

A View from the Top:  
Managers' Perspectives on the Problem of Employee Theft  
in Small Businesses

A DISSERTATION

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## **Abstract**

This dissertation was a study of employee theft within small businesses focused upon understanding how these acts affect the owners and managers of small businesses, as well as understanding their perceptions of this problem. The problem of employee theft has received scholarly attention from multiple academic disciplines, and is also a common topic of discussion among business owners and managers, as well as within industry associations. However, employee theft occurring specifically within small businesses has received much less empirical attention, and almost no attention has been given to how these acts affect the owners and managers of small businesses. This study was an attempt to fill these gaps by studying the problem of employee theft within small businesses from the perspective of the owners and managers of those businesses.

This study used a mixed-methods process of data collection, which required the collection and examination of quantitative and qualitative data obtained from a sample of small business owners and managers within the greater Cincinnati, Ohio metropolitan area. This study focuses mainly upon how elements of guardianship within the business influence opportunity structures for employee theft. However, when explored from the perspective of the owners and managers of small businesses, this examination of business guardianship also touches upon issues of target suitability and offender motivation. In total, this study provides important and unique information about a topic of importance to many academic disciplines, while also providing useful information for the actual owners and managers of small businesses. This study of employee theft within small businesses represents a valuable contribution to both researchers and practitioners interested in better understanding a serious problem that has the potential to threaten small businesses in the United States.

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## **Dedication**

This dissertation is dedicated to my wife Brandi, my sons Jaylen and Alexander, and my little princess, Jaime.

## Acknowledgements

The completion of this dissertation would not have been possible without the love and support of my family. In particular, the love, support, and guidance of my wife has been so instrumental to my journey and development to this point. You have always given me just what I need, and many times much more than I deserve, as you helped me in the completion of this journey. In many ways, this accomplishment is equally yours, and you should take as much pride in the completion of this journey as I do. I love you, I thank you, and I look forward to spending the rest of my life enjoying the memories that we have built together.

Those memories would not be as sweet as they are without the love and support of my children and parents. I have had to make many sacrifices to achieve these goals, and I have not always had the opportunity to spend as much time with my sons as I would have liked. I hope that you understand that the sacrifices I have made were intended to give you the best life possible. To my daughter, you are the best graduation gift that I could ever receive, and the completion of this dissertation is my attempt to give you the very best as well. All three of you are so precious and important to me, and without you I truly would have no purpose. Jaylen, you have seen so much of my journey through life. You have been present for every degree that I have earned, and your presence in my life has driven me to strive for higher goals. Thank you for being who you are, and I look forward to watching you succeed in life. Alexander, I miss you. It saddens me to no end that you cannot be with me. I only hope that you know how much I love you, and how I wish I could watch you grow into a man.

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## **CHAPTER ONE: INTRODUCTION**

This dissertation is a study of employee theft within small businesses. It focuses on developing an understanding of how these acts affect the owners and managers of small businesses, as well as understanding how they perceive this problem. As will be discussed in greater detail below, the problem of employee theft has received scholarly attention from multiple academic disciplines. It is also a common topic of discussion among business owners and managers, as well as within industry associations. However, employee theft occurring specifically within small businesses has received much less empirical attention, and almost no attention has been given to how these acts affect the owners and managers of small businesses.

This study is an attempt to fill these gaps by studying the problem of employee theft within small businesses from the perspective of the owners and managers of those businesses. This is accomplished through the collection and examination of quantitative and qualitative data obtained from a sample of small business owners and managers located in the greater Cincinnati, Ohio metropolitan area. While this study is not a direct test of any particular criminological theory, it is informed and guided by Routine Activity Theory (Cohen & Felson, 1979), as it is an attempt to understand specific types of crime events, as well as factors that influence the development of opportunities for a particular class of crime.

In many respects, an employee's theft of tangible business property is just like any other type of theft of tangible property. In each situation there is property that is taken without the consent of the owner by some other person who then converts this property to their own personal use. When examined through the lens of criminological theory, the conditions necessary for the

occurrence of employee theft are the same as for any other type of theft. Routine activity theory (RA) states that opportunities for crime are present when there is a convergence in time and space of a motivated offender with a suitable target, while guardianship at the place of the criminal act is weak. If the suitability of the target declines, or the level of guardianship increases, the opportunity for crime declines and the chances of a crime occurring are reduced. However, it is always possible that a strongly motivated, or extremely persistent, offender may still attempt the criminal act, even if they are not likely to be successful.

RA draws from the deterrence and rational choice perspectives (Clarke & Cornish, 1985), which assert that individuals make calculated decisions about their choices to engage in deviance. When deciding whether to engage in an act of deviance, a potential offender will consider the costs of detection (e.g., likelihood of being caught, ability of the target to defend itself, possibility and severity of sanctions if caught) and weigh those against the perceived benefits they expect to gain from the offense. The costs are considered high if the likelihood of detection is high, the target is seen as capable of defending itself or of being defended by others, or the sanctions associated with detection are relatively severe. However, if the perceived benefits of the act outweigh the potential costs, the actor will likely choose to persist with the crime.

The term “routine activity” describes the recurrent or ongoing activities individuals engage in on a daily basis that center around work, family or leisure pursuits (Cohen & Felson, 1979). While Cohen and Felson originally defined and tested RA within the context of street-level criminal victimizations, applying the concepts of the theory to the problem of employee theft is a logical extension. This is because, in the case of employee theft, the offender’s recognition of items suitable for theft and his/her ability to determine the optimal time to engage



in that theft develop from their normal, legitimate, routines at the business. Following the logic of the theory, whenever there is a coming together of an employee motivated to steal from an employer, a target identified as suitable for theft, within the business, and a lack of appropriate guardianship over that target, we will find employee theft.

This study focuses mainly upon how elements of guardianship within the business influence opportunity structures for employee theft. However, when explored from the perspective of the owners and managers of small businesses, this examination of business guardianship also touches upon issues of target suitability and offender motivation. This dissertation explores how small business owners and managers affect each element of the routine activity crime equation, as related to attempts to reduce opportunities for employee theft within the business.

This dissertation is organized into 10 chapters, with the second chapter beginning the task of exploring this understudied issue through a discussion of the nature and magnitude of the problem of employee theft, as well as a review of definitions of employee theft. As will be discussed, there is no generally accepted definition of employee theft, nor is there a widespread consensus on what types of acts should be considered employee theft. While there may be general consensus that certain acts, like embezzlement, constitute employee theft, many other acts, such as loafing on the job, do not evoke the same level of consensus and are not always considered to be employee theft. This chapter discusses what acts previous studies have considered employee theft, and also briefly describes various definitions of employee theft.

The second chapter also addresses the prevalence of employee theft, a discussion that further supports the fact that employee theft is a large-scale problem within the United States (Fenton, 1970; Jackson, Holland, Albrecht & Woolstenhulme, 2010; Marholin & Gray, 1976),

and it is worthy of significant scholarly attention. The second chapter concludes with an examination of the role of employees as motivated offenders, as the vast majority of all research on employee theft has focused upon offender motivation. This discussion establishes a solid basis for understanding, from the perspective of employees, why theft occurs within the workplace.

Chapter three addresses the problem of employee theft as found within small businesses. The chapter begins by defining what criteria are used to determine whether a business should be considered to be a small business. Like employee theft, the term “small business” is not a definitive and straightforward concept, as many people use many different criteria to assess whether a business is “small.” While the U.S. government has a set criterion for determining when a business should be considered small, this chapter discusses whether this definition is relevant for the purposes of this study. The chapter then discusses the importance of the structural and cultural differences between small and large businesses, as they relate to the problem of employee theft. Even though both types of businesses experience employee theft, it is argued that employee theft within small businesses may create greater harms for these businesses than it does for their larger counterparts. The third chapter concludes with a discussion of the research that has been conducted on employee theft within small businesses; as part of this discussion, a second element of the crime triangle, target suitability, is addressed. Again, the proposed study is concerned with the owners and managers of small businesses, and by extension the issue of guardianship within small businesses.

Chapter four discusses the problem of employee theft from the perspective of the owners and managers of small businesses. Because there has been almost no research on employee theft in the context of small businesses from this perspective, this chapter uses the literature on

employee theft that does exist to address the role that owners and managers play in the development of opportunities of theft, as well as their role in addressing theft when it occurs. Additionally, a discussion of owners and managers' roles as guardians and place managers is undertaken in this chapter, and it is argued that through these roles, the owners and managers of small businesses can be one of the most important elements in the prevention of employee theft. The chapter concludes by introducing several research questions intended to guide the quantitative and qualitative data collection processes toward obtaining a better understanding of employee theft from the perspective of small business owners and managers.

The fifth chapter describes the methods used to collect and analyze the data obtained in this study. Because of the mixed-methods approach used in this study, data collection is broken into two distinct phases, each of which is described in this chapter. The first phase of data collection used a quantitative survey, mailed to the owners and managers of small businesses in the Cincinnati, OH area, to gather data on several topics important to the problem of employee theft within their businesses. The second phase of data collection used a series of in-person interviews to gather in-depth data from owners and managers of small businesses. While the two phases of data collection yielded information that was used to answer research questions that were specific to each phase, the discussion of the findings combines them at times so that the results from one phase of the study can enhance understanding and interpretation of the results of the other phase.

The sixth chapter discusses the data obtained on employee thefts occurring within small businesses in the Cincinnati area, and the seventh chapter discusses how victimized small businesses responded to employee theft. Chapter eight describes how controls mechanisms within victimized businesses evolved following employee theft, while chapter nine describes the

impact employee theft has on small business owners and managers. This dissertation ends with chapter ten, which provides an overview of the findings, give suggestions for future research and ways in which the study of employee theft can be extended, and addresses the limitations of this study's results.

This study was a novel attempt to gather data about a familiar problem from a perspective that has previously been neglected, using routine activity theory as a structuring perspective. Gathering data from the owners and managers of small businesses will provide for a better understanding of how small businesses respond to, and attempt to prevent, employee theft. This information will be useful to scholars from many academic disciplines, but will be particularly useful for scholars in criminal justice, organizational behavior, and small business management. Furthermore, the this study will shed light on the subjective experiences of a class of victims who have received virtually no attention from victimologists: the owners of small businesses.

For criminal justice scholars, data obtained from this study may help to inform techniques of crime prevention aimed specifically at the problem of employee theft. Furthermore, this data may yield new perspectives related to how the guardianship of small businesses is affected by the occurrence of employee theft. Organizational behavior scholars will likely be interested in information relating to organizational responses to employee theft, and the role of organizational climate, formal control mechanisms, and owner/manager-employee relationships. Small business management scholars should find value in the information relevant to the handling of theft by small businesses, as well as to how theft affects the organization and operation of the business. Finally, victimologists should find value in the information relevant to the effects of employee theft on the owners and managers of victimized business, a class of victims that

heretofore have been ignored. Investigating their experiences may extend our understanding of the subjective experiences of victims and the psychological effects of victimization.

The results of this study should provide important and unique information about a topic of importance to many academic disciplines, while also providing useful information for the actual owners and managers of small businesses. This study of employee theft within small businesses should be a valuable contribution to both researchers and practitioners interested in better understanding a serious problem that threatens the viability of all too many small businesses in the United States. Additionally, this study may also contribute to and extend theories of victimology, and assist victimologists in understanding the how these crime victims address and cope with their victimization experiences.

