

Modern Manager: A crime of opportunity

Do your most trusted employees “work the system?”

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Forget shoplifters. If that's all RV dealers had to worry about, they could handle it. Employee theft, on the other hand, accounts for more than 80 percent of the profit erosion at a typical business.

Dishonest employees steal approximately 4.8 times the amount stolen by shoplifters, according to **Jack L. Hayes International**, a loss prevention/shrinkage control consulting business based in Florida. In fact, when looking at the histories of 24 large retail companies, for every \$1 recovered, another \$20.76 was lost to retail theft.

It's amazing how ingenious employees can be when they decide to steal from their employers. Many times, thanks to the trusting nature of employers, the activity goes undetected. For example:

- A service manager voids a sale on the register and pockets cash paid by a customer.
- A shipping clerk signs for 10 stereos, takes one home and files a shortage report with the carrier.
- An accounts payable clerk generates checks to “legitimate vendors.” The name on the check is correct, but the address is for her home. Her husband deposits the checks into his own business account under the same name.

- A service technician determines the bedroom TV is broken and replaces it, files a warranty claim and takes the “broken” TV home to put it in his bedroom.
- A parts clerk gives four friends a 25-percent discount on their purchases, or scans Model 100 at the register and gives the friend Model 400 instead.

Employee theft is caused more through opportunity than anything else, said Pat Murphy, owner of **LPT Security Consulting**. “Every business has one group of employees who would never steal and another group who steals all the time,” he said. “The goal is to control the group on the fence by taking away the opportunity to steal.”

The key to doing that lies in development of effective control measures to ensure employees working within the system day in and day out can’t take advantage of flaws or loopholes in accountability.

Creating a paper trail is an important first step. But the crucial follow-up requires the owner to actually review the trail. Why should the owner conduct the review? Because most serious employee theft problems generally occur when high-level managers manipulate the system, said Murphy.

“Regardless of what you do about physical security, employees will always find a way around it,” he said.

The first time business owners actually compare their inventory on hand to the inventory shown on the books, Murphy said they will be shocked at what they see. “Even given a one or two unit variation as a fudge factor, the numbers will be so significant it will make you guess you had a problem with the calculation,” he added. “Then when you look for the numbers that are supposed to be on the shelf, you’ll quickly realize you have a problem.”

Trusting the trustworthy

Trust is the biggest problem for most business owners. Many times they are reluctant to suspect long-time employees or senior staff members to be the source of theft. They rationalize, “Why would someone who has been with me so long want to steal from my store?” It’s because senior employees know the system better than anyone else so they can take advantage of loopholes. That’s why it’s very important to reduce the opportunity for a theft to be attempted the first time or to increase the likelihood it will be discovered shortly thereafter.

“A manager might see an opportunity and attempt to take advantage of the system. If a discrepancy is caught quickly, he can likely justify the problem as a ‘mistake,’ and realize he’ll get caught if he tries it again,” said Murphy. “But, if he does it for six weeks and nobody notices, he will often become greedy and overconfident, and decide to ratchet up his activity.”

In fact, whenever a business owner discovers a huge inventory shortage, Murphy said it is going to be a member of the senior management who is the root cause of the problem. “Someone at lower levels doesn’t have enough juice to make journal entries at the size or scope necessary to make the problem ‘disappear’ on the books. In fact, the owner may discover a senior manager in collusion with multiple vendors.”

RV dealers should hire an experienced certified public accountant to conduct routine audits of the books. It may be costly, but it’s a long-term investment that will pay off later.

“It often takes someone from outside the business who can look at the systems in place to see how items are tracked,” said Murphy.

Loss prevention doesn’t require hard-core ranting and raving, it just needs to be sound and predictable.

But, when employees see that owners are willing to audit transactions all the way back to cash registers, it sends a much stronger signal than posting a sign saying “You steal, go to jail.”

Five things you can do to improve internal security

1. Conduct a background check on every new hire
2. Establish a clear policy on theft, manipulation of paperwork and collusion. Ensure that you don't pay performance bonuses to people who can steal by indirectly manipulating paperwork.
3. Create an environment in which shrink reduction is part of doing business and that everyone has a vested interest in generating more profit.
4. Review the paper trail either by hand or electronically, compare year-to-year numbers, and ask questions about unusual activity. Even if you do this randomly, employees will think you're doing it all the time.
5. Concentrate on prevention rather than apprehension. Prevention efforts reduce crimes of opportunity rather than focus on a spectacular bust.

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