

## ***INTERNAL THEFT***

### The Loss From Within

Internal Theft is considered to be the most serious Loss Prevention Problem facing retailers today. Measuring the monetary loss of dishonest associates is extremely difficult, but many Loss Prevention executives have concluded that upwards of 40%-60% of inventory shrinkage is attributed to dishonest associates.

Insurance companies presently estimate that one third of all business failures each year is due to associate theft. Many organizations lose more money and merchandise to internal theft than they earn in net profits.

Dishonest associates have a distinct advantage in that they are familiar with our store systems and with the strengths and weaknesses of the overall system. Dishonest associates invariably have the trust of their peers and superiors, which enables them to commit dishonest acts with comparative ease.

### Why Associates Steal?

The realization that you may have associates stealing from your Company is extremely unpleasant to contemplate. It is even more agonizing to apprehend such an individual. Internal theft is the most serious and frightening aspect of our joint loss prevention efforts.

Particularly frightening is the comparative ease with which dishonest associates have been able to complete their crimes. This is vividly illustrated in some of the investigative videotapes and in speaking with dishonest associates when apprehended.

Ask most dishonest associates why they stole, and they will invariably reply, "It was easy. There was nothing to stop me."

Whenever a dishonest associate is apprehended, we must assume part of the responsibility. What we do, or yet, what we did not do, that encouraged the associate and made it possible for the crime to be committed.

While all of us desire our stores or businesses to be pleasant places in which to work, we sometimes confuse morale with permissiveness, and that is when we do our associates a great disservice.

When we as management don't set the proper examples, follow and enforce policy and procedures or cut corners in the interests of expediency, ignore infractions for the sake of camaraderie, bend the rules for a favorite, we are in effect failing our associates, ourselves and the Company.

Remember, theft occurs when *opportunity coincides with temptation*. It is our shared responsibility to minimize opportunities by establishing a standard of operational excellence in your store or business.

Most associates prefer to work in a controlled disciplined environment where they are treated fairly and equally, and are recognized for their efforts and achievements. This affords the feeling of Company stability and personal security most associates seek. On the other hand, a complacent atmosphere may contribute to insecurity and encourage contempt for both regulations and management. Dishonesty usually follows.

Frustration, both on and off the job supported by minimal fear of punishment is the other factors, which contribute to internal theft.

Job related frustrations might occur because of a lack of communication, inability to communicate with management, unequal treatment, or improper training. Company Policy and Procedures and general working environment, if not properly executed, can and also cause frustrations that may lead to theft.

Little fear of punishment is another crime causing element that is completely within control of management. The aggressive frustrated person who does not anticipate being caught and punished may be encouraged to engage in dishonest acts. It is important that management is firm in establishing an in store discipline that dishonesty will be detected quickly and severely punished. However, to ensure compliance with these policies, management must follow good Loss Prevention practices. Most associates do not begin work with the intention of stealing from their employer. The motivation of reasons to steal generally appears after the person has been on the job for a period of time.

The task facing management is to prevent the motives of dishonest acts and certainly, to reduce the opportunity for theft by following the practices and procedures outlined by specific organizational Policy and Procedures.

## Spotting High Risk Associates

While there are “ signals” which may aid you in detecting the high-risk associates, management should consider the indicators objectively. The associate who has just purchased a new, expensive sports car for example may have the honest means to pay for the car. On the other hand, management should not categorically accept perceived high living standards of certain associates as resulting from good money management, good luck, or from a combined income of associate and spouse.

There is a fine line between suspicion and objective awareness of associates life styles. But the prudent manager will evaluate the indicators of associate theft, which may exist in his or her store. If there is reason to suspect associate dishonesty, management should assure that methods and procedures for preventing and detecting theft are in use in the store. Further, Loss Prevention Department personnel must be contacted to discuss your thoughts and suspicions. Joint communication will lead to an agreed upon plan to assess and resolve the suspicion.

