LPM SPECIAL REPORT

Optimizing Your Employee Theft Policy

From taking a watch straight out of the case to walking out with an armful of $3,000 party gowns, the ever-constant problem of employee theft is motivated by an ever-growing sense of entitlement, as well as a blatant disrespect for the employer and the law. The same practices used in fighting drug dealers apply to tracking down thieves inside the workplace. Professionally conducted interview and interrogation tactics and procedures play a critical role in identifying the prime suspects and solving this costly problem.

Corporate theft, occupational crime, dishonesty and workplace deviance are on the rise in the retail industry. Based on research by Martin Investigative Services, the employee theft rate held steadily at 15 percent from 1969 to 2006. This figure skyrocketed during the third quarter of 2006 to an alarming 75 percent. In his article, "Retail Crime Cost U.S. Retailers $41.7 Billion in 2011" published in *Retailing Today*, Michael Johnsen reported $18.4 billion of this staggering amount was attributed to employee theft.

Driving Factors and Red Flags

There are four types of employee thieves actively engaged in stealing time, money or products from their employers:

- Thieves by nature—those who enjoy stealing
- Employees who feel entitled—the world owes them more than what they earn
- Employees stealing out of desperation—they are either in extreme debt or have a drug/gambling problem. These problems are often compounded by a weak economy.
- Theft by a target of opportunity. Money in plain sight will be taken.

Many executives do not grasp the full magnitude of theft in their company until they see the results of an investigation. To the untrained eye, a retail store or warehouse might be operating normally. To someone with significant investigative experience, the work environment can be rife with theft. This problem can be remedied by well-trained loss prevention investigators who ask probing questions, identify/confirm the facts and corroborate allegations of costly and reputation damaging acts of theft.

Finding Thieves

For many private investigation and retail security organizations, the first plan of attack in uncovering an employee theft may be to plant an undercover agent in a store or warehouse. A more effective approach is to conduct a series of interviews by internal investigators or using former law enforcement professionals who work independently in the private investigation industry.

Interview and interrogation practices have been relied on for decades by law enforcement agencies and is now commonly taught to retail investigators. The application of these same interviewing techniques in dealing with employee theft often brings quick results. This approach of uncovering the facts takes far less time than using undercover agents.

With so much at stake, it is essential to use investigators who are trained to conduct an interview and interrogation session that parallels federal investigative standards and is acceptable in any court of law. This level of expertise is found among former agents who have worked for the FBI, DEA, IRS, Secret Service, as well as local and state law enforcement. Today the same firms that instruct law enforcement, such as Wicklander-Zulawski, teach retail loss prevention investigators the same techniques for use in internal investigations.

The Interview and Interrogation Process

The interview and interrogation approach to uncovering employee theft begins by meeting the president or CEO to gain his or her perspective on the problem. This first step is followed by a series of interviews in the areas where the theft is occurring. Conducting thorough interviews of employees about scheduling, accounting and inventory activities can bring to light a host of suspicious problems that yield a significant amount of evidence in as little as four hours.

By articulating the seriousness of the crime and the determination to solve it, two investigators with exceptionally strong interview and interrogation skills are usually able to elicit a confession from an employee in minutes. This confession can lead to the identification of either one or dozens of employees engaged in theft regionally or nationally. Once the employees are identified, they are subject to the policies of the company's human resources department. If charges are made, they can face criminal prosecution.

Independent Evaluations

In some cases, an independent evaluation or review by a third-party investigation firm provides companies with an objective look into solving employee theft problems. An investigation from outside professionals with career backgrounds in law enforcement can be an effective course of action for meeting companies' legal and corporate mandates.

An independent evaluation also directly targets the source of disappearing merchandise on the retail floor or warehouse, where an internal review might possibly be hampered by managers blaming each other and not disclosing all the facts. The main objective of the private investigation firm is to help protect the company's retail stock, assets and revenue stream through the identification of employees suspected of theft and providing recommendations to enhance security in retail outlets, warehouses and throughout the supply chain.

In a press release from April 26, 2013, Kessler International, a forensic accounting and investigative firm, released results from an anonymous survey of 500 employees sampled from a variety of retail and service companies. The headline of the press release reported that an astonishingly high 95 percent of employees reported stealing from their employers, which was up significantly from a previous study they conducted in 1999 that found that only 79 percent of employees reported stealing.

A quick review explains why the percentages were so high. In short, the researchers included theft of time and theft of office supplies in their dependent variable. While one could argue that these forms of theft are not "serious," in fact, they add up to significant losses in the workplace.

Theft of Time and Supplies

In the Kessler survey, more than 30 percent of respondents admitted to falsifying the actual time that they worked. This behavior seems to be exacerbated by heavy cell phone use, such as texting friends while at work, and by the use of workplace computers to update personal social media websites, such as Facebook and Twitter. While social media was virtually non-existent when Kessler first conducted this survey in 1999, now it is ubiquitous, and the many minutes spent checking and updating personal accounts now add up to hours of unproductive time at work unwittingly paid for by their employers. Remarkably, 63 percent of those surveyed admitted to checking their social media sites regularly during the work day.

