

Theft & Fraud in the Workplace

The focus of this podcast and YouTube video series is on Canadian small & micro-business, with under 100 employees. We are not focused on national or international operations, even though they have the same theft problems as small companies. They have resources to deal with these problems, though.

We bring an extensive background to understanding theft and fraud in the workplace. While we did serve such national and international clients as Parmalat Dairies, Purolator Courier, Walmart, 7-11 and Safeway, I kept my client base of over 80 small local businesses, dedicated to solving their problems in an affordable manner.

My background is straightforward: I spent over 22 years as a corporate investigator, followed by 19 years as a small business loss prevention expert, developing systems and equipment to detect & prevent loss. In that time, I completed more than 8,500 apprehensions for theft and fraud. Our company had almost 12,000 apprehensions in six years. I conducted 310 employee/supplier theft exit interviews in that time.

Our companies, Promax Investigators and Loss Prevention Group Inc. partnered in a University of McGill study with psychologists Frank McShane & Barry Noonan, in a one-of-a-kind study on theft-prone personalities. I'll talk about that a little later.

Subsequent podcasts in this series will parallel our website, www.detecttheft.com, as well as the MOI Inventory App, available on Android and iOS systems.

We all have seen the news stories about swarming thefts, organized shoplifters and cargo heists. If we allow ourselves, we might think that this means the greatest threat to our shrinkage is through these big-ticket losses, but we would be quite wrong.

First, shoplifting only affects retailers, not wholesalers, manufacturers, warehouses, and so on.

Second, even in retail, the number of professional thefts is less than 5% of overall thefts.

The greatest threat to our business profits is through internal loss: employees, and sometimes suppliers, drivers and service providers.

Some estimates place the cause of small business failure as high as 60% due to internal theft and fraud.

Because of that, this first podcast will focus on employee theft. There is a plethora of stuff on shoplifting, but very little of it examines the link between indicators, opportunity and motive. These are the three essentials involved in theft and fraud.

This series will include employee theft in each of the major industry sectors, with a brief look at supplier theft. Some of those sectors are trades, warehousing & crossdocking, manufacturing and processing, hospitality, transportation and, of course, retail.

Let's start with the general "why" question. Why do people steal?

In 1992, psychologists Barry Noonan and Frank McShane teamed up with our company to conduct the first "point-of-impact" study on theft prone personalities. We apprehended suspects – both employee

and customer, along with a couple of supplier salespersons—who were caught in the act of theft or fraud. They were promised nothing in return for submitting to a questionnaire designed by the two psychologists. It was the first time that any shoplifters or thieves had been interviewed exactly as they committed their deviant behaviour, instead of having subjects self-report and analyse, sometimes months or years after having committed the act.

They answered, right at the moment they stole.

This study has been cited over 400 times by other researchers, showing how impactful it was.

There were three outcomes of the study: two reported, one not discussed. The first two were scientific. They looked at how the subjects responded to a couple of psychological surveys in common use. The third was very relevant to the retailers.

A majority of those responding claimed that they placed a high value on moral code and adherence to societal norms. They also suggested that those deviating should be punished. Yet, they were the deviants!

We have found, almost without exception, that thieves do not necessarily see themselves as thieves. They rationalize.

“The store (or boss) won’t miss it.”

“I need it.”

“The company doesn’t appreciate me.”

“Others do worse.”

“It isn’t much.”

“I’ll pay it back when I can.”

Very few actually see their actions as criminal. They completely ignore that part of the equation.

An elderly woman stole about \$45 worth of sliced meat (in today’s dollars), putting the items in her purse in a secluded aisle. She was a regular at the store and known as an elder in one of the local churches. She was personable and charitable.

When I apprehended her, she insisted she had taken nothing. After all, it was contrary to her religion. I insisted that she empty the purse of our contents (perfectly legal in Canada). She did and produced the items I had identified.

“How did that get there?” she demanded to know. She was adamant.

I documented her, then advised that she could leave. She looked at me, dumbfounded.

“It’s okay,” I told her. “You can go. That’s it.”

She continued to stare at me. Then she crumpled to the floor, crying and wailing.

Both the female employee with me and myself picked her up.

"It's ok. There's nothing more. Just don't do it again."

"No, it's not ok," she cried. "Don't you see what I did? I stole!"

Until the very moment that she was freed of consequences, she convinced herself that she could not possibly have stolen. She was in denial, distancing herself from her own actions. Then, when the full force hit her, she realized she was a thief.

Time and again, people rationalize, find excuses, or deny their actions. And these are the regular customers, the staff members who may think of you as a good neighbour or a friend. If they can rationalize, they do not feel guilt.

This body of thieves and fraudsters makes up perhaps 70% of your theft base. Then there are those that use their position of trust or confidence to steal, knowing what they are doing. That is another 20-25% of the deviance population. The last 5%, or perhaps as little as 1% are those that know what they are doing, don't care of the rightness or wrongness and will steal whenever they can. While the diehard, "professional" thieves make up only about 1-2% of the shoplifting population and do about 10% of the financial damage, thieves can do many times that amount as trusted employees.

One pharmacist client had us investigate his staff, because his shrinkage was very high. He suspected his part timers. Instead, we caught his most trusted employee and a long-time family friend. She handled all his financial transactions. We interviewed her, she confessed, and we recommended that he terminate her.

He declined. "She's learned her lesson," he declared.

Indeed, she had. It took us almost two weeks to figure out, a couple of years later, how she was defrauding him. She had learned how to hide it.

A wholesale lumber and hardware supplier had annual shrinkages of between 11% and 14% over three years. We investigated and discovered that the senior partner's junior partner (who also was his brother-in-law) was defrauding him of several hundred thousand dollars a year. Although we caught him, it was too late for the business, and it folded shortly afterward.

In the first example, the woman used her position of trust and made excuses for her actions.

In the second, the partner was just brazenly stealing, making deals with suppliers and clients and committing both theft & fraud, confident that his brother-in-law would not press charges. It turned out he was wrong.

While the reasons and causes of theft and fraud are universal across all industries, there are specifics in each sector that come to the fore. These tie into opportunity, since each business or business type presents unique situations of which the deviant can take advantage.

In our next podcast, we will look at motive and opportunity. Along with indicators that reveal that theft is or will be occurring. Following that, we will delve into employee theft in processing and manufacturing businesses.