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SMALL BUSINESS AND PROTECTING INVENTORY FROM THEFT

Mihaela Ioana Iacob*, **Ramona Lile***
* Aurel Vlaicu University, Arad, Romania,
email: mihaiacob1976@yahoo.com, ramonalile@yahoo.com

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Abstract: In this paper I try to present in my perspective the employee theft and shoplifting and how to prevent them. Small companies are a big target for crime. Whatever the actual loss is, its effect is staggering, especially on small companies.

Smaller companies often lack the sophistication to identify early on the illegal actions of employees or professional thieves. When the losses are detected, it often delivers a crippling blow to a business venture that may be battling cash flow problems. When a firm has fewer assets to operate with, a loss from theft can become a major setback.

Many entrepreneurs believe that the primary sources of theft originate outside the business. In reality, most firms are victimized by their own employees.

Employee Theft

Ironically, the greatest criminal threat to small businesses comes from inside. Employee theft accounts for the greatest proportion of the criminal losses businesses suffer. Employee theft is more prevalent than ever. Businesses are just as responsible as the employees are. Why? It is rare for a company to file criminal charges. Many businesses don't want the publicity or they worry about the cost to the company to prosecute, how the time away from management will affect the organization, and what it will do to employee morale. Often it may seem easier to just let the employees leave.

Many times, employees steal from the companies that employ them simply because the opportunity presents itself. Often thefts by employees involve "nickel-and-dime" items (nails for a home repair job, a box of pencils for personal use), but a significant number of them involve large sums of money.

How can thefts go undetected? Most thefts occur when employees take advantage of the opportunities to steal that small business owners unwittingly give them. Typically, small business owners are so busy building their companies that they rarely even consider the possibility of employee theft-until disaster strikes. Also, many small companies do not have adequate financial, audit, and security procedures in place. Add to that mix the high degree of trust most small business owners place in their employees, and you have a perfect recipe for employee theft. Thieves also generally target hot-selling items, which means those must-have toys on your child's holiday wish list are less likely to be available on the store shelves.

What Causes Employee Theft? Employees steal from their companies for any number of reasons. Some may have a grudge against the company; others may have a alcohol, or gambling addiction to support. A business owner can minimize the last two reasons. To minimize their losses to employee theft, business owners must understand how both the temptation and the opportunity to steal creep into their companies. The following are conditions that lead to major security gaps in small companies.

The Trusted Employee. The fact is that any employee could be a thief, although most are not. Studies show that younger, less devoted employees steal from their companies most often, but longtime employees can cause more damage. It is very easy in a small family business to view longtime employees almost as partners. Such a feeling, although not undesirable, can develop into a security breach. Many owners refuse to believe that their most trusted employees present the greatest security threat, but these workers have the greatest accessibility to keys, cash registers, records, and even safe combinations. Because of their seniority, these employees hold key positions and are quite familiar with operations, so they know where weaknesses in control and security procedures lie.

Small business owners should also be wary of "workaholic" employees. Is this worker really dedicated to the company, or is he or she working so hard to cover up theft? Employee thieves are unwilling to take extended breaks from their jobs for fear of being j detected. As long as the dishonest employee remains on the job, he or she can cover up theft. As a security precaution, business owners should require every employee to take vacations long enough so that someone else has to take over their responsibilities (at least] five consecutive business days). Most schemes are relatively simple and require day-to-day maintenance to keep them going. Business failure records are filled with stories of firms in which the "ideal" employee turned out to be a thief.

Disgruntled Employees. Small business managers must also monitor the performance of disgruntled employees. Employees are more likely to steal if they believe that their company treats employees unfairly, and the probability of their stealing goes even higher il they believe they themselves have been treated unfairly. Employees dissatisfied with to pay or their promotions may retaliate against an employer by stealing. Dishonest employees will make up the difference between what they are paid and what they believe they are worth by stealing. Many believe pilfering is a well-deserved "perk."

Organizational Atmosphere. Many entrepreneurs unintentionally create an atmosphere that encourages employee dishonesty. Failing to establish formal controls and procedure invites theft. Nothing encourages dishonest employees to steal more than knowing they are unlikely to be caught. Four factors encourage employee theft:

1. The need or desire to steal (e.g., to support a habit or to cope with a sudden financial crisis)
2. A rationalization for the act (e.g., "They owe me this")
3. The opportunity to steal (e.g., access to merchandise, complete control of financial functions)
4. The perception that there is a low probability of being caught (e.g., "Nobody will ever know.")

Owners must recognize that they set the example for security and honesty in the business. Employees place more emphasis on what owners do than on what they say. Business owners who install a complete system of inventory control and then ignore it are telling employees that security is unimportant. No one should remove merchandise, materials, or supplies from inventory without recording them properly. There should be no exceptions to the rules, even for bosses and their relatives. Managers should develop clear control procedures and establish penalties for violations. The single biggest deterrent to employee theft is a strong, top-down policy that is well communicated to all employees that theft will not be tolerated and that anyone caught stealing will be prosecuted-*no exceptions.*

Managers must constantly emphasize the importance of security. Small business owners must use every available opportunity to lower the temptation to steal. One business owner relies on payroll inserts to emphasize to employees how theft reduces the funds available for growth, expansion, and higher wages. Another has established a written code of ethics, spelling out penalties for violations. Workers must know that security is a team effort. Security rules and procedures must be reasonable, and the owner must treat workers equitably. Unreasonable rules are not more effective-and may even be more harmful-than poorly enforced procedures. A work environment that fosters honesty at every turn serves as an effective deterrent to employee theft.

Physical Breakdowns. Another major factor contributing to employee theft is weak physical security. The owner who pays little attention to the distribution of keys, safe combination, and other entry devices is inviting theft. Also, owners who fail to lock doors and windows or to install reliable alarm systems are literally leaving their businesses open to thieves both inside and outside the organization.

