THE CRIMINAL WORKING BESIDE YOU

Studies show employees steal over a billion dollars a year from unsuspecting businesses throughout North America (*this is all businesses, not just jewellers*). In his book *Theft by Employees*, University of Florida criminology professor Richard Hollinger says one-third of all employees in the retail sector are involved in some form of employee theft.

This number may be shocking to some. After all, it is extremely difficult for employers to believe a hand-picked and trusted staff member may be stealing from them—that those they have built relationships with are dishonest and disloyal. All too often, management is the victim of denial, a reaction that may likely cost them more than just their naiveté. Consider the following real-life examples, which illustrate the range of emotions a victim of employee dishonesty may experience.

Jim is an area supervisor for a jewellery chain. In that capacity, he oversees 14 store managers that report directly to him. A management position opened up in one of Jim's stores and he decided to offer the job to a former employee who worked with him at his previous place of employment. Jane and Jim (not their real names) had worked together for over 10 years.

After some negotiation, Jim persuaded Jane to work for him. However, this wasn't the only convincing that had to be done. Against concerns raised by Jim's supervisor, Jane was hired at a slightly higher salary than a manager's normal starting rate. The trade-off was Jim now had an experienced employee in place and someone he could trust. Or so he thought.

The trusting business relationship between Jim and Jane picked up right from where it had left off and continued for about two years without incident. One day, however, Jim noticed a few bank deposits missing from Jane's store. He asked her about it and she advised him she had made the deposits and that there must be a problem at the bank.

Over the next few months, other deposits went missing. Despite the fact Jane could not provide any validated bank deposit slips, Jim was certain she could not be responsible for the missing money. He had worked with her for 12 years, but he was in denial to the truth of what was happening.

Jim brought in an investigator to dig deeper. After a review of all the evidence, the investigator advised Jim of what he had found—Jane was stealing the deposits. Naturally, Jim was shocked, disappointed, and above all, overwhelmed with an immense sense of betrayal. This was a real slap in the face to him. And since Jim had pushed so hard to get Jane hired, he was also embarrassed to tell his supervisor what the investigator had turned up. Jim also became angry with himself. Why was he so willfully blind to what was right in front of him?

The criminal charges laid against Jane dramatically changed her life. But she's not the only one who has been affected. Jim now walks a more cautionary line and no longer accepts any manager's word that a task has been completed. He looks at them all with a 'jaundiced eye' and requires documented proof for all deposits. This is a mixed feeling for Jim. On the one hand, he does not want to be ‘a doubting Thomas,’ but on the other, he feels he is paid to supervise and is simply fulfilling his role.

Profiling

According to California-based security consultant Chris McGoey, there is no real profile for a dishonest employee. They come in all shapes, sizes, ages, sexes, ethnic backgrounds, religions, levels of education, and economic status. You simply cannot determine who is likely to steal based solely on demographic status.

Although the previous example clearly suggests managers can be involved in employee theft, an article appearing on the internet and written by Hollinger entitled “Workplace Dishonesty,” indicates good managers make a critical difference in keeping incidents down. If you ask people for whom they work, their first response is predictably the name of the business, company, or organization that issues their pay cheque. However if you probe more deeply, you quickly discover that on a cognitive basis, people work for other people, not a faceless corporation. As such, many dishonest employees believe they are not actually stealing from their employers. Instead, they justify their actions as a way to get back at or punish their incompetent or unfair store manager.

In fact, social science research shows the single most influential person determining an employee’s decision to commit dishonest acts in the workplace may actually be their manager, assistant manager, or department supervisor.

Virtually every workplace study Hollinger has conducted or studied over the past 30 years concludes that a worker’s attitude toward their employer is the single most significant predicator of all manifestations of employee deviance and dishonesty. Moreover, individual attitudes toward the company are most significantly affected by personal opinions regarding their immediate supervisor. In other words, one’s supervisor is often thought to represent the personal embodiment of the entire company. Good managers yield positive opinions of the company, whereas bad managers can produce the opposite effect.

Hollinger’s words ring true in two recent investigations conducted by a loss prevention manager from Toronto. In one situation, a violent argument between a manager and sales associate resulted in the employee taking two loose diamonds valued at $40,000 (retail) that had been carelessly left on a cash counter. Unbeknown to the manager, the sales associate placed the stones in an unsuspecting customer’s bag. It was later determined the employee’s motivation was to get the manager fired. In another situation an employee began stealing cash from a jewellery store after he was promised a raise by a supervisor that never materialized.

Justification

One way an employee may justify their actions is by telling themselves, “The company owes me.” Other misguided justifications may be:

- “The company has lots of money and will never miss a few dollars or some small pieces of merchandise.”
- “I’ll take this money now and pay it back later when I get my pay cheque.”

- "I'm doing this for my family or a sick friend."

It goes without saying that signs of missing inventory or documentation for bank deposits are clear indications something is wrong. However, the following early warning signs should also be taken seriously.