Theft of office supplies for personal use is also just as high as it was more than 30 years ago, when John Clark and Richard Hollinger conducted a landmark survey for their book, *Theft by Employees*. Pens, paper, notepads, and even toilet paper are still regularly taken from the workplace to use at home by employees, spouses, family members, and children.

Theft of Corporate Intelligence

Other forms of larceny that were admitted by employees responding to the Kessler survey included theft of corporate intelligence. While stealing corporate secrets and intelligence was reported at much lower levels, it can be argued that these forms of employee dishonesty, such as unauthorized taking lists of clients, marketing information, and proprietary information, can be even more harmful to the company than the other forms of theft reported above. Thirty-five percent of employees responding to this survey admitted to having stolen goods or services from their employer at some time in the past. Moreover, 45 percent reported that they were aware of or had witnessed other employees at current or former places of work stealing goods and services from their employers.

Perceived Inequitable Treatment

Employee theft is still very prevalent in many different workplaces—not just the retail store. Unfortunately, the negative impact of theft by dishonest employees is still very significant and not yet close to being under control. Explaining why employees "bite the hand that feeds them" has many different causes. However, this study, along with many other examples of past research, seems to show that the heart of the solution still involves convincing employees that they will be equitably rewarded and fairly compensated for the contributions that they make at work.

Otherwise, it would appear that employees who perceive inequitable treatment by their employers will take matters into their own hands by means of theft, dishonesty, and counterproductivity. In other words, pay your employees well, or they will find a way to pay themselves at a much greater cost to the profitability and success of the company. Perhaps this fact should be considered as our nation once again considers the costs and benefits of raising the minimum wage.

20-Year Trends

The National Retail Security Survey (NRSS) collects data on the sources, causes and solutions for retail shrinkage. The survey has been conducted since 1991 by Read Hayes, Professor Bart Weitz, and Richard C. Hollinger, Ph.D. While there is not enough space to summarize all the findings from 20-plus years of data, it is safe to make the following generalizations:

Scope of Loss. The level of economic loss that occurs in retail stores is far larger than any other form of property crime in the United States: larger than auto theft, bank robbery, burglary, and personal robbery. The $35 billion in loss due to retail crime is the single largest category of property crime each year.

Retailers are the most victimized by property crime, according to survey results. Most people would not expect that this is the case. Retailers need to do a better job of communicating this message, since ultimately the cost of retail loss either causes businesses to fail or is passed along to the consumer. Neither of these is good for the economy.

*Impact of Internal Theft***.** Despite what most citizens and some naïve retailers would believe, the greatest economic damage is caused by dishonest employees, not shoplifters. In the store the most visible countermeasures are directed at shoplifting, including EAS tags, cameras, and security personnel. However, since the beginning of this survey, retailers have reported that between one-third and two-fifths of their losses are believed to be the result of dishonest employees stealing from the firm or by letting others steal from the store through behaviors like sweethearting.

Clearly, organized retail crime and amateur shoplifting remain a significant problem; however, every year, major retailers report that their levels of internal theft are bigger problems than external theft. This means that, as the comic strip character Pogo once clearly stated, "We have seen the enemy and he is us." Despite the major efforts at screening and monitoring employees, they still find a way to bite the hand that feeds them.

This is a sad commentary on the nature of the relationship been the retail store and its employees. A significant number of retail employees still do not feel equitably rewarded and compensated for the work that they provide. As such, they obviously feel justified in taking from their employers to alleviate this perceived inequity. This phenomenon takes place in retail stores, manufacturing plants, food service, and manufacturing. It is not just a retail problem.

This is probably why the two best predictors of a store's shrinkage level have been employee turnover and job dissatisfaction. In short, while "bad people" are occasionally hired who are inevitably going to steal regardless of what is done in the way of prevention, our own employees whom we have screened, trained, and worked alongside of for years remain the greatest theft and shrinkage threats. Until the problems of employee dissatisfaction and perceptions of marginality are solved, the retail industry will continue to suffer multi-billion dollar loss levels and suffer shrinkage levels that negatively affect the profitability of the entire industry.

No Silver Bullet Solution. Each time a new technology or loss prevention system is introduced, there are always problems and deficiencies that prevent optimal implementation until the bugs are worked out. The most effective solution to eliminating employee dishonesty and deterring shoplifting is in convincing our own staff that protecting the property of the store from theft is in the best interests of both the employees and the owners of the retail corporation. In short, people "do not steal from themselves." Sales associates must recognize that protecting the assets and merchandise from losses of all types will not only benefit the company, but will benefit the employees as well.

Risk versus Gain Theory

Managers frequently convey the wrong message when addressing associates about theft. These managers say things like "Don't steal, or you will get caught" or "We have a good loss prevention guy, and he catches everything, so don't steal." "Don't steal because it is not worth it" is a loss prevention cliché. Do we ever take time to explain why it is not worth it?

Some companies don't like to talk about internal theft because of the uncomfortable feelings it produces. A better way to convey the risks of employee theft would be to explain to the associates the risk versus gain theory.