## **CHAPTER TWO: THE PROBLEM OF EMPLOYEE THEFT**

### **Defining Employee Theft**

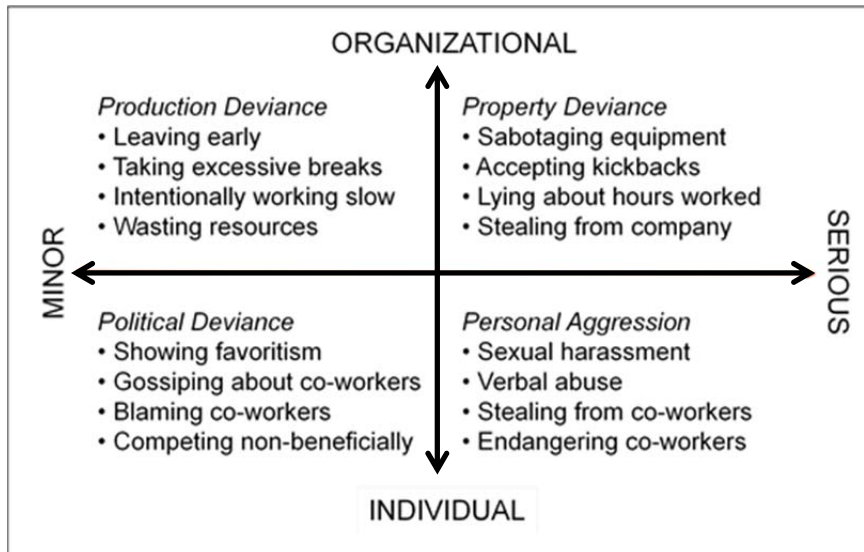
The term “employee theft” is used both popularly and academically to capture a wide range of deviant and criminal behaviors that occur within the workplace. However, there is no general consensus on a definition of employee theft, and no generally accepted criteria for the types of behaviors that qualify as employee theft (Greenberg & Barling, 1996). As a result, the term has come to serve as a type of catch-all categorization for many different but seemingly related kinds of behavior, in a manner akin to other criminological terms like “white-collar crime” and “street crime.” For example, the term employee theft has been used to describe acts of interpersonal deviance, such as when a health care employee steals a patient’s property (Harris, 1999; Harris & Benson, 2000; Lindbloom, Brandt, Hough & Meadows, 2007; Weber, Kurke & Pentico, 2003). It has also been used to describe minor forms of counterproductive work behavior (i.e., behavior that harms the business), such as an employee’s theft of time and the theft of prepared food by fast food employees (Boye & Wasserman, 1996; Snider, 2001; 2002). Furthermore, Greenberg and Barling (1996) state that the behaviors employers and employees respectively identify as employee theft are likely to vary considerably; probably as a result of their differing perspectives on the antecedents and consequences of these acts.

Highlighting the somewhat ambiguous nature of this term, the International Foundation for Protection Officers (IFPO), an organization that provides training to security and protection officers, defines employee theft in the following way: “Any stealing, use or misuse of their employer’s assets without permission to do so” (IFPO, 2013). The IFPO gives examples of

employee theft that cover acts ranging from an employee stealing cash from their employer, to overcharging customers, to stealing information (e.g., identity theft and intellectual property theft) through the business (Hoar, 2001; McKelvey, 2000). While no one would dispute that the unauthorized taking of cash from the business is an act of employee theft, it is highly disputable whether the act of overcharging a customer and pocketing the overcharged amount constitutes theft from one's employer. Rather, it would seem that this latter act is more an act of theft from the customer, as the money stolen does not rightfully belong to the business, but to the customer.

In addition to the activities just described, many other behaviors have been classified as acts of employee theft, including the following: taking (and giving away) food (Hollinger, Slora & Terris, 1992); the theft of finished goods and work-in-process (Sieh, 1987); and, the theft of products to be sold by the business (Rosenbaum, 1976). While it is difficult to identify a generally accepted definition of employee theft, many organizational behavior scholars consider the broad range of behaviors previously mentioned to be a type of counterproductive work behavior (CWB), or workplace deviant behavior (WDB); hereafter these terms will be used interchangeably. These various types of counterproductive behavior have been placed into a simple typology (Robinson and Bennett, 1995; 2000) consisting of four dimensions, as shown in Figure 2.1, where each dimension represents a combination of the following: whether the act creates minor or serious harm, and whether the act is directed at individuals within the business or toward the business itself.

Figure 2.1: Robinson and Bennett's Typology of Workplace Deviant Behavior.





As shown in Figure 2.1, the various combinations of these features of workplace deviant behaviors produces quadrants, where each quadrant represents a grouping of similar types of deviant behavior occurring within the workplace. Although all of these different forms of deviance may be important, the proposed study will focus specifically upon acts of theft where the employee steals from the business; these acts fall into the category of property deviance. According to organizational behavior scholars, employee theft is a type of voluntary work behavior, as it is considered to be part of job performance (Rotundo & Sackett, 2002), yet it creates serious harms for the business. While scholars in the fields of organizational behavior and industrial/organizational psychology classify employee theft as a type of negative job performance, criminal justice scholars take a different perspective on the issue.

Specifically, criminal justice scholars typically take the approach that employee theft is a criminal act that falls outside the scope of one's job performance (Clark & Hollinger, 1981; Hollinger & Clark, 1983; Mars, 1988; Payne & Gainey, 2002). According to the criminal justice perspective, employee theft should be treated like a crime, one that is committed against the business by offenders who possess specialized knowledge about the business. This specialized knowledge comes from the roles that employees occupy within the business; namely, these individuals have legitimate access to sensitive parts of the business, legitimacy that can be used to mask their criminal acts (Benson & Simpson, 2009). However, it can be argued that both perspectives accurately describe acts of employee theft.

For example, because accountants have legitimate access to financial accounts, checks, ledgers, and financial statements, the act of writing a check to a credit card company on the surface may appear, to the managers of the business, completely legitimate. The act of writing a check is part of the accountant's duties within the business, yet without management's close

scrutiny of the accounts, it may go completely unnoticed that the accountant is writing the checks to cover her own personal expenses. Therefore, the accountant's actions, while a type of job performance (writing checks) is a negative type of job performance, as well as a crime, because their actions violate laws related to the unauthorized transfer of property from one person (or entity) to another.

Furthermore, because of their employment within the business, employee thieves have the ability to become familiar with the business's use of surveillance and monitoring equipment, the work schedules of employees who might serve as guardians of the business's property, and other forms of guardianship present at the business. Knowledge of these factors can allow employee thieves to be more successful in their criminal acts (Clarke, 1997). As an employee engages in their normal and legitimate workplace tasks, they are exposed to knowledge about the levels of guardianship present within the business. Using that knowledge to take advantage of the business through acts of employee theft is not only criminal, but is also a negative outcome of one's daily job performance.

This presents an interesting twist on the relationship between the target and the offender, as offenders – employees in the case of employee theft – typically have legitimate access to the targets of theft as a function of their job. This allows potential offenders enhanced or even unobstructed access to the targets of theft, as employees are not generally questioned about their access to business property, computer files, or the business's equipment and materials. Furthermore, it is commonplace for some employees to access sensitive materials or information on a daily basis as they go about completing their assigned tasks, while it is also not unusual for some employees to take the business's property away from the business location, and away from guardianship measures present at the business's physical location. In some occupations, it is

expected that employees will take materials, information, and equipment home with them, as needed, to complete their jobs. In these situations, employees are trusted as guardians of the business's property, and it is this trusted position that makes it easy for a motivated employee to victimize their employer (see Shepard and Sherman, 1998, for a discussion of interdependence and trust within organizations, and Shapiro, 1990, for a review of the problem of abuse of trust).

While the specific resources with which an employee is trusted will vary by their position within the business, all employees are trusted to some varying extent with business resources. As employees go about completing their legitimate job functions, they may have the opportunity to alter their performance in a negative way and use their knowledge of the business to steal from the business. Ironically, it is likely through the proper performance of one's job that an employee gains the trust and knowledge needed to engage in employee theft. This trust and knowledge also allows them to hide their crimes from the business, and likely allows employee thieves to create greater harms for the business than could a non-employee thief.

It is possible that acts of employee theft greatly outweigh other crimes against businesses, both in the total number of occurrences, as well as the amount of harm created by these acts. While it has been found that shoplifting, vandalism, and credit card fraud are more prevalent in terms of the frequency with which small businesses report these crimes (Perrone, 2000), other scholars (Fisher & Looye, 2000; Taylor, 2002) have found that employee theft is a significantly under-reported crime. Supporting this conclusion, Mirrlees-Black and Ross (1995) found that, in Britain, 90% of robberies committed against small businesses were reported to the police, while only 20% of employee thefts were reported. The use of official data to determine the prevalence of these acts will significantly under-represent the frequency with which they actually occur.

## **Prevalence of Employee Theft**

Self-report studies of employee theft have provided insight into the prevalence of these acts, yet it has been difficult to verify this self-reported data with official data. This is because businesses typically under-report their experiences with employee theft (Fisher & Looye, 2000), leaving little to no official data about their employee theft victimizations. What information is available gives no clear picture of the extent to which businesses are victims of employee theft (Jones & Terris, 1985). For example, Fisher and Looye's (2000), study found that among their sample of Midwestern U.S. small businesses, only 16% had been the victim of employee theft. Other researchers have found rates much lower than Fisher and Looye, with some estimates falling into the single digits (Ash, 1988; Dalton & Metzger, 1993; Sieh, 1987). These estimates stand in stark contrast to several other studies that have found rates of business reported employee theft reaching as high as 60% (Krippel, Henderson, Keene, Levi & Converse, 2008; Wimbush & Dalton, 1997).

When it comes to rates of employee-reported theft, between 35% to 70% of surveyed employees have admitted to engaging in employee theft (Boye & Slora, 1993; Hollinger, Slora & Terris, 1992; Kamp & Brooks, 1991; Slora, 1989). The amount of theft reported by employees is not likely to mirror the amount reported by businesses, because businesses are not aware of all employee thefts that occur. Additionally, it is possible that employee-reported thefts capture theft that is on-going, whereas business-reported theft captures theft that has ceased, or been addressed in some way by the business.

The research is clear, however, that rates of employee theft tend to be higher in so-called "high-theft" industries, such as fast food establishments, convenience stores, and service stations. For example, Wimbush and Dalton (1997) found a base rate for employee theft of 58% to 59%

among employees in these industries, while Hollinger, Slora and Terris (1992) found a rate of 60% from a similar population. While businesses in other industries, such as manufacturing or financial services, may not see rates of employee theft as high as 60%, research has shown that even in these industries there is a considerable amount of employee theft. For example, Hollinger and Clark (1983) found that the total percentage of employees admitting to theft varied slightly by industry, with 35.1% of employees admitting to theft within retail industries, 33.3 % within hospitals, and 28.4% within manufacturing industries. Clearly, the prevalence of employee theft varies by the type of industry being examined; however, it is also clear that employee theft is a significant problem for all industries.

One possible explanation for the variation in rates of employee theft is that different industries offer different levels of opportunity for theft, relative to other industries. While the prevalence of theft is likely to vary by industry, the type of employee theft that appears to be possible in all industries, according to the Association of Certified Fraud Examiners (ACFE, 2012), is billing fraud. This type of employee theft occurs when an employee causes his/her employer to issue payment for an invoice for a product or service to be used personally by the employee. These acts cost businesses an average of \$100,000 per incident, as these offenses are typically on-going schemes, rather than a one-time events. When considering the types of theft that are most likely to persist for long periods of time, the ACFE (2012) reports that the longest lasting employee theft schemes were payroll schemes (when an employee submits a fraudulent claim for compensation), which had an average duration of 3 years. Check tampering is the second longest lasting form of employee theft, lasting a median duration of 30 months. This form of theft also has the highest per incident median loss, with victimized businesses standing to lose about \$143,000.00 per identified incident.

## **Employees as Offenders**

The vast majority of research conducted on employee theft (including that which incorporates employee theft into the broader category of workplace deviant behaviors) focuses solely upon understanding why employees are motivated to engage in theft. This research has identified several potential sources of individual-level motivation for employee offenders, including one's level of dissatisfaction with their job or their employer (Greenberg & Barling, 1996), and the employees' desire to retaliate against the business (Greenberg, 2002). These reasons also include economic rationality (Chen & Sandino, 2012; Machin & Meghir, 2004; Rickman & Witt, 2007), where employee theft has been found to be the result of a rational calculation of costs and benefits relevant to the employee considering theft.

It has also been found that age and tenure are significant to understanding an employee's motivation to engage in theft, as younger, shorter tenured employees are more likely to engage in employee theft (Gruys & Sackett, 2003; Harris & Benson, 1998; Hollinger, 1986; Hollinger, Slora & Terris, 1992; Hurrias, Uggen & McMorris, 2000 ; Mangione & Quinn, 1975; Mustaine & Tewksbury, 2002; Robin, 1969). These employees have been found to display lower levels of attachment to the business (Feldman, 2003; Ng & Feldman, 2009), have higher levels of impulsivity, perceive there to be lower opportunity costs associated with theft, and to see the results of their actions as less harmful than their older, longer tenured peers (Rickman & Witt, 2007).

However, the relationships between age/tenure, and theft, as well as other counterproductive workplace behaviors have been challenged, as some scholars have found mixed support for these relationships (Lau, Au & Ho, 2003), or that the relationships are more complex than the current literature suggests (Levine & Jackson, 2002). While no scholar has

asserted that age or tenure are *per se* indicators of the likelihood of deviance, where relationships have been found with deviance the argument is made that these factors interact with situational factors, as well as features of the individual's personality.