The following is a list of possible indicators of associate dishonesty:

1. Associates who appear to live in excess of their apparent economic means.
2. Associates requesting to work rather than taking an earned day off or vacation.
3. Associates inordinately resisting changes in procedures or rules.
4. Cliques of associates, particularly when the group includes representatives from several departments.
5. A cashier who incurs excessive voids/aborts or a large number of no sales or returns.
6. A customer who prefers to stay in a particular register when given the opportunity to move to an available register may be a signal to “sweetheart or free bagging”.
7. Resentment of one associate towards another associate.
8. Associates known to use drugs or uses alcohol excessively.
9. Associates known to gamble
10. Associates who repeatedly borrows money.
11. Consistent high inventory shrinkage
12. Associates with personal problems

13. Unexplained or excessive product damage.
14. Tips from customers or associates of wrong doing
15. The overly attentive associates. (Deliberate efforts to ingratiate himself/herself with you can hide the associate's real activities.
16. An associate with serious financial problems
17. The chronic liar.
18. The associate with questionable friends. (Store merchandise can easily find its way outside the store via undesirable companions or friends who consistently hang around or visit on a routine basis.
19. Under seventeen. (An immature teenager may have a higher potential for frustration leading to dishonesty) Most people handle frustration more successfully as they grow older. From the experience of living, they find the ways to face and solve their problems. Younger people, however, are frequently unable to handle frustrations well, and are most likely to find emotional release in anti-social behavior. Teenagers are also subjected to tremendous peer pressure and are influenced more by their companions than by their parents.

Experienced managers and supervisors can add their own thoughts to the preceding list. Bare in mind, the factors listed are only indicators of potential associate dishonesty. But where any one or more of the factors are present, the risk of loss is greater than it would be if they were not present.

#### Factors of Associate Dishonesty

There are generally three factors of stages in most incidents of associate theft. A number of associates, who would otherwise have committed a theft, did not do so because of their inability to move from one stage or factor to the next. The factors (stages ) are:

1. Element of need or desire for money or property
2. Mental justification (rationalization)
3. Opportunity or easy access to money or property

***“Element of need or desire for money or property”***

This factor is present to a degree in practically every person. Most individuals satisfy the immediate need for more money that the occupation provides by drawing on savings, working overtime hours, obtaining a loan, or perhaps by the spouse taking a job.

The need for extra money may not be caused by something as serious as owing a gambling debt to a bookie or to a professional card “game”. A cashier perhaps divorced and supporting three small children, may also carry a tremendous financial burden. Her need for more money may be met by \$5.00 more each day to pay for school lunches.

When a person with either a real or imagined need for more money sees no alternative, he or she may begin to consider stealing from the store. Initially, the person must usually justify the theft in his or her own mind before committing the dishonest act. The individual moves into the next stage.

1. Mental Justification (Rationalization)

Now that the idea of stealing even a small sum has entered the mind of an individual, other thoughts begin to enter his or her mind. The person will want to justify the intended dishonest act by making himself or herself believe taking the money or merchandise will not be “stealing”. Some of the factors, which will probably enter the mind of the individual, are listed below. These factors will help the individual rationalize the dishonest act. In other words, the individual will use the factors below to make the theft seem reasonable and justifiable.

- A. “ I’ll just borrow the money. I’ll return it”
- B. “ I work hard and I deserve higher pay”
- C. “The store manager is overpaid. My hard work makes him/her look good”
- D. “This company doesn’t care about us. They don’t communicate. We never know what is going on around here.”
- E. “It really won’t be stealing. I don’t think anyone really cares anyway”.
- F. “They don’t care about cash shortages”.
- G. “They don’t care about damaged products. This store makes so much money, they don’t care about anything.”
- H. “My job performance has been saving the store money for a long time”.

The individual will weigh the possibility of getting caught. The associate will fear getting caught at stealing more than he or she will fear the penalty for stealing. “ The controls and procedures the store uses-or doesn’t use- now become important. The individual begins to weigh the probability of getting caught committing theft. Some of the considerations will be:

- Store Managers attention to cash overages/shortages, aborts, voids, and refunds.
- Frequency of professional “shops and cash audits.”
- Frequency of store meetings in which store rules and procedures are discussed.
- Frequency of unannounced visits by store managers, district managers and Loss Prevention Personnel.
- Respect for the Loss Prevention Department and its track record in detecting and apprehending dishonest associates.
- Knowledge of penalty and consequences if apprehended committing a theft
- If caught, the probability of store associates knowing about it.

The presence of fair and consistent management practices and the application of company loss prevention and operating policies will make it difficult for an individual to justify a dishonest act.

Even if the individual feels he or she deserves the cash/merchandise he or she wants to steal, the obvious use of controls may serve to prevent the theft from taking place.

## 2. Opportunity of Easy Access to Money or Property

Though the Corporate programs on loss prevention, training, and associate relations all serve to reduce the motives for stealing, some individuals, however, will progress through the justification stage. They only need an opportunity to steal. The controls and procedures discussed here and in Company operating standards are intended to reduce the opportunity for theft and to detect theft if it has occurred. Store Management and District Managers must apply the controls efficiently and consistently.