Discussing with associates the risks of theft and comparing them with the potential gains greatly reduces their potential to steal from their employers. Most associates do not consider the punishments and risks when they steal from their employer—they steal a $100 pair of shoes and risk losing their $20,000 to $30,000 salary.

The concepts of risk and gain are common sense but the wrong messages are sent out to associates regarding employee theft. It seems to me that the message is "Don't steal, or you will get caught", when it should be "Don't steal because it is not worth the risk." Employees risk so much when they become dishonest. Here are the risk factors that can be discussed with employees:

Employment: The national unemployment rate is somewhere between 9 and 10 percent. Surely a person would not want be unemployed right now. Many of those who do find employment are under employed because they can't find jobs that pay equal to what they were making.

Reputation: When things go bad, our reputation can be all that we have left. Imagine being fired from a store that employs 50-100 people. Every one of them will soon know what happened to you and why and that reputation will spread.

Salary: Without steady income, your life can turn upside down. Most states will not award unemployment benefits if there is a theft issue at hand. You could lose your car, house, or even fall behind on payments like child support or alimony.

Your choices affect tomorrow. Success for today means success for the future. Failure at one job can lead to the same issues at another job. Most people are terminated from different jobs for the same reason (tardiness, harassment, drug use, etc.).

The risk versus gain theory should be used by loss prevention professionals to help employees better understand the risks being taken when dishonesty presents itself in the workplace. The next time you close an interview with a dishonest employee, grab a sheet of paper and detail everything that the employee has lost. Ask him or her if it was worth the risk and listen to their response. Their sadness and realization should motivate you to better convey the stakes during your next orientation.

The Dark Side of Good Customer Service

One of the most commonly held principles of shrinkage reduction, especially for shoplifting deterrence, is achieved by giving good customer service. This idea is predicated upon the assumption that if potential thieves enter the store, they will be deterred from stealing if sales associates quickly make contact with them by offering immediate customer service. The thief will then know that they have been recognized by staff, and their behavior is now being observed in person or by camera. The hope is that if they have criminal intentions, they will soon leave the store and decide not to steal because the LP and sales employees have recognized their presence. In short, the “good customer service” dictum sends an indirect message that “we know you are here.” Moreover, if the thief has a desire to steal from the establishment, there is a significant likelihood that they might not get away with the theft while sales associates and LP staff are watching.

One of the very first things that a sales associate in retail is taught on their first day on the job is to promptly approach all customers as they enter the store and welcome them by offering a verbal welcome and excellent service. A recent article published in a marketing journal, however, raises the possibility that customer service can be so good that it actually encourages crime. The argument suggested is, if the relationship between the sales associate and the customer is pre-existing or becomes too strong, it is possible that this close personal relationship could eventually lead to sweethearting.

These marketing scholars who are joining hands with both psychologists and criminologists have empirically examined for the very first time the nature of the employee-customer dyad relationship in order to determine what might be the antecedents and consequences of providing such good service and satisfaction that customers are getting the product for free.

Service Sweethearting

The research article is entitled “Service Sweethearting: Its Antecedents and Customer Consequences” by Michael K. Brady, Clay M. Voorhees, and Michael J. Brusco in the March 2012 issue of the *Journal of Marketing*. Following is the abstract from the article:

Sweethearting is an illicit behavior that costs firms billions of dollars annually in lost revenues. Sweethearting occurs when frontline workers give unauthorized free or discounted goods and services to customer conspirators. The authors gathered dyadic data from 171 service employees and 610 of their customers. They then compared questionnaire responses to relevant items that determined the relationship between the customers and staff plus their attitudes toward the store. The results from the employee data reveal that a variety of job, social, and remuneration factors motivate sweethearting behavior, and several measurable employee traits suppress its frequency. The results from the customer data indicate that although sweethearting inflates a firm’s satisfaction, loyalty, and positive word-of-mouth scores by as much as 9%, satisfaction with the confederate employee fully mediates these effects. Thus, any benefits for customer satisfaction or loyalty initiatives are tied to a frontline worker that the firm would rather not employ. Marketing managers can use this study to recognize job applicants or company settings that are particularly prone to sweethearting and as the basis for mitigating a positive bias in key customer metrics.

Without getting too deep into the details of this complex research study, it is clear that the hypotheses that the researchers examined were based upon the existing literature on employee theft and workplace deviance. To summarize the results, they found that “results indicated that sweethearts had significantly more favorable assessments of and intentions toward both the employees and the firm.” In other words, those customers who have developed sweethearting relationships with your employees who really liked coming to your stores to get free or discounted merchandise.

The results suggest that not accounting for sweethearting in the customer experience could significantly inflate customer satisfaction scores, loyalty levels, and positive word-of-mouth opinions. In other words, this study suggests that one of the principal reasons why customers like coming—and returning—to your stores to “shop” may involve the substantial discounts that they are receiving from your dishonest employees.

Screening for Sweethearting Characteristics

We all recognize that positive customer-employee relationships are known to increase customer satisfaction and stimulate positive word-of-mouth opinions about retail stores, hopefully increasing sales. However, this paper considers the idea that some liked shopping in a store because employees were regularly "hooking up" customers with merchandise and discounts that were directly inflating the levels of shrinkage and thus reducing the profitability of the firm.