The most commonly used measures of personality are the "Big Five" factors, or the five factor model (McCrae & Costa, 1987) of personality, which are broad categorizations of characteristics that are used to explain individual variations in personality (Gosling, Rentfrow & Swann, 2003; Salgado, 1997). The Big Five personality factors are neuroticism, extraversion, openness, agreeableness, and conscientiousness. Because of their broad nature, it has been argued that the Big Five are incapable of reliably predicting behavior, but rather are better suited to describe general personality types (Hough, 1992). Other scholars argue that these factors can serve as reliable predictors of a range of workplace behavior, with distinct relationships emerging between specific personality traits and distinct types of job performance (Barrick & Mount, 1991). One such relationship that has shown consistent significance in studies of workplace deviance is that between employee theft and the trait of conscientiousness.

The personality trait conscientiousness reflects an individual's work ethic, and it captures their propensity to be dependable, hardworking, ambitious, and goal directed. Individuals who score high on conscientiousness are driven to complete their tasks in a manner that benefits not only themselves, but also their peers and their organization; they see value in the accomplishment of workplace goals. Importantly, it has been found that individuals who are high in conscientiousness are more likely than those with low conscientiousness to refrain from engaging in counterproductive work behaviors (Bowling, 2010; Bowling & Eschelman, 2010). This finding holds even after controlling for the level of job satisfaction expressed by the employee. Specifically, Bowling (2010) found that while there was a significant direct

relationship between one's level of job satisfaction and the occurrence of CWBs (lower job satisfaction was significantly related to higher levels of CWBs), one's level of conscientiousness moderated this relationship. When job satisfaction is low, individuals who are high in conscientiousness are significantly less likely to engage in CWBs than individuals low in conscientiousness.

Another personality trait that has been found to be negatively correlated with the occurrence of employee theft is agreeableness, or the propensity to work in cooperative, rather than competitive ways. Narcissistic individuals tend to be overly preoccupied with themselves to the detriment of others around them, and may be more likely to engage in CWBs. Penny and Spector (2002) tested this relationship and found that narcissistic individuals were more likely to engage in CWBs when they were faced with challenges on the job. Specifically, the authors found that individuals low in narcissism displayed low levels of intent to engage in CWBs irrespective of the difficulties they encounter on the job.

However, when exploring the likelihood of CWB among individuals high in narcissism, Penny and Spector (2002) found that as difficulties and challenges increased, so did the intent to engage in CWBs. In essence, personality factors appear to interact with workplace factors to determine whether individuals engage in CWBs. This is supported by other authors who have identified the significance of interactions occurring between personality traits and structural/organizational factors of the workplace (Berry, Ones & Sackett, 2007; Levine & Jackson, 2002; Spector & Fox, 2002). Obviously, employee theft cannot occur without the presence of an employee who identifies an opportunity to engage in employee theft and who for some reason or another is motivated to victimize his/her employer. Research suggests, however, that motivation is not derived solely from individual-level factors such as age, tenure, or



personality, as features of the work environment are likely to influence the development of theft motivations.

**The business origins of employee motivation.** Research findings in support of the influence of personality traits on the likelihood of employee theft and CWBs also suggest that personality factors interact with workplace factors. Workplace factors include the employee's assessment of the climate/culture of the business, the role of owners and managers in the operation of the business, and events occurring within the business that affect the employee. When personality and workplace factors interact, issues of job satisfaction, perceptions of inequality/injustice, pay dissatisfaction, and the presence of workplace or role-based stressors are the most likely to influence the development of theft intentions, as well as the actual occurrence of theft.

**Job satisfaction.** Job satisfaction refers to the degree of positive affective responses an individual feels as a result of their level of job performance, and the related rewards attached to that performance (Locke, 1969). The term "satisfaction" implies that a continuum exists, wherein one can range from being satisfied to being unsatisfied. When individuals reach levels on the lower end of the continuum they are experiencing job dissatisfaction, which is the negative affective response to one's job performance, or the rewards associated with that performance. The connection between job satisfaction and job performance has been tested in many different ways (Bolin & Heatherly, 2001; Henne & Locke, 1985; Hollinger, 1988; Huiras, Uggen & McMorris, 2000). However, a review of the multiple relationships that have been tested suggest that a correlation may exist between satisfaction and performance (Judge,

Thoresen, Bono & Patton, 2001). Accordingly, one's level of job performance depends, in part, upon the level of job satisfaction.

The effect of one's level of job satisfaction on their job performance is dependent upon the types of behaviors an individual is able to use to express satisfaction or dissatisfaction. (Williams & Anderson, 1991). When high levels of job dissatisfaction lead to the externalization of this dissatisfaction, and when counterproductive work behaviors are available to the dissatisfied employee, negative job performance can result. Given the range of CWBs previously discussed, when CWBs are seen as an appropriate means to address dissatisfaction, a dissatisfied employee will choose the CWB that is most appropriate in the given situation, with employee theft becoming a possibility when the employee is seeking to act out against the business. While one's level of job satisfaction is affected by, and interacts with, personal and contextual factors (De Cremer, 2006; Lau, Au & Ho, 2003; Mount, Ilies & Johnson, 2006), the feeling of dissatisfaction is a primary motivating force behind CWBs.

As mentioned above, the relationship between work conditions and CWBs is often moderated by personality traits; however, the most important factor in the workplace prompting the development of counterproductive work behaviors is job satisfaction (Roberts et al., 2007). When dissatisfaction stems from business-based factors this makes intuitive sense, as dissatisfied employees may be the most likely to seek retribution or revenge against the business through counterproductive behaviors like employee theft (Omar, Halim, Zainah, Farhadi, Nasir & Khairudin, 2011). Employee theft represents a way for employees to "even the score" against their employers, who they perceive to have wronged them in some way. The dissatisfaction the employee is feeling toward the business, or an individual they see as representing the business

(Greenberg, 1990), likely springs from feelings of injustice deriving from the employee's interaction with the business.

***Justice and fairness in the workplace.*** The concepts of justice and fairness within the business environment capture the degree to which an employee perceives they are being treated appropriately by the business. These perceptions relate to just and fair treatment from superiors, co-workers, and others affiliated with the business, and in some way affect how the individual perceives the business to have treated them at particular points in time. Employee perceptions of justice and fairness are subjective interpretations of situations occurring within the work environment. While some situations are clearly unjust or unfair (e.g., abusive behavior on the part of supervisors that is aimed toward employees) other behavior is more ambiguous, and perceptions of justice/fairness rest in the individual employee's interpretation of the particular situation.

These subjective interpretations of workplace events can lead some employees, when they perceive they have been treated unjustly, to respond by engaging in counterproductive behaviors. Employee theft is one such behavior that can result from these feelings, as Greenberg's (1993; 2002) research showed that feelings of injustice can motivate certain employees to steal from the business. These feelings of injustice in the workplace affect one's level of job satisfaction because the cognitive appraisal of one's work environment will influence the types of behavior they exhibit within the work environment (Williams & Anderson, 1991). This is particularly true when individuals perceive that the outcomes they have received from the business are less than what they should have received.

Adam's Equity theory (1963) asserts that individuals will perceive they have been treated unfairly when there is an imbalance in the level of inputs given to the business and the outputs received from the business, relative to some referent other. Essentially, people will feel cheated by the business if they feel they have expended the same amount of energy on a task as a peer, yet they have received less from the business than that referent peer. Employee theft can develop as a reaction to this perceived inequity, as the wronged employee seeks out a way to create a balance between inputs and outputs. This idea is reflected in Agnew's (1992) work on strain, where the disjuncture between employment outcomes and expectations can lead to deviance producing strain. These feelings, particularly when occurring in the presence of anti-social peers or when a lack of pro-social coping mechanisms exist for the individual, can lead the employee to cope with their negative feelings through acts of employee theft.

When negative affective responses are the result of perceived mistreatment within the workplace, employee theft is likely to be the result under three conditions: 1) the mistreatment is perceived to be severe, 2) there are few internal or external controls to prevent the occurrence of theft, and 3) the act of theft provides a way to bridge the divide between anticipated and actual outcomes (Agnew, 2001). The outcomes received from the business can come in many different forms; however, the most studied outcome in the employee theft literature is pay, where an imbalance between inputs and outputs creates feelings of dissatisfaction with the output received (i.e., feelings of pay dissatisfaction). Because of the goal directed nature of employment – people perform a job, in part, to receive living wages – pay dissatisfaction is one type of strain within the workplace that is highly likely to lead to feelings of anger (Broidy, 2001), which are then likely to lead to the occurrence of employee theft and other deviant workplace behaviors (Rebellion, Piquero, Piquero & Thaxton, 2009).

***Pay dissatisfaction.*** While pay satisfaction is also closely associated with job satisfaction and perceptions of injustice (Organ & Konovsky, 1989), it stands apart from these areas when considering the problem of employee theft. This is because employee theft is often times associated with an employee's desire to extract gain from their employer in an attempt to close the gap between expected and actual remuneration (Agnew, 2001; Rebellon, Piquero, Piquero & Thaxton, 2009). When workers feel underpaid for their work, they may steal from the business in order to recoup their "losses," yet when these same workers begin to feel fairly compensated the theft is likely to subside (Greenberg, 1990). This suggests that employees will steal only to create balance between the value they have placed on their services and the value of what they receive in compensation from the business (Ambrose, Seabright & Schminke, 2002). However, it is likely that many acts of theft are merely acts of opportunity, which are not the result of feeling of inequity of injustice.

Additionally, the quality of the relationship between dissatisfied employees and the business, both the business itself as well as the individual owners and managers of the business, will have an influence on the occurrence of theft (Greenberg, 2002). This is because the business can work to shape employee expectations of the rewards that are given for the completion of business goals, thereby influencing the employees' individual goals (Latham, 2001). When this occurs, the employee's pay will remain the same, yet their relative pay expectation will likely shift so that they are willing to accept pay conditions that might otherwise have motivated them to engage in theft.

People go to work expecting to receive some respectable level of pay for the work they perform, and this expectation is typically set by the owners and managers of the business during the hiring process. When the employee is satisfied with his pay, either at the beginning of

employment or, most typically, after employment has commenced and he realizes the full scope of the job, he is likely to display commitment to the business. However, when he is dissatisfied with his pay he is likely to engage in counterproductive behaviors like employee theft. In many situations, the cause of this dissatisfaction is the disjuncture between his desire for a certain amount of compensation, and his actual level of compensation (Tang & Chiu, 2003).

However, it is not likely that an employee will only engage in theft as a reaction to pay dissatisfaction, rather they are likely to exhibit other less serious forms of counterproductive behavior, as well as to display a decrease in general workplace motivation, prior to engaging in theft (Jones, 2009; Ryes, Gerhart & Minette, 2004). This is likely a result of the fact that pay dissatisfaction is often relative in nature, and employee theft may be viewed as an extreme reaction to one's level of dissatisfaction. However, theft may also occur because employees feel a strong attachment to their position and to the business. Furthermore, when employees feel like they have made significant contributions to the business, contributions that have not been recognized by the business, they may choose to engage in theft despite a strong attachment to the business. Under these circumstances, an employee may feel they own, in a sense, the "business," or the property or outputs of the business because of their hard work and dedication (Duffield & Grabosky, 2001; Pierce, Kostova & Dirks, 2001).

The concept of psychological ownership, as expressed by Pierce, Van Dyne and Cummings (1992), embodies an employee's actions and perceptions, related to the employee's belief that they own a part of the organization, its outputs, or other tangible or intangible property of the business. Specifically, psychological ownership positively influences the performance of extra-role behaviors, as well as organizational commitment (Vandewalle, Van Dyne & Kostova, 1995), factors that can lead individuals to engage in citizenship behaviors on a regular basis.

However, a connection between psychological ownership and counterproductive work behaviors has also been hypothesized (Pierce, Kostova & Dirks, 2001), yet to date it has not been empirically verified.

From this perspective, employees will steal from the business because they feel the property they are taking belongs to them by virtue of the effort they have exerted on behalf of the business; effort that may not have been properly rewarded through compensation or other benefits. Furthermore, employee theft may result when psychological ownership is high because employees come to identify their contributions to the business, as well as the tangible or intangible outputs of the business, as an extension of themselves (Van Dyne & Pierce, 2004). Employees view the taking of these items not as stealing from the business, but rather as merely gaining possession of, or in some way protecting, property they already consider to be their own (Avey, Avolio, Crossley & Luthans, 2009).