## Honesty

We can reasonably expect successful applicants and existing associates to be able to distinguish between right and wrong- *to know what is honest and what is dishonest*. But honesty and dishonesty are interpreted differently by many people. An act, which may be dishonest to one person, in good conscience, may be an honest and acceptable act to another person. There are many sociological factors, which enter into a person’s attitude toward honesty.

Regardless of socioeconomic background, a sane person recognizes the taking of money from an employer’s cash drawer for one’s own use as theft- a dishonest act.

But, on the other end of the spectrum, every associate may not necessarily consider taking a pair of panty hose to replace a pair damaged on the job a dishonest act.

Management must accept the fact that people enter the employ of the store with different attitudes toward honesty, even though each, in his or her own estimate, may believe himself or herself to be an honest person.

Clearly, management must establish the standard for honesty, which is, based on the premise that all monies and every item, machine, tool and fixture in the store belongs to the Company. One must not take or convert any money or item for one's own use regardless of the value of the money or item.

Setting the proper tone or culture is essential. You must have an understood Company policy to deal honestly and forthrightly with associates, customers and suppliers. In turn the Company expects the highest degree of honesty and integrity from those whom we employ, serve or engage within business activities.

When all associates know the standards we establish and expect to maintain for honesty and associate choosing to disregard the standard will do so knowing he or she is committing a dishonest act.

Policies on honesty must be fair and reasonable. It helps guarantee that you will attract and train only the highest caliber individuals, and that you will have success to the degree that will enable you to continue to provide opportunity, good wages, benefits and working conditions to all associates.

Store Management is responsible for relating company policy on honesty to their associates and for assuring the policy is administered consistently and universally.  
***MANAGEMENT MUST SET THE TONE!!! DO NOT ALLOW COMPLACENCY TO SET IN.***

### Screening The Job Applicant

The success or failure of any Company is directly related to your associates- *people like you and I*- who are beset with human frailties, personal ambitions, frustrations, emotions and other complexities compounded by social and economic pressures and environmental influences.

Because our associates are the backbone of our business, it is the duty of store management to do a thorough screening of job applicants. Naturally, everyone who screens personnel wants to do a good job, but occasionally time limitations force us to put the applicant's integrity at the bottom of our list of priorities. Unfortunately on occasion applicants for responsible jobs have been hired after a five-minute interview. If we fail to place character and integrity among the first requirements for any position with your Company, we are making a basic mistake in concept, which can be costly to the store or business, and all the associates who work there.

Far too many people rely on appearance alone to evaluate the honesty of an individual and believe that if a person looks presentable and speaks well, he or she is undoubtedly honest. However, we must bear in mind that every dishonest person who is discovered working for you was selected and hired by a representative of your Company. Did he or she become dishonest after joining us, or was there a weakness in the applicant's character, which went undetected during the interview?

It is true that unwholesome or permissive environments can breed and encourage dishonesty. *However, few people become dishonest all of a sudden. Usually they have left clues around for months or even years, which if recognized would have tipped us off to a flaw in their characters.* It is an accepted fact that people do not usually change. If a person has manifested certain characteristics in the past, these same traits will be demonstrated in his or her new environment.

### The Cost of Associate Dishonesty

When thinking about the costs of dishonesty, we might keep in mind that internal thefts are costly in more ways than one. Notwithstanding the value of the stolen product and loss of products, there are additional costs involved, some of which are hidden and more difficult to measure accurately. For example:

- A. The actions of a dishonest associate take away from the wholesome operation of the business, i.e., customer services, sales, etc.
- B. The cost of one or more trained new associates.
- C. The costs involved in training new associates
- D. The possible contamination of other associates leading to additional losses.
- E. The cost and time associated with conducting an investigation.

### Shaping Attitude

The most effective way to prevent internal losses is to create a HEALTHY AND POSITIVE, loss prevention attitude in your store or business. This is store management's responsibility. Remember, loss prevention is first a state of mind, then a state of action. Loss Prevention in other words is *management discipline*.

All associates must be thoroughly indoctrinated in the Company's loss prevention rules, and should understand the reasons for the regulations. This attitude can be created by a strict adherence to Company policies, plus developing a no-nonsense approach to your store's Loss Prevention safeguards. Utilize every resource available to you for this purpose, such as;

- A. Shrink Meetings
- B. Loss Prevention awareness handouts, posters, and bulletins
- C. Recognition of associates efforts and contributions
- D. Total affirmation and support to store's Shrink reduction
- E. Management setting examples in following procedures and policies.