As the authors of this article puts it, "In a worst-case scenario, managers might reward the very employees responsible for up to 35 percent of the profit losses." The authors further suggest that perhaps we need to redouble our efforts to "identify the trait profile of the ideal frontline worker."

Pre-employment screening tests can head off sweethearting if we add measures that look for high scores on "personal ethics" and, alternatively, low scores on the "need social approval from others." Minimizing the frequency of sweethearting should also be enhanced by avoiding applicants at the very high end of the risk-seeking scale.

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This revealing and counterintuitive research study on sweethearting is especially important as we enter the holiday season. We know that some employees work at our stores during the holiday season for the primary reason to steal products for themselves or to give away products to friends and family. Better preventative screening steps might provide an effective buffer that "circumvents the need to implement oppressive security measures that alienate all front-line workers."

Wage Levels and Employee Theft Research

A recent article published in the *Journal of Accounting Research* (50, 2012: 967-1000) entitled, "Can Wages Buy Honesty? The Relationship between Relative Wages and Employee Theft" concluded that employees who felt equitably paid were significantly less likely to steal from their employers. The article was written by Professors Clara Xiaoling Chen of the University of Illinois-Urbana and Tatiana Sandino of Harvard University.

In 1983, John Clark and Richard Hollinger examined the self-reported responses of over 9,000 employees in three different industries and found that employees who felt equitably paid were significantly less likely to steal from their employers. Alternatively, employees who were not satisfied with their wages were more likely to commit employee theft.

Chen and Sandino used two complementary store-level datasets provided by the convenience store industry to test whether relative wage levels were negatively associated with employee theft. Using three different measures of employee theft, including shrinkage and cash shortages, high relative wage levels were found to be consistently negatively related with employee dishonesty. This means that the more people were paid in comparison to others in relatively similar work settings, the lower was the occurrence of employee theft. Not surprisingly, they documented that "better-quality" employees were less likely to steal.

They also discovered that higher store manager turnover could result in less monitoring and thus, produce higher employee theft. The link between above-average managerial turnover and high shrinkage is a finding that has been consistently observed over the twenty-year history of the National Retail Security Survey.

Moreover, Chen and Sandino went on to examine whether or not there is a relationship between high property crime in surrounding neighborhoods and employee theft. They confirmed a negative relationship, meaning that high property crime predicts lower employee theft. A potential explanation for this finding is that firms use better control systems in high property crime areas, which seem to reduce both shoplifting by customers and employee theft.

Cost-Benefit Analysis

The two authors went on to conduct an actual cost-benefit analysis of increasing employee wages.

They predicted that increasing employee wages would translate into a benefit of recovering 39 percent of the cost of the wage increase in terms of lower levels of employee theft. While this does not cover all of the cost of the wage increases, Chen and Sandino speculated that higher employee wages will also result in higher employee effort levels as well as produce a reduction in turnover. These indirect benefits would likely cover the remaining 61 percent of the wage increase, clearly recovering the remaining costs. In short, increasing wages can be justified on the bottom line, since the cost of raising employee wages would result in higher profit margins and essentially pay for itself.

The authors also conclude that these results suggest that “overpaid employees do reciprocate to their employers for generous compensation.” This means that they work harder, are absent less, and are more productive. In addition, the lower inventory shrinkage relationship with higher wages when more employees are present also “suggests that relatively higher wages in the workplace mitigates against potential collusion among coworkers.”

With the real possibility that U.S. minimum wages might be increased in the near future, many have speculated that these higher wages would have a negative effect on the profitability of many retail businesses. If the findings of this research are correct, exactly the opposite might be true. In summary, an increase in employee wages, especially in the retail industry, might actually reduce shrinkage losses and thus increase, not decrease, profits.

Other Explanations for Internal Theft

Another quality employee-theft study was recently published as a doctoral dissertation. The author, Dana N. Baxter, completed her research while studying under Dr. Dennis Giever at Indiana University of Pennsylvania. Baxter is presently an assistant professor at Davis and Elkins College in West Virginia. The title of her copyrighted study is “Who is Taking the Shirt Off Your Back? A Multi-Method Analysis of Theft at a Specialty Retailer.”

Purpose of the Study

Baxter’s study examines the causes and cost of theft, both internal and external, at one particular specialty retailer chain and offers an explanation of motivation for those caught committing internal theft. Historically, crime has been perceived as an activity of the nonworking or lower-class members of society. Some still may not even consider illegal actions that occur during the course of business to be crimes at all.

Employee theft is one of the most rampant and costly issues faced by today’s public and private business owners. Recent research estimates that business crime costs the U.S. approximately $186 billion annually. Most individuals spend the majority of their adult lives at their workplace, which makes the study of occupational deviance and theft critical, because the inclination towards criminal activity does not disappear once an individual enters into the workplace.