***Role stressors.*** Job dissatisfaction, pay dissatisfaction, and issues of injustice in the workplace all create problems of stress for affected employees, stress that can lead to the occurrence of employee theft and other counterproductive work behaviors. However, there are many other forms of on-the-job, or role-based, stressors that can also lead to the occurrence of employee theft. As with the other business-based factors leading to employee theft, role-based stressors that are specific to an individual employee may influence the development of counterproductive behaviors (Bowling & Eschleman, 2010). Furthermore, the presence of role-based stressors are more likely to lead to counterproductive behaviors like employee theft than will personality conflicts, even when those conflicts involve one's superiors (Fox, Spector & Miles, 2001). This highlights the rational nature of employee theft as employees that feel

stressed chose to direct their deviant behavior at the source of the stress; this also highlights the role businesses play in the development of counterproductive behaviors.

Stress in the workplace can develop from a number of different sources, including a poor fit between the employee and the job they are asked to do, issues within the group with which the employee's associates, or problems within the company (Kristof, 1996). Again, a poor fit between the employee and the business does not necessarily mean that employee theft will occur. Instead, a series of outcomes are possible, with counterproductive behaviors that affect the performance of the business being one potential category of outcomes.

The employee is also likely to feel large amounts of stress when there is a breach of the implicit relational or transactional contracts held by the employee with their employer (Graen & Uhl-Bien, 1985). This is because the negative feelings associated with this breach will likely have a significant influence on the types of on-the-job behaviors displayed by the employee (Zhao, Wayne, Glibkowski & Bravo, 2007). The breach of the psychological contract held by the employee has the potential to create stress because, at times, contract breach is a signal to the employee that contributions to the business are not valued or respected (Coyle-Shapiro & Conway, 2005). This creates a situation where the employee experiences negative affective responses to normal work place conditions; responses that may lead the employee to engage in a prolonged series of counterproductive behaviors.

When employees face issues of dissatisfaction, stress, or anger within the workplace, they may be likely to take their frustrations out on the business through acts of theft. The literature on employee theft has shown that there is no shortage of reasons as to why an employee may choose to engage in acts of theft. Many of these reasons relate to the relationships that exist among employees, and between employees and employers. Yet, irrespective of the specific reason why



an employee may choose to engage in theft, these acts have the potential to create many serious harms for the victimized business.

### **The Harm That Results from Employee Theft**

As far back as the late 1700s, scholars recognized the significant social and economic harms that result from acts of employee theft. The work of these early scholars served a very important role, as they helped to bring increased public attention to the crimes of employees and others holding trusted positions within organizations. The earliest literature exploring this problem were case studies discussing the problem of embezzlement, and its effect on trade and commerce (Colquhoun, 1700; Loch, 1779). The goal of these and other early works was similar to that of early work on corporate crime; to bring public attention to disreputable practices that ultimately have a negative impact upon society.

In fact, a handful of scholars during the 1700s and 1800s published articles and books on the need to develop means to prevent employee theft (Beckwith, 1807; Kellogg, 1881; Rapalje, 1892). Beckwith (1807) was probably the most successful voice at this time, which is likely due to the specific area of employee theft he decided to address. He argued for an increase in the means available to address theft in general, but specifically as it related to employee theft from charitable organizations. Beckwith was interested in finding ways to prevent the occurrence of fraud and the embezzlement of funds and goods by those entrusted with the responsibility to protect the very products targeted for theft.

However, as scholars in the early 1900s make clear in their work, the passage of a century was not enough time to find appropriate means to prevent the occurrence of employee theft. In fact, the work of early scholars like Colquhoun and Beckwith appears to have had little

impact on the problem, as the occurrence of employee theft had not waned, but rather had grown in scale, over the years (J. R. R., 1907; H. E., 1910). These authors focused upon the financial harms that result from employee theft, such as the illegal extraction of funds from the business, and the direct application of business funds to personal expenditures such as political contributions (J.R.R., 1907).

**Financial harms.** Most scholars have spoken about the harms that result from employee theft in terms of the financial impact these acts have upon the victimized business, as well as to society more generally. In fact, it has been estimated that employee theft costs the U.S. economy 10 times as much as the costs associated with traditional street crimes (Mustaine & Tewksbury, 2002). There is no doubt that employee theft has a significantly negative financial impact upon victimized businesses (Chen & Sandino, 2012; Gross-Schaefer, Trigilio, Negus & Ro, 2000); however, estimates of the extent of this impact vary from between the tens of billions of dollars, to between \$200 billion and \$400 billion (Appelbaum, Cottin, Pare & Shapiro, 2006; Murphy, 1993; Myers, 1999; Rosenbaum, 1976). Furthermore, it has been found that the financial costs of employee theft are over 10 times that of non-employee theft within the same businesses (Prien & Taylor, 1998), and that within the United States employee theft can cost businesses up to \$10 million per day (McNees, Gilliam, Schnelle & Risley, 1980).

The financial costs attributable to employee theft are typically discussed in general terms, as it is likely impossible to determine the exact amount of losses attributable to these acts (ACFE, 2010). Yet, some industries may suffer greater harms from employee theft than others, as the costs associated with the occurrence of employee theft are likely to vary by industry, and business structure. While research on employee theft has not been conducted evenly across all

business types, a large amount of the literature has shown that retail and food service establishments are highly victimized by their employees. Despite the fact that some estimates of retail and food service shrinkage rates are low, which is likely due to underreporting (Krippel et al., 2008; Levine & Jackson, 2002; Wimbush & Dalton, 1997), scholars have been able to show that the majority of all shrinkage costs (approximately 60%) are due to employee theft (Rupe, 1980). As a result, employee theft reduces the availability of materials the business intended to sell (Hoffer, 2010), thus having a double-impact on the business: the business loses the value of the items stolen *and* loses any potential profits that could have been earned from the sale of those items. Further, it has been found that restaurants can lose 7% to 10% of their gross sales to employee theft (Drinkard, 1996), and the ACFE (2010) estimates that business losses due to employee theft, irrespective of industry, can reach as high as 5% of total business revenues per year.

These high financial costs are likely to be a major factor behind the failure of many restaurants (Ghiselli & Ismail, 1998; Holmes, 2011). They may also serve to directly increase the price of products for consumers (Bailey, 2006), as well as to lower tax revenue and increase unemployment as business may need to lay workers off in order to balance the resulting increase in costs and reduction in revenue (Lipman & McGraw, 1988). However, it is likely that many other types of businesses, besides those in the retail and food service industries, will have issues surviving when significant levels of employee theft are present. This is because employee theft creates significant costs for all businesses, with many of the costs extending beyond any one incident of theft.

The costs resulting from employee theft come not only from the theft of cash from the business, but also from employee pilferage of products and any damage done to the business's

property during acts of employee theft (Greenberg, 2002), but also through indirect means. For example, businesses that have experienced employee theft suffer the direct financial costs associated with theft, yet they may also have to expend large amounts of money to increase prevention efforts within the business (Challenger, 1998; Mishra & Prasad, 2006). Because of the direct and indirect costs associated with employee theft, these acts have been called one of the most costly burdens to a business (Kulas et al., 2008, McDaniel & Jones, 1988).

As mentioned above, cash is a primary target of theft by employees and it seems as if the very means of financing that are so essential to small business survival are also the most sought after targets of employee thieves. The inability to access capital through loans, and the increased costs of doing business in the U.S., can put a heavy financial strain on small businesses and the people who own them, as well as those who are related to the owners of small businesses. This is because most small businesses are financed through commercial loans, owner savings, loans from family and friends, or other financial arrangements based in the owner's personal relationships with willing investors (U.S. Small Business Administration, 2012). While the connection between declining cash reserves and the increased probability of bankruptcy is salient for many small business owners, it is interesting to note that general economic surveys of small businesses, including those discussed above, fail to capture the threat posed by employee theft. It seems as though small business owners are chiefly concerned about outside forces (e.g., increased government regulation, softening national and global economies, passage of the health care law) negatively affecting their ability to grow and survive, while paying much less attention to the internal forces conspiring to make survival of the business more difficult.

The impact of acts of employee theft is also likely to vary with general economic conditions, with poor economic times making it more difficult for businesses experiencing

employee theft to remain profitable (Alstete, 2006). When businesses are facing tough economic times, it may be extremely difficult for them to remain solvent even if employee theft is not a problem for the business. When theft does occur, the business's dire financial situation is exacerbated, making survival all that more difficult. While specific data on the relationship between bankruptcy and employee theft are questionable, it has been estimated that, on an annual basis, 30% of all business failures in the United States are due to employee theft (Moorthy et al. 2009; Niehoff & Paul, 2000).

While bankruptcy represents a devastating harm for many people associated with the business (e.g., the family of owners and employees), employee theft creates a multitude of additional harms for many groups within society. Employee theft likely has significant direct financial effects upon not only the business owners and employees, but also upon the local community, the business's vendors, and customers of the business (Jackson, et al., 2010). As has been mentioned previously, employee theft likely leads to higher product prices, forcing customers to pay more for products than they should. However, employee theft may also reduce the availability of products for sale to customers, as pilferage removes items from inventory, and a reduction in financial resources may mean that businesses cannot replace stolen inventory fast enough to meet customer demand.

Employee theft can create a ripple effect throughout the economy, with businesses, employees, suppliers/vendors, customers, and local governments suffering financially. While the effects may not be noticeable to normal customers of victimized businesses, the effects of employee theft are likely to be very salient to those within the business. For example, when employee theft is severe and results in the closure of the business, those employees who never engaged in theft are directly impacted by the theft when they lose their jobs, and the income they

use to support their families. However, consumers may not “feel” the impact of the business closure, as competitor firms will likely fill the hole left by the bankrupt business.

Yet, even if employee theft does not lead to the closure of the business, the significant financial losses associated with the theft may impact the business in many other ways. For example, significant instances of employee theft will likely reduce the ability of the business to issue raises or bonuses to honest employees, potentially impacting their levels of job or pay satisfaction, as well as their perceptions of owners, managers, and other co-workers. It is likely the case that the true costs of employee theft are impossible to determine not only because these acts are underreported, but because the collateral consequences associated with employee theft are difficult, if not impossible, to measure.

**Non-financial harms.** Beyond the financial impact of employee theft, these acts can take a significant toll on the business in many other ways, and the effects of employee theft are likely to endure within the business for some period. The length of time any particular instance of theft continues to negatively affect a business likely depends upon the scale of the theft, and its impact upon the owners, managers, and employees of the business. Employee theft can have a very direct impact on businesses, as higher rates of employee theft may lead to higher rates of employee turnover, lower levels of interpersonal and organizational trust, and increased negative psychological reactions on the part of employees (Payne & Gainey, 2004). While the organizational impact of employee theft may increase the financial toll on the business (e.g., higher training and on-boarding costs associated with new hiring, decreased productivity and efficiency, increased lost workdays), there are other equally important effects that should not be overlooked. Indeed, the motivational, emotional, and psychological toll these acts can take on

the business's owners and managers, and through them upon the employees, may be far more significant (Dunlop & Lee, 2004).

One of the key features of a small business is the closely controlled nature of its ownership/management structure (Culkin & Smith, 2000; Jocumsen, 2004). For small businesses, the owners and managers of the business are intimately involved with many of the most important aspects of that business, and they tend to have a much deeper emotional connection to the business, when compared to owners and managers of larger businesses (Culkin & Smith, 2000). When employee theft occurs within any business, the owners and managers may respond by making changes in their management style, changes to oversight or policies within the business, or changes to the autonomy that employees within the business enjoy. All of these changes have the potential to create additional non-financial harms for the business, as employees will react to owner/manager's reactions to the occurrence of employee theft.

Significant situational changes within a business, particularly significant negative changes, have been shown to affect the occurrence of positive organizational behavior on the part of employees (Dalal, Lam, Weiss, Welch & Hulen, 2009). This suggests that an employee's negative reaction to the occurrence of employee theft may be strongest when owners and managers are attempting to address the theft through changes in the business, which likely influences the way in which owners and managers deal with employees. If these changes affect the way in which employees perceive factors of justice and fairness within the workplace (i.e., being treated fairly by the business and its owners and managers), they are more likely to show distrust for the business, and less likely to engage in positive workplace behavior (Dirks & Ferrin, 2002; Li & Cropanzano, 2009). A decrease in trust in the business, combined with a decrease in positive workplace behavior may be a reflection of an employee's increasing

displeasure with the business, which may lead to the occurrence of negative workplace behaviors by the unhappy employee (Dalal, 2005).