- An employee constantly complains the company owes them. They feel they never see recognition for the unpaid time they put in or for making themselves available when other people are unable to work.
- An employee jokingly talks of how they could steal from the company and not get caught. They may express an attitude that the company 'wouldn't even care.'
- An employee begins living beyond their means. They start wearing designer clothes or driving expensive cars without any significant change in income. On the other hand, the opposite may be happening. They may be dealing with deep financial problems and creditors often call looking for them. They may even borrow money from fellow employees.
- An employee refuses to take vacation or time off, which may be a sign they are trying to cover their tracks by keeping other employees away from the books.

Retail industry experts say 10 per cent of employees will never steal from their employers, 10 per cent will steal inventory, time, or supplies at any opportunity, and 80 per cent are influenced by POLICIES, PROCEDURES, and SUPERVISION. These numbers are apocryphal and have no hard data source that can be found. Most use them to illustrate the fact the vast majority of employees can be tempted to steal when a company does not have workable policies, procedures, or adequate supervision. The doors of opportunity are left wide open. The deviant behaviour requires motivation to steal, access and opportunity.

The reality is stores with good policies, procedures, and supervisors have very little employee theft. Because the doors of opportunity are kept closed and if theft does occur, it can be quickly identified.

In a perfect world, employee theft would never happen. The continual denial of store owners and management to recognize the criminal working beside them can carry on for months, allowing the loss to accumulate. Policies and procedures need to be put in place to minimize the damage. Understanding how to recognize and deal with this type of deviant employee also helps with the behaviour of other employees when they suspect dishonesty.

How does a jewellery store owner protect him or herself from internal theft?

One of the first steps is to know your employees and the history of potential employees. The best way to prevent staff from stealing is not to hire dishonest people. This means better attention should be paid to hiring procedures. For example, most loss prevention experts recommend that employers run background checks for criminal records and credit reports, as well as checking references with previous employers. Most thieves have stolen from their last four employers prior to discovery. Therefore, it is important to detect anything questionable. If time is an issue, or if an employer does not have the people to dedicate to this task an employer can outsource background checks to a company that specializes in this service.

Canada has two federal privacy laws governed by the Office of the Privacy Commissioner of Canada: the *Privacy Act* and the *Personal Information Protection and Electronics Document Act (PIPEDA).*

The *Privacy Act* obligates federal and government agencies to respect privacy by limiting collection, use, and disclosure of personal information. *PIPEDA* governs how private companies and organizations can collect, use, and disclose personal information in the course of day-to-day operations. To do so, signed consent must be obtained from a prospective employee before any screening verifications can be performed.

The consent form must be clear in intention as to what checks will be performed. Every employer should review the document with the candidate and answer any questions they may have before the screening process begins. Once the form is signed and sent to the screening company, the results may only be used for hiring purposes and nothing else. For example, the information gathered cannot be used at a later date to instigate disciplinary action against an employee. The onus is on the employer to protect the information gathered.

Pre-screening of new employees is not an exact science and there are no absolute guarantees that doing so will prevent employee theft or workplace violence. However, most experts agree screening makes good business sense.

Case in point

A male subject walked into a small jewellery manufacturer and identified himself only as "David" He told the owner he was a diamond setter and was looking for work. David was very personable and convinces the owner to give him a try.

Without any background checks and without even obtaining any further personal information on David he was hired and put to work. The other staff members and the owner left for lunch leaving David to work on his project. When they returned David was gone and so was $200,000 in diamonds.

It is a good idea for employers to discuss internal theft and loss prevention during the hiring process. The employee should be told during the hiring process and again during their orientation after they are hired how important loss prevention is to the company. The employer should also let new employees know theft prevention measures are meant to protect them as well from dishonest staff. If prevention measures are too lax, then everyone becomes a suspect when something is missing. Understanding a company's reasoning will help employees feel less threatened and more like a member of the team.

To maintain a workforce that resists stealing from the company, a culture of honesty must be created. To build awareness within a company, the organization must communicate with its employees about inventory shrinkage and theft issues. Creating a culture of honesty also involves initiating performance measures based on ethical behaviour. To breed an ethical working environment, management must first clarify the company's code of conduct and identify unacceptable behaviour. The company can then implement more specific requirements. These include holding managers and supervisors responsible for maintaining performance management issues.

Another way of creating a more truthful culture within an organization is to provide employees with a means for reporting illegal or inappropriate behaviour they observe. KPMG, a Corporate accounting firm, performed a survey of 2390 employees from several industries on organizational integrity. They found that more than 80 per cent of those surveyed had observed a high level of illegal or unethical conduct over the last 12 months. One solution to this problem is for a company to provide a confidential 1-800 number hotline where employees can report an observed theft, helping to maintain an honest workforce.

One of the most effective technologies is the use of cameras. An employee will be reluctant to steal knowing he or she is being monitored and their actions recorded. As previously mentioned, privacy laws require employees are told they are being monitored by camera. Explaining their use and that the cameras are in place to protect them is good company policy, builds understanding, and reduces the 'big brother' atmosphere.

