
How to investigate alleged employee theft properly

*Gary Tryon and
Brian H. Kleiner*

The authors

Gary Tryon and Brian H. Kleiner are with the Department of Management in the School of Business Administration and Economics at California State University, USA.

Abstract

According to the American Institute of Criminology and Research, employee theft is responsible for over \$50 billion worth of losses for both small and large businesses in the USA. Of this "shrinkage", approximately 60 per cent is due to employee theft. Explains what kinds of activities constitute employee theft, and discusses the employee motivations, justifications and psychological drives, based on current social science thinking. Identifies the types of evidence – documentary, physical, personal observations and testimonial – and the techniques that can be used to gather this evidence and investigate the theft. Also discusses preventive measures in the form of revised employee reward systems and employee hot lines.

What is employee theft?

Employee theft covers a broad spectrum of acts by all categories of personnel. Retail sales personnel, storeroom, administrative, marketing, engineering and management personnel are all equally likely to be involved in some type of this behaviour. The nature of the theft, however, varies with the type of personnel involved. In the case of retail theft, for example, it is associated with all sorts of intentional acts with respect to cashiers, sales clerks and customers – such as ringing up the wrong price (usually lower) or maybe no price at all. There is often a second party involved, most commonly a relative or friend.

Clerical/administrative workers are responsible for "petty theft" in medium-sized businesses and large corporations. These thefts are usually of low-value items such as office supplies and petty cash. However, on occasions, these thefts can be much larger and encompass such things as office equipment, computers and high-value test equipment. There is also theft via "intangible items" such as padded travel expense claims. In the broadest sense, employee theft could be extended to include long lunches and break periods as well as work slowdowns, inferior workmanship and time-card mischarging. In the most basic terms, the act of employee theft in the business environment involves the actual taking of cash, inventory, information or other assets from the business or the company.

Those thefts associated with embezzling funds would also fit this definition but they are usually of such a greater magnitude that they are not usually included in the definition of "theft" – they have their own category of "fraud". The techniques to detect both theft and fraud are basically the same, however. The difference is in terms of the magnitude of the funds involved and the types of agency – both private and law enforcement – that could become involved. The American Institute of Criminology and Research has reviewed the historical development of pilferage by employees and has concluded that these "wages in kind" have become an important part of the employee wage structure. Furthermore, a study of 100 retail employees confirmed that 41 of 49 employees who admitted taking from their companies denied any feelings of guilt [1, p. 2].

Big company characteristics such as anonymity, impersonality, bureaucratic

inefficiency, and power, do not seem to have an extra effect on the levels of employees stealing when one compares them with the levels in small businesses. There is, however, a common trend among the employees who steal. They tend to view their act along the lines, “that everyone does it, and the dollar value is relatively small in comparison to the operation of the concern”.

From the social science researchers perspective, the root of such deviant behaviour is to a great extent an integral part of the informal work experience. The factors that best explain these behaviours are not external to the work setting, but rather are intrinsically related to the nature of the employment. The employee’s perception of the quality of the work environment has a significant effect on the decision to become involved in theft and other counter-productive forms of behaviour. According to these social scientists, employee theft is not a random occurrence, but rather a purposeful response to the social and environmental factors present in the work setting. The social scientist sees an employee theft as a means of striking back at the employer for the perceived injustices perpetrated against the employee – associated with salary equity, promotional opportunities and the work environment.

For the modern manager, an appreciation of these possible motivations for theft is important. It is incumbent on management to strive to develop good supervisors, fair salary and promotion policies, and a reasonably satisfactory work environment – both as “natural justice” but also as a means of reducing the motivation for theft.

Of course it is also important to have policies and strategies for dealing with what theft does occur. Companies which have a clearly defined and promulgated anti-theft policy, and strive to achieve a higher rate of apprehension for theft also have a lower theft rate.

The symptoms of theft

There are three well-known categories of theft indicators:

- (1) tips and complaints;
- (2) changes in behaviour; and
- (3) changes in lifestyle.

Perhaps surprisingly, audit is not a primary lead to theft identification and investigation. The more likely scenario is that other

employees, customers or managers will notice what they think to be a relatively new or uncharacteristic unusual behaviour. They then may or may not take formal action to tip or report their suspicions to others.

Routine audits are generally regarded as too expensive for discovering theft – and they come too late. Fellow employees are able to notice both the subtle and not so subtle changes in personality and attitude, and in lifestyle.

The nature of the suspected crime dictates to a great degree the investigative techniques which are most cost effective at surfacing or detecting it. This holds true whether the investigation was initiated based on a tip or was the result of routine activities and audits.

What triggers an investigation?

When symptoms are observed, a decision must be made on whether or not to investigate. The investigation of these theft symptoms in an organization or business should always involve top management’s approval since there may be “political” considerations in terms of employee relations.

One obvious consideration is the relative cost of the losses compared with that of an investigation – including the effects on employee morale. If a long and complex operation involving such devices as undercover investigators is thought necessary, the investigation may only be undertaken where the likely payback is high – either because the immediate losses are high or it is thought that a high profile investigation may have an effect on theft in other areas of the organization.

What are the elements of a good investigation?