The owners and managers of businesses victimized by employee theft face a host of difficult decisions relating to balancing the need for changes to be made in the wake of an instance of employee theft, against the need for non-offending employees to feel they are being treated appropriately by the business. However, the ability of an owner/manager to inspire and motivate their employees in ways that facilitate the most positive of business outcomes may significantly decrease if the owner/manager is de-motivated by the occurrence of employee theft (Hu & Liden, 2011; Wang, Law, Hackett, Wang & Chen, 2005). For example, it has been found that the relationship between a supervisor's expectations of his/her employees and the employee's subsequent behavior is partially mediated by the support the employee receives from their supervisor (Tierney & Farmer, 2004). When employee theft causes an owner/manager to reduce the amount of support given to employees, because the owner/manager is spending time and energy addressing the instance of theft or because the owner/manager loses faith in employees, business outcomes and employee morale may suffer, as employees may feel they do not have the full support of the business (Mathieu, Maynard, Rapp & Gilson, 2008; Rich, Lepine & Crawford, 2010).

When employee theft occurs within a business, the owners and managers of the victimized business are likely going to feel some negative affective response to the theft. While the scale of this response likely depends upon a number of factors (e.g., size of the business, relationship of owner/manager to employee thief, damage the theft does to the business, etc.), when the response is severe the owner/manager's attitude toward the business, as well as toward employees, is likely to change. One of these responses may be to restrict employee autonomy or



authority within the business as a means to regain control over processes or procedures that previously were not closely monitored. However, when employees are trusted with sensitive parts of the business and given the authority to make significant business decisions they likely feel empowered and trusted by the business (Pieterse, Van Knippenberg, Schippers & Stam, 2010). When these responsibilities are taken away in the wake of employee theft, these once empowered employees may feel divested of their workplace power and authority, which may lead them to feel lower levels of attachment to the business, and to experience lower levels of job satisfaction.

Furthermore, when owners and managers pull back the amount of responsibility and authority given to employees, in an effort to increase the level or amount of controls within the business, they may actually be creating conditions favorable to the occurrence of future instances of employee theft, as the development of trust among employees and owners and managers declines, while the presence of the control creates roadblocks to the development of new trust relationships (Schoorman, Mayer & Davis, 2007). Furthermore, if owners and managers respond to employee theft through the use of severe negative actions (i.e., hostility toward employees, the perceived abuse of power and authority, creating the feeling among employees that they are being victimized by the owner/manager), it is likely that employees' negative workplace behaviors will increase, as may the overall presence of stress within the workplace (Tepper, 2007). An employee's reaction to the occurrence of employee theft is very likely to depend heavily upon how owners and managers react to the theft.

Yet, it is not only at work where the negative affective outcomes of employee theft can be seen in owners and managers and employees. This is because negative experiences at work can affect one's home life, leading to a situation where the occurrence of employee theft

negatively affects one's mood at home, thereby creating stress at home that negatively affects one's mood at work (Eby, Maher & Butts, 2010). This reciprocal relationship means that the occurrence of employee theft creates harms that are not confined strictly to the business environment. Understanding how the spillover of workplace stress into one's home life affects one's work/life balance may be more important for the owners and managers of small businesses, as compared to managerial counterparts in larger businesses, as small business owners and managers tend to have greater levels of emotional investment in the business (Astrachan & Jaskiewicz, 2008). Accordingly, the problem of employee theft likely poses significantly different, and possibly more harmful issues for small businesses, as well as the owners and managers of these businesses, than for larger businesses.

### **Summing Up**

Acts of theft within the workplace can take many different forms, and there is no commonly accepted criteria for what behaviors, specifically, should be considered employee theft. However, it is generally accepted that all behaviors that at one point in time or another have been considered employee theft are counterproductive to the work environment, and criminal acts. One reason that employees are able to commit these crimes with regularity is the legitimate access they have to business resources as a result of their position as employees. This legitimacy offers motivated employees the ability to hide their deviant acts, which are likely motivated by a combination of individual-, organizational-, and situational-level factors. The vast majority of research on employee theft has explored how these motivated offenders create significant harms within businesses, while also addressing the types of harms created by these acts. Yet, very little research has focused upon small businesses, and the impact that employee

theft takes upon these businesses, or the impact of theft upon the managers and owners of small businesses. The next chapter addresses this issue by discussing the problem of employee theft from the perspective of the small business.

**CHAPTER THREE:**  
**EMPLOYEE THEFT WITHIN SMALL BUSINESSES**

**What is a Small Business?**

Small businesses comprise the majority of businesses in this country and their economic health can be, at times, a barometer of the economic health of local communities, as well as the nation at large. However, determining what specifically classifies a business as “small” is not a straightforward procedure, as the U.S. Small Business Administration (SBA) uses several factors to make such a determination. In applying the label of “small business” to a business entity, the SBA typically looks at a business’s revenue or number of employees, with the threshold for consideration as a small business varying by industry classification (SBA, 2013).

The maximum number of employees a firm can have and still be considered a small business is determined by the industry in which the business operates, and can range from 500 employees (which is used for the vast majority of industries) to 1,500 employees. Many people have taken issue with such broad measures, and consider a business of 500 employees, let alone 1,500, to be far from small (Chun, 2012; Cooper, 2012). When using the SBA standard of 500 employees or less as the breakpoint separating small businesses from large businesses, regardless of the industry being considered, over 99% of all businesses in this country qualify as a small business.

However, an examination of the distribution of businesses in the U.S. by employee size reveals that the vast majority of businesses have far fewer than 500 employees. According to the U.S. Department of Commerce (2012), in 2008 86% of all businesses in the U.S. had 20 or fewer employees, while an additional 11.7% had between 21 and 99 employees. Furthermore, this U.S.

Department of Commerce report shows that only .25% of all businesses in this country employ 500 employees or more. So, while the SBA size standards may seem broad and overly-inclusive, the reality of the situation in the U.S. economy is that the vast majority of businesses (97.7%) employ fewer than 100 people. In addition, through their operations, these businesses make up approximately 46% of this country's total gross domestic product (U.S. SBA, 2012b).

Furthermore, according to figures from the U. S. Small Business Administration, small businesses employ almost half (49.2%) of all private-sector workers (U.S. SBA, 2012a).

Since 1993, small businesses have accounted for approximately 64% of total new jobs growth within the private sector, adding over 11.8 million new jobs to the economy.

Importantly, 60% of total new jobs growth has occurred in existing small businesses, with the remaining 4% of new jobs growth coming in the form of new small business start-ups (SBA, 2012b). The large growth in existing small businesses likely reflects the cycle of layoff-rehire that has occurred with economic swings in this country. When the economy contracts, small businesses will lay off employees to bring operations into line with market demands; they will then rehire employees when the economy begins to recover. This cycle highlights the importance of ensuring the survival of existing small businesses, as these businesses are the primary source of new jobs growth in periods of economic recovery (U.S. SBA, 2012b).

However, the occurrence of employee theft within these businesses threatens their ability to act as catalysts for jobs creation, a role that appears to be vitally important to the success of any economic recovery in this country.

According to many small business owners, the main factors that currently will inhibit small businesses from hiring additional workers are uncertainty in the economy, the perceived impact health care reform will have on the business, and the growth of regulations unfavorable to

the small business community (National Small Business Association, 2012a; U.S. Chamber of Commerce, 2012c). Additionally, small business owners have stated that the impact rising energy prices have on the financial health of their business, along with taxation issues and growing workers compensation costs, are major problems needing to be addressed (National Federation of Independent Businesses, 2008). While the managers and owners of small businesses are keen to note they are facing increasing economic difficulties, surprisingly, the threat posed by employee theft has largely remained unaddressed.

One of the most common targets of theft by employees is cash (Terris & Jones, 1982; Wimbush & Dalton, 1997), and for small businesses, access to capital is vitally important for their survival. In fact, over the past 18 months almost half of small businesses surveyed by the National Small Business Association (NSBA) used bank loans (45%), while another third (31%) turned to credit cards, to shore-up their financial positions. Unfortunately, in 2011 almost half of the small businesses surveyed by the U.S. Chamber of Commerce stated it had become more difficult to access the credit needed to grow their business. Furthermore, NSBA surveys found that 68% of the businesses in their samples believed that tightening credit markets have negatively affected their ability to expand operations, or secure the capital needed to remain viable (2012b).

When contraction of the economy creates cash-flow issues for small businesses, additional problems with obtaining access to credit or outside lending may significantly reduce the means available for these businesses to seek financing. While the percentage of businesses that were able to access the credit needed to sustain operations has increased over the past 18 months, over 25% of small businesses have indicated that this financing was insufficient to meet their needs (NSBA, 2012b). The inability to access credit likely induces small business owners

to conserve and protect cash reserves, as a soft economy and tight credit market make surplus cash a strategic advantage. While substantial cash reserves can be a competitive advantage for businesses of any size, it may be more of an advantage for small businesses as these businesses typically have fewer financial resources at their disposal, as compared to larger businesses (Cressey, 1996).

Most businesses share certain features, such as the presence of an organizational culture, a formal relationship structure between owners, managers and employees, some level of ethical business standards, and the use of mechanisms to prevent deviant workplace behavior (Lewis & Churchill, 1983). However, there may be significant variations in the quality of these features across different sizes of businesses. Furthermore, the ability of a business to address issues of employee theft may be determined, in part, by the size of the business, as the size of the business likely affects its ability to access sufficient resources (human, financial, and others) to address the problem of employee theft.

### **How Small Businesses Differ from Larger Businesses**

Typically, the distinction between small and large businesses is seen as one of size (i.e., number of employees, total amount of revenue obtained) or presence (i.e., product name recognition, global brand recognition). However, small and large companies vary in many other important ways, and many of these variations can have an influence on the occurrence of employee theft within these businesses. For example, larger businesses typically have more decentralized organizational structures where multiple individuals are responsible for decision making within various business units. Smaller businesses, particularly those that are closely controlled by the business owner, are more likely to have centralized organizational structures.

In these structures, decision making typically rests within the hands of one individual, or a very small team of individuals.

The decentralized structure of larger businesses allows upper-level managers to delegate responsibilities and tasks to lower-level managers and employees. Within small businesses, where human capital is scarcer and operational efficiencies can be obtained with more centralized management structures, delegation of tasks, not decision making, is more likely to occur. This may have a significant influence on the occurrence of employee theft within small businesses, as the reduced number of layers of management may mean that stronger relationships are able to develop among managers and employees. While having fewer people in place to act as guardians over the business's property may create some opportunities for theft to proliferate, at the same time, fewer people in trusted positions may also mean there are fewer opportunities for employee theft by individuals who hold trusted positions within the organization. Furthermore, the relationships that develop among this small group of owners and managers and employees may lead to more purposeful oversight of business resources, as invested employees will likely take a large stake in protecting the company from harm.

This situation captures the delicate balance that exists within small businesses, as the size of the business affects its ability to expend resources on theft prevention mechanisms, yet also influences the need for such mechanisms. Accordingly, there are no straightforward relationships between the size of the business, the need to implement employee theft control mechanisms, and the opportunities that exist for theft that are related to business size. The use of control mechanisms is likely a function of all these factors, as well as management's perception of the likelihood for theft to occur. Yet, when it is determined that formal control mechanisms



are needed within the business, small businesses may find that the implementation of these controls is more difficult when compared to their larger counterparts.

Sadly, when employee theft does occur within small businesses, the financial impact may be much greater when compared to their larger counterparts. For instance, the loss of \$120,000 (the average loss due to employee theft according to the ACFE (2012)) in a large multi-national corporation valued at several billion dollars, while still an extreme act of employee theft, is not comparable to the same loss in a small business valued at several million dollars. When such acts of employee theft occur within a large business, the employee is likely to be fired, if not prosecuted (as would likely be the case in a small business); however, the large business may more easily absorb the financial loss.

The manner in which a business addresses the occurrence of employee theft is likely a result of the structure of the business (centralized vs. decentralized organizational structures), as well as specific features of the business, the presence of which likely varies between small and larger businesses. The specific business features that are likely to be the most important to consider, when thinking about the problem of employee theft, are the following: the relationships that exist between owners and managers and employees; the use of bureaucratic or formalized procedures and mechanisms to control behavior within the organization; and, the ethical climate of the business. This is because these features likely have the most direct influence on how the business attempts to prevent the development of employee theft, as well as how it deals with theft that occurs within the business.

**Relationships between owners and managers and employees.** Both small and large businesses are able to attain operational efficiency, in part, through the use of management

structures that complement the business. For example, the level to which a business can successfully direct the positive products of teamwork among managers and employees toward the achievement of business goals will determine how successful the business will be at achieving its goals (Barney & Hesterley, 2012). Compared to large businesses, small businesses generally have more informal, yet more personalized, management structures, which typically reflect the characteristics of the owners and managers of these businesses (Matlay, 1999). This informal, personalized approach to dealing with employees likely allows owners and managers to better harness the intangible resources of the business, which may lead to more successful business outcomes.

