An Inside Job

Employee theft costs $50 billion a year and causes 1 in 3 bankruptcies

By Gurudain Singh Khalsa

If America is becoming a kinder, gentler nation, the news has yet to reach managers responsible for controlling employee theft. Theft in the workplace continues to be a management headache that won't go away.

Some experts estimate that 43 percent of retail shrinkage comes from employee theft. Others say it's higher than 50 percent. One source says that 70 percent of all retail losses go out the door in employees' pockets. It's even higher in banks, where 84 percent of theft losses are due to employees. Bonnie and Clyde were in the wrong business. They should have *worked* in banks, not robbed them. It's much more profitable to steal from the inside.

Employee theft costs businesses an estimated $50 billion a year, and is rising at a rate of 15 percent per year, according to the U.S. Department of Commerce. That's significantly higher than the $30 billion attributed to shoplifting. The effect on our economy is substantial, but the effect on individual businesses is devastating. The Commerce Department and the American Management Association say that 30 percent of new business failures are due to employee theft.

If there is a rise in employee theft, what's fueling it? Three things. First is disbelief on the part of managers and co-workers. Second is employee confusion on what belongs to whom, and what constitutes stealing. And third is the rise of drugs in the workplace.

Private investigators will tell you it's tough getting employers to believe that their employees are stealing from them. As employers are moving to cooperative corporate cultures, where control is decentralized to the lowest levels of the organization, work groups are becoming like families. Many employers have strong feelings of responsibility toward their employees. They are supportive and protective.

This attitude makes good business sense. Happy employees, who feel they are respected, are more productive, and tend to look after the affairs of the company with a more responsible eye. Employee stock ownership programs are growing in popularity, largely because they are thought to reduce personnel problems and increase productivity. But this attitude leaves a little door open for the confirmed thief.

The little door that is left open for the thief is the door of employee trust. And anyone suggesting that an employee has gone through that door may be faced with disbelief.

An engineering firm in the Sunbelt suffered a rash of small thefts—money missing from the petty cash drawer or from employee's purses. In spite of suggestions for security investigatots that the thefts were probably the work of a single insider, the company refused to listen. They tightened up external security to keep outsiders out, and the thefts continued. When the investigators pointed out circumstantial evidence that linked the company mail clerk to most of the thefts, the employer refused to believe that the clerk, a popular employee and star of the softball team, was implicated.

Finally, an event occurred that was simply too obvious: the clerk borrowed the company van for the weekend. He claimed it was stolen, and police later found the vehicle on a neighborhood street, stripped of most resalable items. The company authorized an investigation.

A background investigation revealed that the employee had been charming at every previous job, and had stolen progressively larger amounts from each previous employer, one of which was a convenience store from which he had allegedly embezzled several thousand dollars. After that incident, he had disappeared for a year, resurfacing at the engineering firm.

But even when this information was revealed, the company refused to authorize further investigation into the theft of the truck, or to turn the matter over to the police. They released the employee quietly, leaving him free to steal from his next employer. The fact was, they still didn't fully believe the popular employee could have really been a thief.

This trend of disbelief comes from

the fact that human beings tend to think that others think the same as they do. People who don't steal tend to believe that most other people don't steal, either. People who do steal think everyone is doing it.

In the case of the mail clerk, all of his previous employers mentioned his theft only in passing, and always apologetically. They each said it was an isolated incident caused because the young man was under domestic stress at the time, and each insisted that the theft had really been a form of borrowing, which the clerk had meant to return. Each, except for the convenience store, said that he had apologized and agreed to pay all the money back. When asked if he had actually paid the money back, they admitted that he hadn't. Even at the convenience store company, which had reported the theft to the police, then dropped it when he couldn't be found, people were divided. The company security investigator and the clerk's direct supervisor knew the money had been stolen, but other store managers still believed it had only been a bookkeeping error.

This environment of disbelief allows the thief to "hide in plain sight." Unless the theft is outrageous, obvious or inept, chances are he'll never even be suspected.

Theft also occur when theft is not a black and white issue. Most employees are a little confused about what constitutes theft.