Open windows give dishonest employees a prime opportunity to slip stolen merchandise out of the plant or store. A manufacturer of small appliances discovered that several employees were dropping crates of finished products out of an unlocked window, picking them up after work, and reselling them. Unlocked or unmonitored doors represent another security leak for many small businesses. The greater the number of doors in a plant or store, the greater the chance of employee theft. Every unnecessary door should be locked (while still conforming to fire regulations), and all regularly used doors should be monitored. Many thefts occur as workers load and unload merchandise. If the owner allows the same employee who prepares purchase orders and handles invoices to check shipments in or out, the temptation to alter documents and steal merchandise may be too great.

Many businesses find that their profits go out with the trash, literally. When collecting trash, a dishonest employee may stash valuable merchandise in with the refuse and dump it in the receptacle. After the store closes, the thief returns to collect the loot.

Improper Cash Control Many small business owners encourage employee theft by failing to implement proper cash control procedures. Without a system of logical, practical audit, controls on cash, a firm will likely suffer internal theft. Dishonest employees quickly discover there is a low probability of detection and steal cash with impunity.

Cashiers clearly have the greatest accessibility to the firm's cash and, consequently, experience the greatest temptation to steal. The following scenario is all too common: A customer makes a purchase with the exact amount of cash and leaves quickly. The cashier fails to ring up the purchase and pockets the cash without anyone's knowledge. Some small business owners create a cash security problem by allowing too many employees to operate cash registers and handle customer payments. If a cash shortage develops, the manager is unable to trace responsibility.

A daily inspection of cash register transactions can point out potential employee theft problems. When transactions indicate an excessive amount of voided transactions or no-sale transactions, the owner should investigate. A no-sale transaction could mean the register was opened to give a customer change or to steal cash. A large number of incorrect register transactions also are a potential sign of foul play. Clerks may be camouflaging cash thefts by voiding transactions or by under-ringing sales amounts.

Cash shortages and overages are also clues that alert managers to possible theft. All small business owners are alarmed by cash shortages, but few are disturbed by cash overages. However, cash discrepancies in either direction are an indication of inept cashiering or of poor cash controls. The manager who investigates all cash discrepancies can greatly reduce the opportunity for cashiers to steal.

Preventing Employee Theft. Many incidents of employee theft go undetected, and of those employees who are caught stealing only a small percentage is prosecuted. The burden of dealing with employee theft falls squarely on the owner's shoulders. Although business owners cannot eliminate the possibility of employee theft, they can reduce its likelihood by using some relatively simple procedures and policies that are cost-effective to implement.

Screen Employees Carefully. Perhaps a business owner's greatest weapon against crime is a thorough pre-employment screening process. The best time to weed out prospective criminals is before hiring them! Although state and federal regulations prohibit employers from invading job applicants' privacy and from using discriminatory devices in the selection process, employers have a legitimate right to determine job candidates' integrity and qualifications. A comprehensive selection process and reliable screening devices greatly reduce the chances that an entrepreneur will hire a thief. Smart entrepreneurs verify the information applicants provide on their resumes because they know that some of them will either exaggerate or misrepresent their qualifications. A thorough background check with references and previous employers also is essential. (One question that sheds light on a former employer's feelings toward a former employee is "Would you hire this person again?")

Create an Environment of Honesty. Creating an environment of honesty and integrity starts at the top. This requires business owners to set an impeccable example for everyone else in the company. In addition to creating a standard of ethical behavior, business owners should strive to establish high morale among workers. A positive work environment in which employees see themselves as an important part of the team is an effective deterrent to employee theft. Establishing a written code of ethics and having new employees sign "honesty clauses" offer tangible evidence of a company's commitment to honesty and integrity.

Establish a System of Internal Controls. The basis for maintaining internal security on the job is establishing a set of reasonable internal controls designed to prevent employee theft. An effective system of checks and balances goes a long way toward deterring internal crime; weak or inconsistently enforced controls are an open invitation for theft. The most basic rule is to separate among several employees related duties that might cause a security breach if assigned to a single worker. For instance, owners should avoid letting the employee who issues checks reconcile the company's bank statement. Similarly, the person who orders merchandise and supplies should not be the one who also approves those invoices for payment. Spreading these tasks among a number of employees makes organizing a theft more difficult.

Business owners should insist that all company records be kept up-to-date. Sloppy record keeping makes theft difficult to detect. All internal documents-shipping, ordering, billing, and collecting-should be numbered. Missing numbers should arouse suspicion. One subtle way to test employees' honesty is to commit deliberate errors occasionally to see if employees detect them. If you send an extra case of merchandise to the loading dock for shipment, does the supervisor catch it, or does it disappear?

Finally, business owners should demonstrate zero tolerance for theft. They must adhere strictly to company policy when dealing with employees who violate the company's trust. When business owners catch an employee thief, the best course of action is to fire the perpetrator and to prosecute. Too often, owners take the attitude: "Resign, return the money, and we'll forget it." Letting thieves off, however, only encourages them to move on to other businesses where they will steal again. Prosecuting a former employee for theft is never easy, but it does send a clear signal about how the company views employee crime.

Conclusion: The written policies and management pep talks about honesty and integrity have a great deal more meaning when employees know from past experience that the owner will prosecute. Think about what the casino owners in Las Vegas do. They share information among themselves on problem employees. They have strict policies regarding theft. They have constant surveillance of employees while at work, and they prosecute when theft occurs. Despite these efforts, employees still try to steal. If the owners of these casinos are willing to invest as much as they do in security, entrepreneurs should question what steps they are taking to protect the assets of their businesses.

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