As mentioned in the previous chapter, the quality of the relationship between owners and managers and employees can have a significant effect upon the development of employee theft motivations. Within small businesses, this relationship may take on increased importance, as the owners and managers of the business likely have greater interaction with and stronger affective ties to their employees (Kickul, 2001). Such attachments can result in better working relationships, a more collegial environment at the business, and an increased willingness on the part of employees to sacrifice for the business. Employees' desire to make sacrifices for the business may be partially influenced by the example that the owners and managers of the small business set for employees, as these individuals typically sacrifice much, and serve multiple roles, in order to make the business successful (Gadenne, 1998). However, the need to wear multiple hats and be in many places at one time can also lead owners and managers of small businesses to make decisions that may negatively affect the business (Jennings & Beaver, 1997).

As the constraints of time and physical ability limit the amount of work that any one individual can do, the owners and managers of small businesses may give more time and

attention to those decisions that seem to be the most pressing for the success of the business at any given moment. If the business is not currently dealing with an issue of employee theft, the owners and managers may not perceive the problem to be important enough to warrant their immediate attention. Because of this, they may fail to take proactive steps toward the implementation of control mechanisms that could reduce the likelihood of employee theft. Larger businesses, with more decentralized management structures, are more likely to have multiple layers of management and a formalized human resources system within the business, each of which can be used to address the development of opportunities for employee theft, as well as greater resources to use toward implementation of theft prevention mechanisms.

The owners and managers of small businesses are more likely to treat their employees like family members (Matlay, 1999), whereas in larger businesses employees are more likely to be treated in an impersonal manner by management. While the level of personal connection that exists in many small business owner/manager-employee relationships may serve as a factor that protects the business from theft, it is also likely a means by which theft can thrive. This is because the owners and managers of small businesses may not consider the occurrence of theft a possibility, and may fail to take adequate protective measures to guard against the occurrence of theft. Ironically, a focus upon building or maintaining a collegial and close-knit workplace environment may take an owner/manager's attention away from a focus upon theft prevention activities.

Because large businesses may be characterized by relatively less personal relationships between managers and employees, there is likely to be less emotional trust between managers and employees when compared to smaller businesses (Sundaramurthy, 2008). Managers of larger businesses may take steps to ensure that employees do not engage in theft from the

business as a function of this lack of emotional trust, whereas the owners and managers of a small business may refrain from taking such steps as emotional trust in these businesses is likely to be high. The relationships that develop between the owners and managers of a business and their employees has an effect upon many aspects of the business, including employees' levels of job satisfaction, perceptions of fairness and justice in the workplace, and their willingness to go above and beyond typical job requirements (Gadenne, 1998; Matlay, 1999). Businesses that are characterized by high levels of these traits likely have employees who are invested in the success of the business, and these employees may be less likely to engage in employee theft.

Furthermore, an employee's perception that they are integral to the business and that management sees them as a valuable and trusted member of the business, can increase the employee's perception that they are supported by the business, in turn increasing a desire to engage in organizational citizenship behaviors (Stamper & Masterson, 2002). The perception of being an organizational insider may also decrease the occurrence of counterproductive work behaviors, as the perception of being an insider likely increases commitment to the organization. However, it may also be the case that one's perception as an insider may allow them to rationalize certain types of employee theft in a manner similar to what can occur with feelings of psychological ownership. Like psychological ownership, the perception of insider status does not necessitate pro-social or anti-social behaviors on its own; other factors, likely those tied to other types of employee investment, also affect the behavior that employees display on the job.

Small businesses are likely to have the best opportunities to develop high levels of various types of employee investment in the business, as the owners and managers of the business have a greater ability to interact at a more personal level with their employees. However, this increased level of interaction can also lead the owners and managers of small

businesses to place very high levels of trust in individuals, while at the same time giving the owner/manager reason to refrain from implementing oversight or theft prevention mechanisms. The same features of a large business that makes the development of high levels of interpersonal trust among owners and managers and employees difficult also helps to create oversight and employee theft monitoring mechanisms that may prevent the occurrence of such thefts. Small business, while being able to create very strong affective connections between owners and managers, employees, and the business, may also fail to take appropriate steps to protect the business because of the strength of these relationships. As a strong affective investment in the business does not serve as an absolute barrier against employee theft, the relationships that small business owners and managers develop with their employees may very well allow for the growth and development of opportunities for employee theft.

**Controlling employee behavior.** Formal business processes and procedures can be used to align work tasks and increase business efficiency, allowing businesses to use more organization-based means to control employee behavior. However, businesses may choose to incorporate means of direct observation and monitoring as a way to supplement these processes and procedures. Specifically, many businesses employ closed circuit television (CCTV) systems, electronic locks controlling access to certain parts of the building, and the use of procedures to track and record the use of business resources. Both small and large businesses have chosen to utilize these methods, to various extents, in an attempt to prevent or discourage counterproductive or illegal workplace behavior. However, evidence suggests that small businesses may be less successful in these efforts than their larger counterparts, leaving them at greater risk of victimization.

For example, many businesses will use CCTV systems to monitor the business during working and non-working hours. Businesses that use these systems argue they create many benefits, such as the ability to monitor employee compliance, investigate and record employee misconduct, and prevent the unauthorized use of business resources (Lasporgata, King & Pillay, 2004). However, small businesses have been found to have had less success with these systems, as compared to larger businesses, as the owners and managers of these businesses opt for less expensive, and poorer performing systems (Hearnden, 1996). Furthermore, Hearnden (1996) found that small business owners and managers were more likely to discontinue CCTV use when they became dissatisfied with the results of the system. While CCTV use has been shown to be effective in the reduction of property crimes, its usefulness as regards the problem of employee theft is not clear (Phillips, 1999). Yet, it has been strongly argued that the use of CCTV systems by small businesses can help to reduce the occurrence of workplace violence, increase formal monitoring of the business, and increase workplace safety within the business (Mayhew, 2002).

These proposed benefits of CCTV may be due to the fact that employees are often aware they are being monitored, as cameras are likely to be placed in conspicuous places within the business. While one of the benefits of CCTV use within businesses is the ability for management to oversee employee activities, thereby extending guardianship over the business, it may also negatively affect the relationship between owners and managers and employees. This is because employees may feel less trusted, as owners and managers may begin to rely more upon CCTV monitoring to control employee behavior to the detriment of the formation of strong relationships with employees (Brown, 2000). However, there is also evidence that some employees do not mind being monitored through CCTV, while they are at the business (Stahl,

Prior, Wilford & Collins, 2005), yet they may be less comfortable with other forms of monitoring such as biometric surveillance (Ball, 2005).

Businesses, whether they are large or small, operate efficiently when all employees are performing their assigned tasks without producing waste or engaging in counterproductive behavior on the job. The most basic form of behavioral control that a business can use is a formal position or job description that outlines the parameters of an individual's job (Massad, 2005). In addition to detailing job role expectations and criteria used to evaluate performance, job descriptions will typically outline pay and compensation for the position, as well as other benefits of employment. Accordingly, at the most basic level, job descriptions set employee expectations for the job they are being asked to perform, the compensation associated with job performance, and the behavior that may lead to promotions or increases in compensation. However, many businesses chose to use additional measures designed to control employee behavior; measures which may also prevent the occurrence of acts that might be harmful to the employee, their peers, or the business. The types of measures used to control behavior, as well as the ability for those measures to succeed in controlling employee behavior, depends in part upon the size of the business.

There are likely to be numerous formal methods a business can use to control employee behavior as a means to prevent the occurrence of employee theft, as well as in reaction to the occurrence of theft. However, those that are most likely to be effective are those that are well known to employees, those that are highly visible or salient, and those that are integrated into the business's culture (Daft & Macintosh, 1984). The use of formal business processes and procedures represents a business's desire to optimize the efficiency of their operations and maximize business outputs. These processes and procedures allow a business to focus upon

developing the best strategy possible, whereby the business can capitalize upon its strategic advantages (Barney & Hesterly, 2012). This is because a business can only maximize its performance by operating in line with its strategic advantages, advantages that are based, in part, upon the efficient use of internal resources. The coordination of these resources and the ability to extract maximum gain from internal resources likely depends upon the quality and quantity of formal processes and procedures designed to control and direct employee behavior.

Small and large businesses will differ in their ability to utilize, and capitalize upon, formal processes and procedures that are designed to maximize business outputs (Gibb & Scott, 1985). One reason for this is that a business's size may influence the types of formal processes and procedures it can optimally use to achieve operational efficiencies. For example, larger businesses are likely to be better situated to design work processes that dedicate a larger number of employees to the completion of complex assembly processes, where each employee is assigned one small, significant part of the process. Large assembly line processes maximize the use of production time by making the best use of each individual employee's energy, and they also optimize the use of business resources. This optimal mix of people-to-process is achieved through the process of methods engineering, which allows businesses to incorporate the mechanics of getting a job done, with the human resources and materials needed to complete that job (Wagner & Hollenbeck, 2005).

While methods engineering can be beneficial to all organizations, small businesses likely lack the financial and human resources necessary to use such complex task division processes, opting instead for a more basic division of tasks. For example, within a small business, constraints on human resources, even if financial resources are not an issue, likely lead to production operations where individual employees are responsible for the majority, if not the



entirety, of a specific production process. This more basic division of tasks may not only lead to less efficient operations, it may also mean less business oversight and less control over the performance of certain workplace tasks. While less oversight and fewer organizational controls do not automatically mean that small businesses are less efficient than larger businesses, let alone more likely to experience employee theft, the reduced reliance upon formal human resources processes and controls may impact small businesses in many other ways.

More importantly, it has been found that small businesses are significantly less likely to use formal human resources controls, and that when small businesses do implement such controls, it occurs at a much slower pace than larger businesses (Kotey & Spade, 2005). As the owners and managers of small businesses are highly focused upon the day-to-day needs of strategy implementation and output maximization, they may be less likely to focus, proactively, upon formal employee controls that can affect the development of opportunities for employee theft. Rather, they may wait until they are forced to make strategic changes as a result of the occurrence of employee theft within the business. Alternatively, small business owners may see more informal processes as better able to positively influence employee behavior, and they may turn to methods that capitalize upon the closely controlled nature of the business, and the close relationships that likely exist among owners and managers and employees.

One such method is the development and maintenance of an ethical climate within the business, which can help to set expectations of appropriate workplace behavior; expectations that are reinforced through owners, managers and employees, rather than through owners or managers alone. Because these expectations are developed and maintained by those within the business, they can be changed and adapted to meet changing business needs, such as changes that occur in the wake of employee theft. The ethical climate of a business can be used to help

prevent the occurrence of employee theft, as well as a means of organizational reaction to theft, a reaction that is meant to address organizational weaknesses that may have increased the opportunity for theft to occur.

**The ethical climate of the business.** The ethical climate of a business represents “the prevailing perceptions of typical organizational practices and procedures that have ethical content” (Victor & Cullen, 1988). This climate can be shaped by the organization, yet it is the internalization of ethical norms and standards by the employees of the business that will make positive ethical behavior a part of the business’s culture (Appelbaum, Deguire & Lay, 2005; Frostenson, 2009). In essence, a business’s ethical climate is a reflection of the norms, values, and decision making rules used by owners, managers and employees when they face a potentially unethical situation. A business’s ethical climate is part of its organizational culture, which is “an informal, shared way of perceiving life and membership in the organization that binds members together and influences what they think about themselves and their work” (Wagner & Hollenbeck, 2010). In other words, the ethical climate of a business helps to shape individual and group actions within the business, and serves to create shared meaning about what behavior is acceptable and what is unacceptable.

Many large businesses use a variety of formal procedures, such as ethics training for employees, the use of anonymous hotlines to report unethical behavior, and the adoption of high-level executive ethics positions (e.g., Chief Compliance/Ethics Officer), in an attempt to shape the business’s ethical climate. Furthermore, larger businesses, because of their more formalized employee structures, will often use organizational mechanisms, like those just mentioned, to influence the ethical climate of the business (Adams, Tashchian & Shore, 2001). The use of

these mechanisms may, according to Adams et al., (2001) serve to significantly reduce the occurrence of unethical behavior within the business, as organizational factors of control help to reduce opportunities for unethical behavior.