When a new associate comes on the job, management should sit down with the associate and explain the “why’s and how’s of the Company Loss Prevention rules and programming before he or she has had a chance to learn any bad habits from other associates. These should be inclusive of, but not limited to:

- New hire list, i.e., new sales associate orientation handbook
- Sales associate awareness program

Consider assigning a veteran, or dependable, associate as a “mentor” to the new associate for a period to guide the newcomer and make for an easier indoctrination and assimilation into the store’s family.

Once the new associate is on board, his/her attitudes towards the Company and its rules will be shaped very quickly. To make sure associates develop positive attitudes; they must be corrected on the little things during the first few days of employment. He/she will quickly realize that the Company is serious about its rules, and intends to have them followed.

Store management must develop lines of communication with its associates so that it knows what is going on in the store at all times. Associates must be made aware that concealing dishonest associates, or maintaining a “code of silence” is immature and actually jeopardizes our business as well as the Loss Prevention and welfare of all associates.

Wise store management will learn to ask questions and listen to what the associates have to say. No associate wants to be considered an informer, but if you ask pointed questions and listen intently, you may get some surprising answers! It may only be the tip of the iceberg, but enough for you to investigate and find the facts and contact Loss Prevention. Sooner or later, with even the best of Loss Prevention climates, there may be an instance of associate theft.

**THEFT OF ANY KIND CANNOT BE CONDONED, AND ALL INSTANCES OF THEFT MUST BE REPORTED IMMEDIATELY TO THE LOSS PREVENTION DEPARTMENT. TIMELY INFORMATION LEADS TOWARDS A SWIFT ASSESSMENT AND RESOLUTION. QUICK RESOLUTION MINIMIZES EFFECTS ON THE BUSINESS AND SERVICE TO OUR CUSTOMERS.**

## In The Event of Suspected or Actual Associate Theft

Store Management should be especially careful in handling cases of suspected associate theft. If you are suspicious of an associate, contact Loss Prevention and allow them to determine a course of action that is agreeable to all parties involved. Remember, the Loss Prevention Department has many resources at its disposal, and the collective experience of its department members provides an opportunity for a swift resolution.

If you observe an actual employee theft meaning a theft that was committed in your presence, call Loss Prevention immediately. Do not confront or accuse an employee of theft under any circumstances. You must review the circumstances involved with your Loss Prevention representative before decisions can be made. If for example you identify merchandise that was not paid for as a result of an employee package check, recover the merchandise and ask the employee to the managers office pending discussion with Loss Prevention.

## Cashier Accuracy and Honesty

All facets of the store operation, including receiving, pricing and merchandising are important to the store and can add appreciably to the store's profit or loss. The cashiering operation is considered, however to be the area where the greatest loss can occur and, conversely, where substantial profits can be realized.

Losses at the cash register result from two factors- inaccuracy and dishonesty. Tenure on the job does not assure accuracy and it certainly does not assure honesty.

Experienced and inexperienced cashiers alike can make mistakes at the cash register by:

1. Failure to scan the item.
2. Missing an item
3. Being unaware of promotions
4. Having poor knowledge of merchandise

Cashiers can be dishonest by;

1. Under-ringing
2. Keying in false voids/aborts
3. Retaining customer change
4. Failing to ring sales
5. Collusion with friends or relatives
6. Stealing cash from register
7. Creating fraudulent cash or charge returns.

Obviously, all the planning, work and expenditures needed to get the merchandise to the cash register can be wasted through the presence of any one or more of the loss factors listed above.

A number of studies have been shown that losses at the front end due to inaccuracy and or dishonesty can reduce net profit substantially.

Management can reduce and control front-end losses by assuring each cashier is properly trained in accordance with the Company training standards and by following the loss prevention procedures described on the following pages of this section. Each of the procedures described is a form of an audit and, if used properly, the procedures will result in fewer errors and less dishonesty at the cash register.

An efficient cash register operation depends largely on three factors:

1. Proper Training
2. Frequent Auditing or Individual Performance Review
3. Close supervision

#### Evaluating Sales To Discover Dishonesty

Under ringing, “sweethearting”, or discounting is one of the most difficult dishonest acts to detect at the cash register. The risk of intentional under-ringing occurring in the store will be reduced if management regularly checks the electronic journal and asks questions regarding unusual transactions. This will also serve to heighten associate awareness by clearly illustrating to our cashiers that management is auditing random transactions and is aware of associate performance.

