and (4) to pay for an extended illness of the employee or of a member of his or her immediate family.

The motive assigned most often was to allow the employee to live beyond his or her means. In most of these cases, no apparent effort was made by the stealing employees to live within their salary levels. These people apparently prefer to steal rather than curb their desires.

#### **Theft Indicators**

Be alert for indications that thefts of company property are occurring. Some of the most common indicators are:

1. Mistakes in shipping and receiving records.
2. Inaccurate accounting records.
3. Shortages in inventory records.
4. Merchandise and supplies missing or found in inappropriate places.
5. Security devices inoperative.
6. Doors and windows left unlocked at closing time.
7. Employees who are sensitive when questioned about their duties.
8. Customers who demand to be waited on by a particular employee.
9. Employees who are always the last to leave the storage areas.
10. Employees who regularly come in early.
11. Employees hanging around areas where they are not required to be.
12. Employees who are living beyond their incomes.
13. Shortages or overages in the cash registers.
14. Increases in the amount of raw materials needed to complete products.

#### **Theft of Cash**

As one researcher stated, there are numerous methods of stealing from an employer and more are being discovered each year. Some of the most common methods of stealing cash from an employer are listed below. Check your own operation to see if you are vulnerable.

1. Ringing up sales but not giving the customer a sales receipt, pocketing the extra money.
2. Failing to register sales and pocketing the money.
3. Ringing up "no sale" in a cash sale transaction and then keeping the money.
4. Pocketing cash from a common register drawer.
5. Overcharging or shortchanging customers and keeping the difference.
6. Cashing worthless checks presented by accomplices.

7. Giving fraudulent refunds to accomplices.
8. Keeping checks made payable to "cash."
9. Paying invoices twice and keeping the second check.
10. Failing to record returned purchases, reselling the goods, and keeping the money.
11. Issuing checks for returned merchandise that was not in fact returned.
12. Decreasing the amount on invoices after they have been paid and keeping the extra money.
13. Receiving kickbacks from supplies and vendors.
14. Keeping collections made on accounts that were considered uncollectible.
15. Increasing the amount payable on checks that have been cashed and keeping the extra money.
16. Keeping incoming cash payments.
17. Padding payrolls as to time worked or number of employees.
18. Stealing unclaimed wages.
19. Submitting false expense claims.

### **Theft of Products and Supplies**

Just as there are many ways to steal cash, there also are numerous ways to steal products and supplies from an employer. To how many of these methods is your company vulnerable?

1. Slipping out stolen goods in the trash. This appears to be a very popular method to get goods out, since no one wants to inspect the trash.
2. Shoplifting during off-duty times. Off-duty employees are in a good position to know how to shoplift without being caught.
3. Hiding goods in employee lockers or other areas for later removal from the company.
4. Giving extra merchandise to delivery persons who are working as accomplices.
5. Padding inventories to prevent the discovery of shortages.
6. Keeping returned goods.
7. Shipping goods to the Clerk's own post office box.
8. Picking up discarded sales receipts and using them to walk out with similar merchandise.
9. Giving employee or other discounts to friends.
10. Putting on jewelry, watches, and so forth and wearing them home.
11. Stealing "package passes" to be used later.

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12. Putting address labels on packages received and sending them to the employee's own home.
13. Using the postage meter or postage stamps for personal mail.

**Expense Account Scams**

Employer should keep historical records of all employee expense claims, comparing them to other claims submitted by that employee as well as those submitted by other employees. Following are some common methods employees use to pad their expense accounts.

1. **Airline tickets:** Employees purchase full-fare tickets, keep the receipts, then turn the tickets in for discounted-fare tickets and claim the full-fare using the full-fare receipts. To avoid this, you can purchase the tickets on a company account and obtain the lowest fares to start with. This not only reduces the opportunity for theft but also saves the company money in reduced fares.
2. **Car rentals:** The employee rents cars using personal credit cards. When the car is returned, the employee claims to have lost the original contract. A new one is issued and charged to the employee's personal credit card. The employee then takes the original contract and completes it with excess miles and charges. You can prevent this by requiring employees to have the rental company bill the company direct or by requiring employees to submit both the rental contract and their evidence of payment (charge receipt).
3. **Ground transportation:** Employees charge their meals to their hotel bill and then claim meal expenses. To prevent this, require itemized hotel bills. Also check for meals that are included in seminar fees or provided without charge to ensure that a separate expense is not being charged for them.
4. **Double payments for meals:** Employees charge their meals to their hotel bill and then claim meal expenses to prevent this, require itemized hotel bills. Also check for meals that are included in seminar fees or provided without charge to ensure that a separate expense is not being charged for them.

Most companies do not check travel expenses under \$25.00. Establish a policy of selectively auditing these smaller amounts and keep employees informed of the possibility of an audit of all expense claims. Do not allow employees to know what travel expenses are claimed by other employees on similar trips. If an employee does not know what other employees submit, he or she is more likely to submit a conservative claim.

*Cliff Roberson*

### **Janitors**

Janitors, because of the nature of their duties, are very familiar with the operations of the company and the layout of the premises. They normally can justify being in any part of the premises at any time. Thus, they are in a position to observe the alarm systems and other protective devices. In addition, janitors are in most cases low-paid and semi permanent employees. Because of these conditions, they are in an excellent position to steal company property, and you must closely monitor their activities and never permit janitors to be left unobserved in company areas.

To prevent disruption of business, many companies require janitors to clean the offices during times when other workers are off. This is inviting the janitors to steal. Although a company normally cannot afford to hire persons to watch the janitors, the mere presence of other workers tends to discourage theft.

Recently, a major corporation in a highly competitive market discovered that one of its janitors was in fact a paid informer of a competitor and was reading the working papers and drafts that were routinely deposited in the trash. This company had previously taken steps to prevent the theft of company property by janitors but had neglected to protect sensitive information.

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