Once the decision to investigate has been made, the objectives or goals of the investigation have to be determined. The following may be goals of an investigation to:

- obtain a list of the possible perpetrators;
- identify the level of complicity of management/supervision;
- understand the motivation for the dishonest acts;
- identify the manner in which the theft was perpetrated.

Evidence is essential to a proper and successful investigation of theft. Strong supporting evidence may comprise:

- (1) Documentary evidence from written, printed and electronic sources such as:
 - document examination;
 - public record searches;
 - audits;
 - computer searches;
 - net worth calculations;
 - financial statement calculations.
- (2) Physical evidence including fingerprints, tyre marks, weapons, stolen property, identification numbers on stolen objects, and other tangible evidence. This type of evidence often involves forensic analysis by experts.
- (3) Personal observation involving evidence that is sensed (seen, heard, felt, etc.) by the investigators themselves. Personal observation investigative techniques involve invigilation, surveillance and covert operations.
- (4) Testimonial evidence gathered from individuals (normally by interview but perhaps even including such devices as the polygraph).

The methods to develop testimonial evidence, however, are usually key in the investigation of all types of theft. It has been said that, in a large percentage of cases, the weakest link in the chain of evidence is the interview/interrogation. If an ill-timed or inadequate interrogation does not destroy a case altogether, it can cause a large number of additional unnecessary man-hours to be consumed during the investigation[2].

The purpose of the interview or interrogation is to:

- gather information, facts and leads;
- corroborate and link evidence to suspects;
- identify and eliminate suspects and accomplices;
- recover merchandise and/or money[3].

As a matter of good practice when investigating thefts it is usually best to begin by using investigative techniques that will not arouse suspicion and, most importantly, will not wrongly incriminate innocent people. Therefore, initially it is best to involve as few people as possible, to avoid using words such as investigation (words like, "audit" and "enquiry" are more acceptable), and to start the investigation by using techniques that will not be recognized as "policing" methods. As

the inquiry proceeds, investigative methods will work inwards towards a prime suspect, until finally he or she is confronted in an interview[4].

Several of these steps can be performed without arousing suspicion. For example, security personnel, auditors and fraud examiners commonly examine personnel records.

Surveillance, when properly performed, is done without the suspect's knowledge. Only when interviews begin is the suspect likely to become aware of the investigation. Even then, interviews should normally be conducted first with the individuals who are unlikely to be involved and are not currently associated with the suspect, and should work inward until the suspect is finally interviewed. The purpose of starting tangentially and working inward is to avoid alerting suspects that they are under investigation too early and to avoid creating undue stress or suspicion among other employees. In addition, this process will best protect the subject of the investigations, especially if evidence later reveals that the individual was not in fact involved.

Remember the purpose of the investigation is to find the truth and to determine whether the symptoms actually represent theft or whether they represent unintentional error or other factors. Theft investigation is a complex and sensitive matter. If it is improperly conducted, innocent individuals can be irreparably injured, guilty parties can go undetected and be free to repeat the act, and the offended entity can be left with incomplete information as a basis for prevention of similar incidents or recovery of damages.

The investigation of theft symptoms in an organization must have management approval and can be quite expensive. Investigation should be pursued only when there is substantial reason to believe that theft has occurred. The overall purpose of an investigation is to determine the truth.

Conclusion

A proper investigation of employee theft requires an organized and systematic approach to the gathering of evidence before any confrontation of a suspected employee. During the whole process, from beginning to end, there are various decisions that are made with respect to the breadth of the investigation and the funds that should be expended. At any point, the investigation may be dropped

for either a lack of evidence or a conflict with the components of the evidence.

In other cases, even when there is substantial evidence of wrongdoing, the case may be dropped due to political considerations associated with labour unions, or just a desire to avoid possible negative public scrutiny. It should be remembered that investigations into employee theft often result in relatively insignificant recoveries when the cost of the legal processes are added in. Also wrongful discharge suits, false imprisonment claims, and liability suits against the company and management are a possibility.

As with the general trend in all industries, corrective action and prevention is viewed as being much more cost effective – the proper approach must be to put more effort and funds into the prevention of employee theft.

A good groundrule is *do not hire problems*. The screening of potential employees can be an effective means of reducing problem employees – although there are, in many cases, regulations which make it illegal to discriminate against an applicant on the basis of an arrest record.

Implementing a system designed to reward employees for reporting theft can increase profitability and motivate personnel to stay trustworthy. Many companies have instituted reward lines for reporting abuse problems. Most employees do not have a high enough level of commitment to their employer to motivate them to report theft or other types of misconduct. Creating a system, such as a

reward line, that offers monetary incentives, compensation time, peer recognition, or company perks, goes a long way to reducing losses. It also conveys to the employees the seriousness of theft. If procedures for reporting theft are not clearly defined, employees feel powerless to implicate others. And more importantly, when management fails to respond to what appears to be obvious abuse, employees feel the company does not care.

Does a reward line system work? John Weber, director of loss prevention for Builder's Square, says his company took action to curtail theft. In 1990 the company experienced a combined return ratio of four to one – that is, for each dollar spent, the company was able to recoup four dollars. The system of monetary incentives has certainly paid off[5].

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