The purpose of this study was to provide answers as to:

- Who is being caught committing theft
- The characteristics of store locations that lead to loss
- How much loss is occurring annually
- The cost of internal theft
- What prevention techniques are being used in an attempt to control and prevent loss
- The motivations to commit internal theft as provided by those individuals who admitted to fraud at the specialty retailer

The results of the study add to the current literature, inform future research, and guide policy changes within retailers in regards to total loss, employee theft, and what may be done to prevent it.

Three Phases

This study was an analysis of three different forms of data from one specialty retail chain with 1,000-plus stores with an emphasis on the variables that predict loss in stores. Baxter collected data in three different phases from 2005 through 2012.

The initial phase was a total population design where nine independent variables were examined in terms of their impact on both dollar loss and shrinkage percentage.

The second phase was a nonprobability sample of case files of former employees who had been caught committing a form of internal theft. This phase also included a review of the confession statement provided by the employee at the time of their termination interview.

Finally, Baxter conducted eight interviews with members of the loss prevention department to flush out themes about both external and internal loss and to garner information about the types of prevention techniques used at this particular retailer in an attempt to deter crime.

Baxter examined the effect of store location, store location type, store location environment, cash-and-wrap location, and use of camera surveillance. In addition, she was allowed to examine the personal statements made by apprehended dishonest employees. The shrinkage for this chain was 1.62 percent, which was slightly higher than the national average.

Expectations versus Findings

Baxter expected to find that employee turnover and manager turnover were highly correlated with shrinkage, but did not find that this was a strong relationship. Instead, she found that the highest losses were found in those stores with the largest number of managers. Clearly managers do not cause theft, but this finding indicates that theft is highest in the larger stores, especially in malls located in urban areas experiencing higher levels of social strain.

High levels of loss were also noted in "lifestyle centers" located in the wealthier suburban areas. Many of these stores had more doors and cash-wrap locations, which allow quick exit from the stores adjacent to major highways. Alternatively, rural stores had lower levels of loss.

Finally, only 20 percent of the stores had CCTV, which did not have a clear deterrent effect. Interestingly, the higher loss stores were more likely to have public-view monitors, which raise the question of their deterrent effect on shrinkage.

When Baxter looked at demographic characteristics of the dishonest employee, not surprisingly, she found that males, younger, and low-tenured associates were more likely to steal. She states, "The majority of employees caught committing theft were male, young (18–25), marginal (sales associates), and short-term employees (employed for less than one year)."

Assessments of LP Personnel

Baxter was also given access to case reports and confession statements that were made by employees who were apprehended. In addition, she was allowed to interview loss prevention personnel to get their perspectives on the causes of theft. For example, one typical respondent wrote in the statement, "I knew I was worth more," indicating that he or she was unhappy with their level of compensation for the duties performed. Another indicated that there was conflict with the management team at the store. These statements support the notion that marginal, young employees with short tenures are likely to express frustration with their compensation and benefits.

Baxter wrote, "Some of the individuals from the loss prevention department, including the director, echoed this information. The respondents felt that younger individuals had a poor work ethic, believed that they are not being compensated fairly for the tasks they are being asked to perform by the organization, and that these same individuals are bringing college and credit card debt to the workplace. In order to compensate themselves for perceived injustices and to pay for these pre-existing debts, young people took short-term marginal positions and quickly began to steal."

Other LP associates believed young people tended to steal for extra fun money, believing they would never be caught by the organization, while older individuals took money for gambling debts, divorce, and medical bills.

Another LP respondent surmised that younger individuals commit theft because they are trying to maintain an image, and use the brand (and subsequent theft from the brand) to maintain that image, whereas older individuals are taking because of necessity due to financial responsibility, drug problems, or debts.

It is clear from the responses that most loss prevention personnel believe that younger individuals are motivated by fun, maintenance of an image, credit card debts, and a general contention against hard work.

Analysis of Confessions

Baxter found that a common theme throughout the reviewed literature was dissatisfaction among employees leading to a greater likelihood of theft. Surprisingly, this was not a common theme in the present research project. Baxter reports, "Although a few individuals identified a level of dissatisfaction in their statements, the majority of respondents did not expressly state a lack of satisfaction with their workplace. In fact, a great majority of individuals expressed remorse for their actions and adamantly indicated that the employer was not to blame for their participation in theft.

A few factors could explain this general lack of dissonance expressed by theft participants. It is possible that the employees at this organization feel that they are treated fairly and equitably, therefore making it harder to steal from the organization, or rather making it difficult to blame the organization for the pilferage.

Another consideration for this lack of expressed organizational dissatisfaction may be that the individuals who were disgruntled did not compose statements for the loss prevention department. The demographic characteristics of those who chose to complete statements versus those who did not were similar, but one must still consider that the motivational differences for these individuals could vary.

Instead of dissatisfaction, Baxter found that confessions contained a financial theme for theft. "The financial theme had six sub-categories for individuals who further elaborated on life details that led to participation in occupational theft. In addition to the statements, several loss prevention members also discussed the financial pressures that lead employees into theft from work. Some members of the loss prevention department felt that some individuals are motivated by a personal financial need, such as sickness, family issues, or even

death....These individuals discussed life events such as siblings with drug addictions and parents who are unemployed and in need of extra help. Six of the letters were personal medical issues or family medical issues, such as overpriced medications, parents having cancer, and grandparents who have numerous medical conditions like heart disease and diabetes. One respondent explained the difficulties of life after the death of a grandparent. This grandparent had a lot of debt from medical bills, and this debt fell onto the grandchild. The suggested motivations of the loss prevention members do appear to coincide with the justifications provided by some respondents," she wrote.

