

## **How to Keep Honest Employees Honest**

Employee theft is a major problem. According to Hiscox, a global specialist insurer, a study of employee theft indicated that, “U.S. businesses affected by employee theft cost an average of \$1.13 million in 2016. Small and midsize business accounted for 68% of cases, and their median loss last year was \$289,864.” (2018 Hiscox Embezzlement Study: An Insider’s View of Employee Theft.)

Most people who steal from their employer are not professional thieves. They are regular people who make bad decisions. Here are three examples my clients have dealt with:

- Martha had worked for over twenty years at a small local bank. She was a pleasant, grandmotherly person, loved by her coworkers and by customers. She was hard working and conscientious, but always made time to help others. She was the face of the bank in the community and active in several local charities.

Over the twenty years that she worked at the bank Martha embezzled over 10 million dollars. When asked why she did it she replied, “Well, I never took a large amount and, after the first time, it wasn’t missed so I just would take a bit from time to time.”

- Frank was an outgoing and personable senior executive of an industry trade organization. He had joined the industry organization when it was young and had played a major role in its subsequent growth. His charismatic personality made him a popular speaker and an effective representative of the industry. After a successful eight years he was hired away from the industry organization to help grow a medium sized company in the same industry.

After ten months with the new company, and with the assistance of the CFO, Frank drained the company’s cash reserves and flew to Hawaii, accompanied by the CFO. Over the period of a month, they blew almost all of it. When he was asked why he did it, he said, “I guess it was just temptation, and I wanted to have a fling.”

- Tim and Tom were brothers and restaurant managers at the same restaurant. Tim had an amazing ability to keep operating costs down while keeping food quality high. Tom, on the other hand, was outgoing and likable, and turned one-time customers into repeat customers, the life blood of any restaurant. Between the two of them, the restaurant went from doing only moderately well to becoming the number one unit in the company in just twelve months. They shared the Best Manager of the Year award.

Several weeks later, the brothers disappeared one night after the restaurant closed, taking a week’s worth of the restaurant’s cash receipts with them. They were soon apprehended with their car’s trunk full of cash. They said, “There was all this cash, and it was after closing, so we just took it.”

Good people may do bad things if they can rationalize their behavior – that is, find a reason that makes sense to them. The International Association of Interviewers lists 89 rationalizations at their website that people have used to justify employee theft (that’s right, 89!) What this means is that

each of us has his or her own understanding of what is honest and dishonest behavior, and these understandings are not always the same. Accordingly, it is important to make your company's standards for acceptable, *and unacceptable*, behavior clear to all employees.

Minimizing employee theft can be approached from two directions: first, by focusing on the individual employee and, second, by focusing on loss prevention systems.

Here are three suggestions for addressing the issue of employee theft with the individual applicant or employee.

- A. Include background checks to identify any record of dishonest behavior or for circumstances, such as significant debt, that might tempt the person to take company money or property.
- B. Use a properly validated honesty questionnaire to determine whether the person has any attitudes that would put him or her at risk for taking from the company.
- C. Provide the person with a clear idea of your company's standards for integrity and the consequences (i.e., termination, press charges, etc.) for non-compliance with the standards.

Second, as you are likely already aware, there are many loss prevention systems that are designed to insure that there are no conditions that could tempt honest employees. These should include, at a minimum, the following:

- A. Conduct, and oversee, regular audits of your company's finances.
- B. Enhanced security (i.e., security cameras, regular and random inventories, etc.)
- C. Random, unscheduled audits conducted by an outside accountant.
- D. An anonymous hot line or email program where employees can report suspicious activity.

Law enforcement authorities say that employee theft most often occurs when an employee has motive, means and opportunity. Circumstances can come about that create a motive for theft. If the person has the required knowledge and/or skills (the means) and if the right opportunity presents itself, even the most honest person can be tempted to take the company's cash or goods.

To help honest people remain honest remember these five guidelines:

- 1. Screen for past incidents that suggest integrity issues with background checks.
- 2. Use honesty questionnaires to screen for attitudes that suggest risk for theft.
- 3. Make your company's standards for integrity clear.
- 4. Make it easier to act with integrity than to steal by removing tempting circumstances.
- 5. Enforce your company's integrity standards without exception.