Cashiers who under-ring for friends and relatives very often under-ring the newest and most popular merchandise items.

#### Cashier Accountability

Utilize the company policies and procedures associated with Lane Accountability. In the event of a shortage, all associates who rang on that lane must be notified in writing of the variance. Repeated shortages by any one associate must be assigned to their own individual cash drawer for training and evaluation purposes.

#### No-Sales

1. Determine the number of no sales that would be expected during a normal shift
2. Advise all cashiers of the Company Policy regarding no sales.
3. Determine the number of no sales rung by each cashier and evaluate each cashier against the average.

4. Discuss no sale ringing with all cashiers having greater than average no sales.
5. Take whatever action is warranted-retraining or disciplinary action. Contact Loss Prevention if warranted.

#### Voids/Aborts

1. Assure that every cashier fully understands the Company procedures for handling voids/aborts at the cash register.
2. Determine the number of voids/aborts rung by each cashier and evaluate each cashier against the average.
3. Review the reasons recorded for void/abort rings to determine if any patterns exist.
4. Discuss the problem with any cashier with a high percentage of voids/aborts and take appropriate action.

#### Coupon Redemption

In as much as coupons are a good way to promote sales and are considered as cash, they present another avenue for theft. Dishonest associates often use coupons incorrectly.

#### Cashier Collusion With Other Associates, Relatives And Friends

Every step possible must be taken to prevent and discover collusive theft in our stores. Collusive theft is particularly troublesome and costly because it can involve more than one associate, friend or relative.

Collusive theft, almost without exception, spreads and is often the cause of business failures. When a store manager suspects any type of collusive dishonesty in the store, he or she should immediately contact the Loss Prevention Department to plan the steps and strategy for discovering the thefts and apprehending all those persons involved.

When preliminary investigations or confidential sources reveal an outsider-non-associate is involved in theft with an associate in the store, the objective will be to investigate the case and develop sufficient evidence, which can be used in court. Staples will file criminal charges against any person stealing from the Company where the facts are clear and supported. The Loss Prevention Department must be totally involved in such investigations.

## Discovering Collusive Thefts

1. Management should be alert for the customer who waits in line to be rung by a cashier, particularly if the customer refuses the opportunity to be rung up sooner at a different register.
2. Be alert for unusually strong relationships between associates in the store. All too often, these relationships may lead to under-ringing, unrest, or low morale among other associates.
3. Audit the signed cash refund slips to discover the names and addresses of persons claiming refunds, which develop a frequency pattern. Determine whether the refunds also show a frequency pattern.
4. Be particularly alert for cashiers who;
  - A. Request to work rather than take vacations.
  - B. Request to work next to or with a certain cashier or on a particular terminal
  - C. Live in a style beyond their means
  - D. Appear to be overly friendly or talkative to customers.

## Vulnerabilities Other Than The Front End

While the front end is a critical area of the store, never overlook the fact that internal losses can and do emanate for all areas of the store. Keep in mind what does out of your store via the cash register must first come in through the back door-your receiving area. Do you receive everything for which your store is charged?

Collusion between receivers and drivers is not unheard of in this business. Truck drivers often try to get receivers to accept some form of gratuity. Once they do, no matter how insignificant the favor may be perhaps just a cup of coffee-the receiver becomes obligated to the potential thief who can do major damage to the profits of your store.

An overly friendly relationship between a receiver and a driver may warrant further investigation. Never permit associates to park their cars in the vicinity of the receiving doors, and strictly enforce the Company rule that receiving doors must be secured when not in use and attended by a member of management when in use. An unlocked back door may well trigger an associate theft because of the opportunity it presents.

Both control and accountability of store keys are effective deterrents to internal theft. The likelihood of keys falling into the wrong hands increases when store keys are indiscriminately passed among associates. It only takes a few seconds to unlock a lock to permit a theft to take place perhaps hours later.

A traditional method of removing store merchandise is to hide it amid the refuse that is removed from the store and thrown into the Dumpster. The policy of management inspection of the trash prior to removal will eliminate this hazard.

Removing the opportunities for associate theft is much like defensive driving: you attempt to anticipate areas of probability, and then shut the door on them before they can occur. While you may never know if you prevented theft, you certainly will be comfortably eased by a healthy shrink number.

Remember you must set the tone in your store. "Loss Prevention Is Management Discipline".

Detective Sergeant Richard R. O'Connor