"In general, these individuals did not appear to express remorse in their written statements at the time of the interview. One loss prevention department member felt that the employees just do not believe they will be caught committing these acts, so the benefit outweighs the cost in their mind. Sixteen of the employees caught for theft participation did indicate that their reason was simply an opportunity arose within the store, and they made the decision to take it. Employees saw various incidents within the store as an opportunity for easy money. Opportunities such as a deposit bag full of cash being left unattended or a reprint of a charge approval slip for a customer. Others may have had the opportunity present itself in the form of a manager or co-worker explaining how to commit fraudulent returns, or a friend pressing the employee into overriding prices on items to create larger returns. Once these initial opportunities presented themselves and the employee was not caught right away, they seemed to rationalize that the behavior was acceptable and continued to participate in the theft."

Indications of Theft Motivation

Although the Baxter did not test any one specific criminological theory in this study, some of the motivations provided in the case-file confessional statements aligned with both the routine activities theory and techniques of neutralizations. The components of the routine activities theory can be seen in the motivations coded as opportunity.

A few respondents really narrow down onto the elements in their letters needed for crime to occur per the routine activities theory. An example from one letter has a former employee describing his family's poor financial situation creating a need for money (motivated offender), a management staff that often takes unauthorized breaks away from the store (lack of a capable guardian), and subsequently leaves their register keys with the sales associates to make managerial financial authorizations within the store (suitable target).

While analyzing the statements for the motivations provided, Baxter also noted that numerous statements contained phrases and descriptions that could be categorized into some of the techniques of neutralization.

The "appeal to higher loyalties" neutralization materialized in several different statements. One respondent explained that the refund fraud was not occurring because of a need for money; rather this associate was attempting to improve the conversion rates within the store and help out the management team in increasing numbers. The associate's claim thereby rationalizes that the deception was all for the greater good of the store, not for personal gain.

Several other former employees claimed in their letters that the theft was not occurring for their own personal gain, but rather in an effort to help out a friend or a loved one. Once again, these individuals are insisting that the theft was not for them or about them, but for the greater good of someone they care about.

The "denial of responsibility" was also alluded to in multiple letters. A poignant example of this neutralization came from one letter in particular. The writer of this letter expresses right from the beginning that this crime is a result of the bad economy, citing that "desperate times call for desperate measures." This respondent continues on with the denial of responsibility by explaining that "my parents, when I was young used my social security number to get by either getting loans or filing their taxes." The associate claims that by the time this infraction was realized, the debt was already piled up with no sign of relief. Now, the individual is unable to ascertain a loan either from a reputable bank or from a friend. Therefore, this individual is not responsible for their subsequent actions while at work; that perhaps there was no choice in the matter, making the theft inevitable.

Implications for Future Study

Baxter states in summary, "The data collected in this study has implications in both the world of academia and in the business world, especially within loss prevention departments of specialty retailers. This is a relatively under-studied topic in the field of criminology and has the potential to be explored in further detail. Hopefully, this study is the catalyst for further research into other types of employee theft, employee deviance, workplace cultures and norms, and workplace ethics."

She adds, "The results from this study could be used to create policies that greatly increase the effectiveness in the prevention of internal theft within specialty retail. This study could also provide tangible information for loss prevention personnel in specialty retail to use when establishing hiring practices, and when trying to work with human resources on improving the culture of the business."

Student Employee Research

"Workplace Theft: An Analysis of Student-Employee Offenders and Job Attributes," authored by Elizabeth Ehrhardt Mustaine (University of Central Florida) and Richard Tewksbury (University of Louisville) and published in the *American Journal of Criminal Justice* 27:1 (pages 111-127, 2002), surveyed a large population of college students attending a number of major universities. Since existing research suggests that many dishonest employees are younger, part-time, untenured, and dissatisfied, the two researchers concluded that college students would make an ideal sample of employees to survey about their occupational criminal behavior.

They conducted a self-report survey of 1,531 students in the fall of 1996 asking them to report personal demographics, opportunity, and previous theft activities. The findings are consistent with a number of other studies, but with rather unique results. The authors found that three factors differentiate between those who admitted stealing at work from those who did not. Some of these predictors included theft behaviors that occurred in other settings.

For example, most impressive was the fact that students who have admitted that they recently have broken into a motor vehicle were almost fourteen (13.87) times more likely to steal from their employers. Moreover, students who have recently stolen something from a stranger were over four times (4.35) more likely to steal at work. Also of significant interest was the fact that ex-convicts were nearly four times (3.59) more likely to admit stealing from their place of work than those respondents who have never been sent to prison.