According to the American Polygraph Association, whose members perform much of the polygraph testing done for the Federal Government and who have been keeping statistics on their members findings over the years, about half of all employees steal sometimes. Of that group, 25 percent steal significant items, and 8 percent steal in bulk. According to the FBI, 30 percent of employees will never steal; 60 percent would steal if they knew they wouldn't get caught, or if they thought everyone else was doing it; and 10 percent will actively look for an opportunity to steal. Thirty percent of all employees steal, according to the Justice Department.

Clearly, these figures don't mean

that half the workforce needs to be fired. The subject of theft can be confusing. If an employee is paying her electric bill during her lunch break, is it theft to use a paper clip from the office to clip the check to the bill? Yes, technically it is; but few employees would think twice about it If they use a company stamp to mail the bill, is that theft? Yes, and a lot fewer employees would do that, but it probably wouldn't be grounds for dismissal. And if they took cash from the till to pay the bill, or wrote a company check? Virtually everyone would agree that was stealing.

A corporate culture that is aware of theft creates a company that is likely to have lower theft losses. A company culture that is unaware of theft, where thieves can work unnoticed, and when there are no controls, is an atmosphere that actually breeds theft.

Drugs have added a new element to employee theft in recent years. Drug users are so much more likely to steal than the average employee that when drugs appear in the workplace, employee theft is likely to go through the ceiling. According to a 1985 survey by the 800-Cocaine National Helpline, 18 percent of cocaine users said they would steal from their co-workers to support their habit, 26 percent said they had been fired from a previous job for drug use, 44 percent said they dealt drugs at work, and 64 percent said they had easy access to drugs at work. Controlling drugs has to be an important part of preventing employee theft In a study by the Harvard Medical School, for the American Society of Industrial Security, researchers found that 35 percent of workers who had been referred to EAPs by their company said they stole from their employer.

Who does the stealing? Young workers have the worst record. Workers aged 18-22, who make up only 12 percent of the workforce, are responsible for 69 percent of all employee theft. An 18-year-old is four times more likely to commit a crime than a person of 40. Males are five times more likely to commit a crime than females.

Where does the theft occur? Mostly at the point of sale, or in the warehouse. According to the National Institute of Justice, 80 percent to 100 percent of cash shortages are due to dishonest employees. A study by Arthur Young, Inc. showed that 39 percent of employee theft occurs at the point of sale. The giant accounting firm found that most point of sale systems are poor at monitoring transmission of cash from customer to cash drawer. Warehouses and shipping docks are easy targets for the obvious reasons: that's where the goods are, and in many companies, the pickings are easy for a committed thief.

Managers sometimes seem to have a difficult choice. They can police their workforce to death with despotic management that leaves no one with a chance to steal. Or they can maintain an open system and work to make sure they hire no one likely to steal.

In reality, the most successful systems lie somewhere in between. Instituting controls that prevent stealing can actually facilitate the kind of "open door" policy that lets employees feel they are being treated like adults. And finding ways to keep from hiring the 10 percent who are active thieves can dramatically reduce theft rates. In the end, most employers will find controlling theft to be a dead-end street, akin to controlling burglary by planning to shotgun anyone who walks into your bedroom. By the time you pull the trigger, it's too late: you already have a problem. Prevention is the best defense.

It's easy to say, "Don't hire thieves," but how do you avoid it? By screening for integrity, honesty or attitudes toward theft with one of the many excellent paper-and-pencil indicators available on the market. These indicators, such as the Wilkerson Pre-Employment Audit, present job applicants with simulated ethical situations in which they must make decisions and judgments—judgments which reveal their attitudes. When their pattern of answers is compared with answers given by known felons, employers can judge for themselves how close (or how distant) their responses are, and make predictions about employees' future behavior. How effective are these indicators? Psychologist Paul Sackett of the University of Illinois at Chicago produced a study concluding that integrity indicators *can* help reduce theft in the workplace. Employers who have used them concur, and their low cost makes them particularly attractive to managers meeting a budget.

The good news is this: you can fight employee theft, and you can win.

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