While the primary objective of using such equipment is to deter an employee from stealing, the second is to catch those who are stealing. In keeping a watchful eye, an employer should audit and monitor cash registers and jewellery showcases. No loss prevention step can be truly effective when it is not frequently checked and observed for flaws. To expect a lot, company's need to inspect a lot.

Keeping track of inventory on a weekly or daily basis ensures a loss is discovered quickly. This allows employers or managers to take appropriate actions immediately, preventing the seriousness of the loss or increasing its magnitude. One method of managing is to implement a daily case count program, particularly for high-end merchandise such as diamond solitaires and expensive watches. Knowledge is power especially in the battle against internal theft.

Employee theft is a growing problem that can no longer be swept under the rug. To ensure growth, the business community needs to fight back. Company's can better equip themselves for this battle by implementing a loss prevention program.

Honest employees are your best allies. Several sources exist offering advice on how to create an environment where employee theft can be reduced and ethical behaviour achieved. One such source is Jewelers Mutual Insurance Company, which recommends the following on how to set up and develop a culture that supports honesty in the workplace.

As an employer, if you are unaware of the symptoms of internal theft and do not confront the issue with your employees, the results could damage your business. Job loss, pay raises, bonuses, and good working conditions are at stake for your employees. In fact, honest employees can be your best allies in deterring internal theft. Each dollar lost to internal theft comes directly out of net profit and therefore, affects everyone involved in the business. Internal theft flourishes in a workplace environment that allows rules to be broken, has different rules for different employees, or no rules at all. Workplace culture can be your best deterrent. Zero tolerance of internal theft with clear standards of honesty and integrity, polices, and procedures minimize, the effect of internal theft.

Confront the issues

- According to the U.S. National Institute of Justice (NIJ), one out of every three employees has committed an internal theft. The Retail Council of Canada suggests the statistics are about the same for Canada and some studies indicate only 20 per cent of internal theft is actually detected.
- Rally your employees by making them aware of the issue and asking their help in defining policies and procedures. Get their 'buy-in' by having them take ownership of the company's code of conduct.
- Have employees articulate how internal theft affects them. How does it make them feel? Some examples are low morale, creating a tense work environment, as well as concern over potential job loss or loss of a pay raise.

Define employee dishonesty

- The attitudes of dishonest employees are at the core of internal theft. They tend to believe their behaviour is normal.
- Value systems can vary from person to person. Therefore, a code of conduct needs to be established so everyone understands.
- Expectations must be clearly conveyed to employees. There should be no question or confusion as to what is acceptable behaviour.
- Indicate what you mean by employee dishonesty. Suggestions may include stealing inventory, abuse of employee discounts, improper use of sick days, stealing from fellow employees, or falsifying records and lying. Encourage employees to develop a list.

Develop integrity standards

- Developing a code of conduct for your workplace is the next step. Ask that employees take part in creating these standards. Without a sense of ownership, employees will not believe in or follow the code.

- Employees need to understand the three conditions that contribute to internal theft: access, opportunity, and motivation.
- Motivation is the one condition employers can control the most, sending either a message that stealing will not be tolerated or that it doesn’t really matter.
- Do you have good inventory controls? Do you have proper hiring procedures and background checks? Do you have different rules for long-term employees versus those for new employees?
- A workplace environment that allows an employee to rationalize dishonesty gives them licence to steal.
- Make your workplace environment one that states honesty does count. Lead by example.
- Some examples of standards are zero tolerance of dishonesty, definitions of what is unacceptable (*e.g.* stealing, lying, being under the influence of drugs and/or alcohol), and an employee obligation to report dishonesty.

Establish procedures

- Clearly define the actions an employee is to follow when he or she catches a co-worker breaking a rule.
- How does an employee report someone breaking the rules? How do employers protect the whistleblower’s confidentiality? What about the rights of the accused? What are the liabilities?
- Post procedures in the staff room or a similar area so they are visible. Make them a daily part of the workplace environment.
- All new employees should be made aware of the procedures.
- Have an annual procedure review with all employees and have them sign off on the review.
- As an employer, how do you respond to reports and investigate?

Set an official policy

- Your official policy should be a one-page document summarizing your entire program.
- Each employee should sign and date a written endorsement of a promise to abide by the program.
- These commitments should be renewed annually.

By following these steps, employers can nurture an environment of mutual respect and deter internal theft in your business. This is an ongoing effort that needs to be updated and refined annually. The benefits of establishing a program with the help of employees will go well beyond reducing internal theft. You and your employees will be happier and more productive. Your sales will increase along with your profit margins. You will be able to reward your employees with better pay raises and bonuses.

Jewelers Mutual Insurance Company (JM) provides jewellers block insurance coverage for the Canadian industry. Some of the material presented in this article can be explored more fully at JM University. Visit JM’s web site at www.jewelersmutual.com .

Jewellers Vigilance Canada (JVC) is in partnership with Jewelers Mutual in bringing crime prevention education to the Canadian industry.