According to Sims (1992), one of the most important elements in the development of a positive ethical climate within any business is the tone that is set by top managers of the business. This is because lower-level employees will take their cues as to what types of behavior are acceptable from the words and behavior exhibited by top management. This behavior, when reinforced through business processes and procedures supportive of ethical behavior, is able to align ethical cultures that may develop within a business, as well as to guide the behavior of lower-level managers and employees (Adler & Bird, 1988; Harrington, 1991). The business's use of formal human resource policies and procedures, as well as the presence of multiple levels of management within the business, facilitate this process.

Furthermore, an ethical climate can serve as an additional form of informal social control, over and above the influence of peer-based social control, as well as that of formal organizational control mechanisms (Laufer & Robertson, 1997; Weaver, Trevino & Cochran, 1999). Supporting these ideas, the literature on employee theft suggests that businesses with stronger ethical work climates, as assessed by employees and as determined through an examination of ethical corporate policies and procedures, had fewer instances of employee theft (Peterson, 2002; Weber, Kurke & Pentico, 2003). The importance of company support of ethical work climates, through the use of ethics training and the enforcement of ethical policies cannot be understated. This is because the failure to support the development of an ethical climate may be a signal to employees that ethical ambiguity exists, or worse, that unethical behavior is tolerated by the organization (Kidwell & Kochanski, 2005; Trevino & Weaver, 2001). When employees

perceive their deviant acts to be acceptable within the workplace, the norms and values standing against theft, which originate from within the business lose their power to positively influence employee behavior (Appelbaum, Cottin, Pare & Shapiro, 2006; Vardi, 2001). In these situations employee theft moves from being an unacceptable counterproductive behavior to a tolerated, or normal, part of the business culture as employees may no longer see what they are doing as theft.

Because of their size, small businesses may lack the resources needed to address issues associated with the growth of an unethical business climate (Gray & Mabey, 2005; Payne & Gainey, 2004). Small businesses may not have formal human resources departments, nor are they likely to have multiple layers of management that can reinforce ethical perspectives throughout the business. It is up to the owners and managers of small businesses to become champions for the development of ethical climates, as their ability to induce employees to follow their example may determine how well the business is able to address unethical situations (Adams, Taschian & Shore, 1996).

However, small businesses are typically slow to integrate ethical training and informal social control programs into business processes (Kotey & Folker, 2007). The lack of human and financial resources that many of these companies face forces owners and managers to make choices about how to spend precious time and cash. When ethics training takes away from profitability and productivity, it is likely to be ignored in favor of programs, training, and activities that will have a more immediate influence on the bottom-line. Ironically, by ignoring the problem of employee theft, small business owners and managers may be creating situations where victimization by employees winds up costing significantly more in terms of cash and other resources than would have been spent on methods designed to create or bolster the business's ethical climate.

Furthermore, when small business owners and managers fail to directly address the need for a positive ethical climate, the possibility exists that multiple ethical climates – some very strongly positive, others less so – will develop within the organization (Elçi & Alpkın, 2009). It has been argued that various operational units within a single business will develop unique and, in many ways, distinct ethical climates (Victor & Cullen, 1988), however, such a situation may be easier to manage within small businesses. This is because small businesses are typically flatter than larger organizations, and the owners and managers of small businesses likely have a greater influence on, and involvement with, the overall operations of the business and the integration of a positive ethical climate into those operations. Accordingly, the presence of a strong ethical culture may be one of the best tool small business owners and managers can use to address the occurrence of employee theft.

The job of developing and reinforcing an ethical climate within the business may be much easier in small businesses than within larger businesses. This is because smaller businesses employ fewer people, so there are fewer people to bring on-board to ethical principles. Furthermore, the close relationships that owners and managers of small businesses maintain with their employees likely allow them to have greater levels of influence upon employee behavior. As a result, the owners and managers of small businesses may find themselves with a strategic advantage as regards the development and maintenance of an ethical climate within the business.

Small businesses may still face significant disadvantages in addressing the development of an unethical climate within the business, as large businesses have the resources to address the financial, organizational, and inter-personal issues that develop from acts of employee theft, many small businesses do not (Lewis & Churchill, 1983). However, small businesses can still

capitalize upon the close relationships among employees and owners and managers, even if they may not be able to afford to take advantage of 3<sup>rd</sup> party ethics training or monitoring.

When an unethical climate does develop within a business, irrespective of the size of the business, unethical employees are more likely to make decisions that affect the business directly, as well as the many stakeholders of the business such as customers, suppliers, and other employees (Weber, 2012). Furthermore, the ethical climate of the business helps to guide expectations of team member performance, as more ethical businesses have employees that are more willing to cooperate with the team, speak up about ethical issues, and push back against unethical group pressure (Johnson, 2007).

Finally, businesses that develop ethically positive climates are more likely to have employees who maintain loyalty to the business. This is because employees in ethically positive businesses are likely to feel that the business is willing to act in their best interests, as well as to feel more comfortable with addressing unethical situations within the business (Shaw & Barry, 2007). This behavior likely extends to employee theft, as businesses with more positive ethical climates may be more likely to employ people who will act in the business's best interests, as well as to address the occurrence of employee theft among their peers.

### **Research on Employee Theft in Small Businesses**

The earliest mention of empirical research on employee theft focusing specifically upon small businesses came in the 1970s. An article by Denenberg (1970) makes reference to a U. S. Small Business Administration study that cited the total losses accruing to small businesses as a result of crimes committed against them, including employee theft, to be about \$3 billion. Prior to this point, almost no scholarship had focused upon the problem of employee theft within small

businesses. What scholarship did occur did not make a distinction between theft occurring within small businesses and theft occurring in other, much larger, businesses.

Employee theft is a problem that is not restricted to businesses of any particular size or structure, and the research on employee theft has made it clear that these acts have the potential to create significant harms within victimized businesses. However, this research has largely failed to address how employee theft can disproportionately harm small businesses. This means that problems specific to small businesses, problems related to the occurrence of employee theft, are not distinguished from those of all businesses in general. There are many reasons why a small business may fail – poor financing, poorly timed market entry, inappropriate strategy to take their product to market, poor leadership, or a good idea that just does not gain market support. Sadly, one of the most prevalent reasons that small businesses fail to continue successful operations may relate to the negative effects of employee theft (Moorthy et al, 2009).

While many articles and books have been devoted to the study of deviant behavior and crimes against businesses, only a relative handful have addressed crimes against small businesses (for examples, see: Berger, 1981; Bressler, 2009; Bressler & Bressler, 2007; Challinger, 1998; Chelimsky, Jordan, Russell & Strack, 1978; Diamond, 2005; Graycar & Smith, 2002; Hayes & Prenzler, 2003; Keogh, 1981; Perrone, 2000; Taylor, 2002; Taylor & Mayhew, 2002a; Taylor & Mayhew, 2002b; Wyman, 1999). Furthermore, a thorough search of the literature on employee theft, going as far back as the 1960s, produced a total of 17 articles, complete book chapters, encyclopedia entries, or dissertations that have focused exclusively upon the problem of employee theft within small businesses (Alstete, 2006; Carland & Carland, 2001; Chersan, 2009; Christopher, 2003; Delaney, 1993; Good, 2010; Hillstrom, 2007; Jackson, Holland, Albrecht & Woolstenhulme, 2010; Johnson & Rudesill, 2001; Kopko, 2008; Marholin & Gray, 1976;

Mbonyane & Ladzani, 2011; Osborne, 1995.; Shanmugam, Haat & Ali, 2012; Snyder, Whitfield Broome & Zimmerman, 1989; Thomas & Thomas, 1992; Zetocha, 1986).

These 17 articles, book chapters, encyclopedia entries and dissertations focus exclusively upon employee theft within small businesses. While other literature has addressed employee theft in general, inclusive of small businesses, it has not taken into account the unique structural and resource issues faced by small businesses. These articles were found through internet searches using combinations of the following key words: employee theft, theft, embezzlement, fraud, small, family, private, closely-controlled, business, company, organization, and corporation. Additionally, articles were identified through searching the references of empirical articles discussing employee theft generally, and within small businesses specifically.

The fact that business size is typically ignored in studies of employee theft is in some ways understandable as the types of theft that occur within small businesses are the same as those that occur within larger businesses. However, the dollar value of the losses suffered by small businesses are typically larger than those suffered by other businesses (ACFE, 2012), and the impact of these losses is much greater in small businesses. According to the Association of Certified Fraud Examiners (ACFE), victimized small businesses had a median loss of \$147,000.00 per instance of theft, which is \$27,000.00 more than the median for all business, irrespective of their size. Furthermore, businesses with fewer than 100 employees were the most likely to be victims of employee theft, experiencing 31.8% of victimizations in 2012 and over 30% of total victimizations since 2008.

As mentioned previously, small businesses have fewer resources with which to address the growth of opportunities for employee theft, the use of which is likely to be largely dependent upon the owners and managers of the business. This means that the use of certain types of



control mechanisms and internal processes designed to reduce the opportunity for theft are likely determined by the resources available to the small business, as well as the owner/manager's perception of the likelihood of victimization. Unfortunately, resource disadvantages will disproportionately expose small businesses as targets for theft, and the occurrence of theft within the business may further reduce the business's ability to combat the development and proliferation of these opportunities. The most unfortunate result of these systematic lapses in control, although it is not the only result, is the closure of the business because of the impact acts of employee theft have taken on the business.

The most severe effects of employee theft as experienced by small businesses are likely the result of schemes that persist over time, as these schemes create much larger losses than those resulting from isolated acts of theft. For example, Marquette International, a business consulting company specializing in risk management, found that employee embezzlement schemes with losses of at least \$100,000 discovered in 2011 had an average duration of five years (2012). Furthermore, the ACFE (2012) found that the median duration of employee theft schemes, from the initiation of the scheme until its discovery, ranges from a low of a few months to a high of as many as 36 months.

**The target suitability of small businesses.** Irrespective of the particular items stolen, motivated employee thieves have likely identified an opportunity to obtain some tangible reward, which carries a relatively minimal amount of risk associated with the theft (Clarke, 1983). One of the most important considerations in the identification of small business employee theft target suitability may be the position of the offender, who in the case of employee theft enjoys a significant strategic advantage. This is because employees occupy trusted positions within the

business, allowing them multiple opportunities to determine the actual amount of benefit and risk involved with a potential theft. The constant exposure of employees to the business, its routines, and its methods of formal and informal control, allows motivated employees the ability to accurately determine the risks of detection, as well as the actual gain they can expect to receive from a theft.

As part of this determination, employee thieves likely consider target suitability in terms of their ability to access desired items that can be used to meet some personal desire, or that can be disposed of in such a way that tangible gain results. Target suitability within the context of employee theft can be assessed by the use of Clarke's (1999) notion of "CRAVED" items. The term CRAVED describes items that are concealable, removable, available, valuable, and enjoyable or disposable, and creates a valuable framework that scholars can use to determine target suitability.

The act of theft typically requires the offender to conceal the stolen item so as not to arouse the suspicion of the target, or any potential guardians willing to protect the target. As an item becomes more difficult to conceal, it presents offenders with increased difficulties in completing the theft, and the desired item thereby becomes a less attractive target. Within the context of employee theft, the ability to conceal the actual item may be just as important as having the ability to conceal the means by which the item has been obtained. However, before one can conceal a stolen item, they must first remove it from its rightful owner. It makes sense that items which are difficult to remove from the business will be viewed as less suitable targets for theft.

Furthermore, in order for an item to be stolen it must be available to the offender. An employee who has developed a plan to steal valuable scrap metal from his employer would not

be able to complete the theft if the employer removed the targeted items from the business. If the employee desires to steal an item that is not available, or if the employee does not know at what times and under what conditions the item is available, it is no longer considered to be a suitable target. Items that are not of some value to the offender will not be viewed as targets suitable for theft. This value can come from the extrinsic material gain associated with the acquisition of the item, from an intrinsic feeling of satisfaction related to the theft, or a combination of both. Once an item has been determined to be valuable, its usefulness will be determined by one of two factors: the amount of enjoyment the item will bring to the thief, or the ability of the thief to sell or trade the item for something else they desire more (Clarke, 1999).

An offender's desire to take a particular item is likely determined by the utility the offender expects to receive from possessing the item. With regard to employee theft, the items taken by employees provide the offender with some level of enjoyment through the use of the item. Cash, for instance, is always preferred as it allows the employee to easily obtain things they desire. Theft of finished goods on the other hand may allow the employee to enjoy comforts which would otherwise be outside of their financial reach.