There were a few other findings of interest. Alcohol use was related to admitting stealing at work. Public intoxication, but not drug use, predicted admitted workplace theft. College students who reported that they have been drunk in public were 1.56 times more likely to admit to stealing while at work. Finally, the more jobs that a student has had in the past and the more often these jobs involved cash handling was also related to workplace theft, but at a lower level of predictive power.

It is important to remember that this study was conducted with college students and used self-reported indicators of workplace theft. Nevertheless, even with this caveat about the sample, the policy implications are significant.

- First, drug testing may be a good indicator of current and future drug use, but may not be the best indicator of theft behavior.
- Second, criminal background checks that screen out applicants with prior convictions that resulted in incarceration are obviously supported by this screening practice.
- Third, as we know in social science, the best indicator of future behavior is past behavior, especially considering that stealing in non-employment situations is a good predictor of workplace theft.

The principal paradox of this study is the finding that with the exception of the above factors, most of which retailers screen for already, the average college student who does not steal is not dramatically different from the one who does. Since we rely on these young people for a substantial proportion of the retail workforce, there is clearly no silver bullet that can distinguish those who will steal at work from those who will not.

Correlating Motivation and Opportunity

"Dishonest Associates in the Workplace: The Correlation between Motivation and Opportunity in Retail among Employee Theft(s)" is an excellent master's thesis written in May 2009 by Edith Marie Fikes, who studied at the University of Texas in Arlington. This study reviews the characteristics of associates who were terminated for instances of employee theft by a single anonymous retailer. All of these cases were detected between the first of July 2007 and the end of June 2008. The study employed the classic theoretical theft triangle of motivation, opportunity, and rationalization first introduced by the renowned white-collar crime and embezzlement scholar, Donald Cressey.

Fikes was granted access to the files of all 502 employees apprehended for theft during this one-year period. She reports that the most common associate apprehended was a white male (59%) between the ages of 18 to 22 years old (48%), employed on an hourly basis (88%), who worked on average no more than six months before being caught (36%). The amount stolen averaged $523, usually occurred at the point of sale (38%), and was discovered by management (53.5%), but not reported by a fellow associate (only 15.4%). Not surprisingly, termination without criminal charges filed was the most typical final disposition of these cases (87%).

What really makes this study unique is that the researcher also inquired as to whether the employer inadvertently created an opportunity for the crime to occur by not creating a credible set of control policies and procedures designed to reduce the opportunity for dishonesty. She found that theft increased significantly under the following circumstances:

- Damaged merchandise case not secured
- Entering or exiting the building alone allowed
- Failure to check returns for contents
- Failure to inspect trash
- Failure to process non-receipted returns
- Failure to inspect refund report
- Failure to scan product
- Failure to secure case pick-up
- Failure to secure customers credit cards
- Failure to secure merchandise
- Failure to secure product per merchandising guidelines
- Improper or unauthorized use of company funds
- Incorrect register access
- Poor key controls
- Lock-up door propped open
- Bag checks not conducted
- Manager not present at the front lanes
- Password integrity problems
- Unauthorized associate in lock up
- Unauthorized price overrides

In short, if the loss incurred was partially the fault of the actions or lack of action by management, the incident was coded as such. Using these well-used criteria, the author found that "77% or 369 of the associates terminated for theft had an opportunity created for them by management to steal."

While this research does not intend to blame the victim for the dishonesty of retail associates, it does raise valid questions about the role that inadequate controls and poorly implemented asset protection policies play in creating the ideal opportunity for a motivated offender to act on various temptations to steal.

The Moral, Societal, and Legal Obligation for Prevention

As a loss prevention professional, it is likely that you have responsibility for detecting, investigating, and resolving internal-theft cases. Doing so may support your organization's zero-tolerance policy toward internal theft. Many of today's top retailers rely on their loss prevention departments to give them a competitive advantage by controlling their operational costs through reducing shrinkage and/or accident claims. Some of these retailers have made loss prevention executives officers of the company.

While most retailers have proactive loss prevention programs, there are a few that view theft as a "cost of business." These retailers may or may not have resources dedicated to detecting and referring dishonest employees to prosecution. However, it is the absence of a proactive loss prevention program that is the most concerning.

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Many times, these retailers have very relaxed merchandise and cash controls, which can provide opportunity to an employee that, in different circumstances, would not steal. In some cases, the retailer may employ investigators to do nothing but identify internal-theft cases. All too often, these retailers do not dedicate any resources to preventing dishonest behavior. At first, this may seem like an issue that involves only the retailer. However, the decision to ignore generally accepted cash and merchandise controls has far-reaching implications.

A Moral Obligation for Prevention

Proactive loss prevention programs are designed to prevent employees from stealing, which can be a life-changing mistake. Many employees investigated for theft are in their late teens or early 20s. Essentially, these are our sons and daughters. Dan Faketty described this perfectly in his article "Six

Steps to a Successful Loss Prevention Program, Part 3" published in *LP Magazine* in November 2005. Faketty explained that his message to employees was, "We care about you" and "We do not want you to make the wrong choice." If your child worked for a retailer, would you want operational controls and awareness in place to prevent them from making a life-changing mistake? Even if you don't have children, it is generally agreed-upon that we have a moral obligation to take some measures to prevent these incidents.

Such mistakes can follow a person throughout his or her life. A criminal record can eliminate career options, which reduces future salaries. If a criminal record affected the salary of a young person by an average of $10,000 annually, this would add up to $300,000 in lost salary over thirty years. Additionally, the future value of court penalties, fees, and restitution could have a significant impact on retirement. Spending just $10,000 of retirement savings today may result in a loss of nearly $50,000 by retirement because of compounding interest.

These life-changing consequences are daunting. It's easy to see how someone could lose ambition and become depressed. In some cases, the person may contemplate hurting themselves or someone else. Statistics on depression and suicide rates are not available for theft cases. However, there is anecdotal evidence to suggest that there are people who have been impacted in this way.

A Societal Obligation for Prevention

In addition to the moral obligation to prevent theft, there is also a societal cost in referring cases to prosecution. If the theft could be prevented, the case is an unnecessary burden on the criminal justice system. Since the system is funded by taxpayers, everyone contributes to this retailer's lack of controls. Not only has this retailer chosen to absorb theft as a cost of doing business, it has chosen to pass some of those costs to taxpayers. Additionally, the criminal court system is frequently used to recover damages, therefore becoming the retailer's taxpayer-funded recovery service.

If the event has life-changing financial implications, the employee could also become reliant on government assistance, such as welfare and food stamps. Absent a proactive loss prevention program, some retailers may be adding to the growing number of people relying on government assistance programs. Since these programs are funded by taxpayers, it could be another example of society picking up the tab for retailers that refuse to implement controls in their business.

A Legal Obligation for Prevention

Retailers may have a legal obligation to prevent theft. The retailer may violate the clean hands doctrine, which, defined by law.com, is "a rule of law that a person coming to court with a lawsuit or petition for a court order must be free from unfair conduct (i.e., have "clean hands") regarding the subject matter of their claim." Put another way, civil courts will recover damages for a plaintiff. However, if that same plaintiff continues to bring similar lawsuits, it will face increased scrutiny. The clean hands doctrine asks, "Why does this keep happening, and what is being done to prevent it from happening again?"

As an example, if a lawn service mistakenly mows the wrong lawn, and the homeowner knew of the mistake and allowed it to occur, the lawn service could collect damages. However, if the same mistake was made a week later by the same lawn service, the court may assume that the lawn service did not have clean hands.

This doctrine is applicable to the civil recovery aspect of the theft incident. Since the retailer made a decision not to include operational controls in its business, it may not have clean hands. This may be especially true if the retailer had similar theft incidents in the past. In this case, the retailer may have foreseeability into future theft incidents. If the retailer is found not to have clean hands, it may be unable to collect civil restitution. If this was determined to be the case, it could make a proactive loss prevention program a prerequisite to collecting restitution.

Different Classifications of Theft

Preventative operational controls require conscious effort to organize a premeditated plan to steal and avoid detection. Absent these controls, an employee could easily steal on impulse without thinking the action through. Alternatively, manipulating records or systems (controls) would demonstrate that the employee understood what he/she was doing. While stealing is a crime regardless of what conscious thought led to the incident, thought may determine how serious the crime is.

For example, many crimes vary in severity by the effort needed to perform the crime. Loss prevention departments are familiar with some of them. For example, a shoplifter using a tool to remove security tags from merchandise before leaving the store is charged with burglary instead of shoplifting in some jurisdictions. The EAS tags represent a control put in place to prevent theft, which this person took additional effort to defeat. Another example is ORC legislation, which carries tougher penalties for the act of shoplifting.

One could argue that operational controls could be considered in the same manner. Like the EAS tag example, a broken control point may demonstrate that an employee clearly understood what he/she was doing.

Encouraging Prevention

We can all agree that eliminating unnecessary theft incidents is a good thing. Only a sadist could enjoy the thought of someone facing criminal prosecution, not to mention the associated lifelong financial penalties. There is also a real possibility of depression and hopelessness for the affected person. Even if you didn't have an ounce of sympathy for a person who stole from his employer, it is doubtful that you would agree to finance an unnecessary prosecution with your tax dollars. If you add the possibility that this person could become part of government assistance programs, a needless prosecution could become expensive for taxpayers.

In order to encourage retailers to prevent theft in their operations, courts may remove the ability to recover civil damages if retailers cannot demonstrate a preventative control for behavior. This could create ROI opportunities for proactive loss prevention programs. Additionally, courts could reduce penalties for theft incidents in which a control was not in place, and increase penalties for employees who make the decision to steal in spite of controls. Some may argue that this should be a difference of a misdemeanor and a felony. If we are to believe that increased penalties prevent theft, this would further reduce internal-theft instances. Furthermore, this could be another ROI opportunity for proactive loss prevention programs.

Taking these steps would hold retailers accountable for preventing theft by not allowing them to use the criminal justice system as their recovery service. Additionally, stiffer penalties for stealing from a proactive retailer could enhance theft prevention. This may create an increased demand for loss prevention talent, as retailers look to add proactive loss prevention programs to their operations. It may also add to the value that retailers with proactive loss prevention departments already bring. ■

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