When an item is not viewed as enjoyable, yet is still considered to be a target suitable for theft, the employee likely perceives they have the ability to sell or trade the item for something more desirable. It is not the inherent value of the item that would give the employee enjoyment; rather they see the item as a means to obtain some other valued resource. However, to obtain this other resource the employee must first be able to dispose of the stolen item. Items that are easily disposed of are more attractive targets for theft than those that are difficult to dispose of. While this understanding of target suitability, as well as much of the research on employee theft, has focused upon understanding the employee's perspective in these issues, much less has

focused upon the owner/managers' perspective. This is an important perspective to understand, as it is the owner/manager who has the ability to affect changes to the business's culture that may impact the development of opportunities for employee theft.

For example, issues of pay dissatisfaction, job dissatisfaction, and the presence of role based stressors fall under the control of the owners and managers of businesses. These individuals have the ability to affect the development of motivations for employee theft by enacting changes to the operation and climate of the business. These changes may help to reduce the business's exposure to the harms that result from employee theft and place a large responsibility upon the owners and managers of small businesses to take all necessary steps to protect business resources. Thus, understanding the perspective of the owners and managers of small businesses regarding the problem of employee theft, as well as their role in addressing this problem, is vitally important.

**CHAPTER FOUR:**  
**SMALL BUSINESS EMPLOYEE THEFT FROM THE OWNERS AND MANAGERS’**  
**PERSPECTIVE**

The literature on employee theft has made the offender’s perspective on these crimes clear, as any number of factors have been shown to create the motivation sufficient for theft. Additionally, it is clear that employee theft creates much significant harm within victimized businesses, and that small businesses are disproportionately harmed by these acts. However, employees are only one part of the process, and the targets of theft (e.g., cash, tools, finished goods) are not unique to small businesses. Motivated offenders will engage in employee theft when they perceive there is an opportunity to obtain a desired object (i.e., suitable target), and at times and in places where guardianship of a target of interest is low (Cohen & Felson, 1979). In the case of small business employee theft, the owners and managers of the business will be those most responsible for the determination of the level of guardianship that exists within the business.

However, their perspectives on the problem of employee theft have largely been ignored. Understanding the role that owners and managers of small businesses play in the level of guardianship that is exerted over the business is extremely important because guardianship within this context will affect perceptions of target suitability, as well as the development of certain types of offender motivation. In short, small businesses owners and managers have the ability to affect each element necessary for the occurrence of employee theft by focusing upon one single element – guardianship. This is because guardianship of the business, as found through the use of formal and informal control mechanisms, is largely dictated by the owners and

managers of small businesses (Simons, 1994; Wiklund, Davidsson & Delmar, 2003).

Furthermore, when small business managers increase the amount of guardianship they exert over the business – for example, by installing security systems or addressing issues of job satisfaction and role-based stressors – they have the ability to affect target suitability and offender motivation.

For a small business owner/manager dealing with the many problems and concerns that operating a business can bring, it can be difficult to determine where one's daily attention should be directed. If the business has never been the victim of employee theft, it may be easy for these individuals to discount the likelihood of theft occurring within the business, and to focus upon other business matters. When small business owners do consider the negative impact of employee issues within the business, surveys indicate they are principally concerned with identifying qualified workers, finding and keeping skilled workers, or the effects of employee turnover (NFIB, 2008). An examination of recent surveys of small business owners suggests these individuals may have completely ignored the threat of employee theft as a significant negative event likely to affect the financial health of their business (CNN, 2013; Florida Chamber of Commerce, 2013; Kaiser Health News, 2013).

Yet, irrespective of the position that small business owners take on the issue of employee theft, the fact remains that employee theft represents a significant threat to the health of the small businesses in this country (Moorthy et al., 2009). This is due to its ability to reduce the value of the business, as well as its potential to have long-term negative impacts on the business (Beedle, 2005). However, the problem of employee theft has yet to be fully explored from the perspective of the managers and owners of small businesses; those who are ultimately responsible for, as well as dependent upon, the success of the business.

While some studies of employee theft have surveyed the owners and managers of small businesses (Clark & Hollinger, 1981; Krippel et. al, 2008; Kuratko, Hornsby, Naffziger & Hodgetts, 2000; Payne & Gainey, 2004), none have undertaken an in-depth study of their perceptions regarding the problem of employee theft as the current study does. Yet, the existing literature on employee theft, as obtained from the perspective of the owners and managers of businesses, helps to paint an interesting picture about their perspectives on this issue. For example, Kuratko et al. (2000) found that the small business owners and managers in their sample were much more likely to be concerned with issues of employee merchandise theft, than issues related to embezzlement and check fraud. Furthermore, this study found that the theft prevention mechanisms used by owners and managers were those most likely to have an influence on the theft of goods from the business.

These two facts, owners and managers' focus upon the theft of goods and their use of prevention mechanisms aimed at protecting the business's physical property and merchandise, contradict the findings of studies examining the actual occurrence of employee theft, which clearly indicate that issues of embezzlement and check fraud are far more serious issues for small businesses (ACFE, 2012). Yet, Kuratko et al. (2000) also found that owners may be unwilling to address potential areas of employee theft until they have actually experienced that theft. While the authors did not ask their respondents about their perceptions of the likelihood of certain types of theft to occur at their business, it seems clear that, according to these authors, small business owners are reluctant to take concrete steps toward employee theft prevention until they have become a victim of employee theft.

However, other research suggests that small business owners and managers in certain industries are much more proactive about the potential for employee theft to occur within their

business. Krippel et al. (2008) found that managers in the hospitality and tourism industry in the coastal Carolina's used many types of proactive prevention and detection methods including extensive internal audits, secret shoppers, and investigations by business management. When employees were caught stealing from the business, Krippel et al. found that businesses were most likely to fire the individual and least likely to take the individual to civil court to recover damages. The second least used response to employee theft was to prosecute the individual criminally, however, the second most used response was to punish the employee, and inform other employees about their punishment.

This type of general deterrent strategy may seem like an appropriate way for small business owners and managers to use employee thieves as an example to their peers, however this approach may actually backfire in the long-term. As mentioned earlier, the occurrence of employee theft can have a significant impact upon the business beyond the financial toll of the theft (Payne & Gainey, 2004). Specifically, changes in organizational culture and management style that result from the occurrence of employee theft, may lead to the growth of employee dissatisfaction, which may in turn lead to additional occurrences of employee theft, as well as other CWBs. In essence, employees' negative reactions to an owner/manager's reactions to employee theft can lead to the development of additional counterproductive behaviors within the organization, with an increase or continuation of employee theft being possible.

The owners and managers of small businesses that have been victims of employee theft are better served by responding to theft by using, or using preemptively, methods designed to send a clear signal to employees that theft will not be tolerated within the business (Clark & Hollinger, 1981). Furthermore, these measures should be used consistently so that employees will be aware of the formal climate of control the business intends to maintain. Clark and



Hollinger (1981) further state that the quality of implementation of controls is essential to the creation of a climate that works to inhibit the growth of opportunities for employee theft. The creation of this climate, as well as its maintenance and modification, are the jobs of business owners and managers.

### **Guardianship of the Small Business**

The owners and managers of small businesses occupy multiple roles within their businesses, and their actions as controllers may be the most important from a crime prevention standpoint. This is because the owners and managers of small businesses serve as guardians of business resources, handlers of potential offenders, and place managers influencing the development of opportunities for employee theft. As guardians of small businesses, owners and managers are tasked with protecting business resources that are likely to be targeted for theft, while their role as handlers of potential offenders requires them to exercise control over employees, and their role as place managers is to ensure the rules of the business are followed (Sampson, Eck & Dunham, 2010). While Felson (1995) argues that place managers are the most important of the three, all three roles are interrelated (Hollis-Peel, Reynald, van Bavel, Elffers & Welsh, 2011), and for the owners and managers of small businesses all three roles are inextricably linked. A proper discussion of guardianship within small businesses must address how owners and managers fill each controller role as part of their duties to the business.

**Owners and managers as guardians.** The handful of articles that have discussed employee theft as related specifically to small businesses have generally addressed issues of guardianship, as they have sought to provide the owners and managers of these businesses with

effective general theft prevention techniques. This is because increases in guardianship and surveillance of the business, and its resources, have been linked to the lowered likelihood of many types of crimes against businesses (Burrows & Hopkins, 2005). However, the techniques discussed in these articles are not vastly different from those discussed in the literature that discusses employee theft in general. In many ways, this makes sense, as the types of crimes committed in small businesses are likely to be the same types of crimes that are committed in larger businesses. However, many small businesses have features and structural characteristics that significantly differ from those of larger businesses (Cardon & Stevens, 2004). Additionally, as mentioned previously, they also have different resources with which to address the development, and occurrence, of employee theft.

Within small businesses, the role that owners and managers play as guardians of the business affects their availability to monitor the business, which in turn influences their ability to deter theft within the business (Hollis-Peel et al., 2011). As guardians of the business, the desire of owners and managers to succeed in the prevention of employee theft is likely linked to the level of personal responsibility they feel they have to the protection of the assets of the business (Felson, 1995). Because the owner, or some other person with a strong investment in the owner of the business, typically manages a small business, the personal responsibility owners and managers feel regarding the protection of the business should be high. However, when business owners and managers are unaware of theft occurring at their business, or they feel there is little they can do about employee theft, they may be less likely to take proactive measures to curtail opportunities for employee theft (Eck, 1994). In these cases, guardianship weakens within the business not out of a lack of investment in the business, but rather out of a lack of awareness or feelings of helplessness on the part of business owners or managers.

**Owners and managers as place managers.** As place managers, the owners and managers of small businesses are able to affect the development of opportunities for crime within the business through the exercise of guardianship over the business and its resources (Eck, 1994; Eck & Wartell, 1998; Mazerolle, Kadleck & Roehl, 1998). In this role, the owners and managers of small businesses protect the business by ensuring the rules and regulations of the business are followed, and enforcing those rules by properly addressing rule violations (Graham, Bernards, Osgood, Homel & Purcell, 2005). Serving as place managers, the owners and managers of small businesses help to make their workplaces less conducive to employee theft by making it clear through rule enforcement and active monitoring, that the business will not tolerate deviant activity (Eck & Weisburd, 1995).

As place managers, the owners and managers of small businesses have the ability to affect the development of opportunities for employee theft through the relationships they have with others within the business who can also serve to protect the business against employee theft (Poyner & Webb, 1997). In addition to the owners and managers of the business, other employees, suppliers or business partners, and even customers can engage in place management activities that help to reduce opportunities for employee theft (Felson, 1995). Within small businesses, it is likely the case that the influence of owners and managers on the growth of place management activities among non-owners and managers is based in the formal and informal controls used by the business, including the overall climate of the business. This is because formal and informal controls, once established by small business owners and managers, allow for the place management of the business through other individuals. The owners and managers do not have to be physically present to extend guardianship to the place in question; they need only exert sufficient levels of form formal and informal control (Reyns, 2010).

**Owners and managers as handlers.** Because of the closely controlled nature of small businesses, and because of the close relationships that exist between owners and managers and employees within many of these businesses, owners and managers can also serve as handlers of potential employee offenders. Owners and managers occupy the role of handlers not only because of the close oversight they give to the employees of the business, but also because of the investment they have in protecting the business against theft (Eck & Wartell, 1998). The investment of small business owners and managers in the business and the relationships they maintain with employees allows them to leverage the emotional capital employees have in the business, as well as employees' relationships with management (Willison, 2000). The outcome of this leveraging is the ability of small business owners and managers to influence the behavior of all employees on a routine basis, and specific employees when unique opportunities of theft or deviance are identified (Hollis-Peel et al., 2011).

When seeking to head off the development of opportunities for theft, owners and managers of small businesses can use their knowledge of issues such as an employee's desire for control, their financial need, or the employee's need for recognition and support (Graham et al., 2005). However, this requires the owner/manager to be cognizant of their employees' actions, and to be connected to their employees in such a way that disturbances in the workforce are identified prior to the development of employee theft and other counterproductive work behaviors. The nature of small businesses likely fits well with this requirement, as these businesses are the most likely to develop close-knit feelings of attachment and family-style bonds among employees, as well as between employees and the owners and managers of the business.

The role of business owners and managers as handlers of potential offenders has actually been supported by numerous scholars, as much of the literature on employee theft focuses upon identifying which employees are most likely to become motivated offenders (Brown, Jones, Terris & Steffy, 1987; O'Bannon, Goldfinger & Appleby, 1989; Ones, Viswesvaran, Griffin, O'Leary-Kelly & Collins, 1998; Sackett, Burriss & Callahan, 1989; Rieke & Guastello, 1995; Wanek, 1999). Several have scholars also championed the idea that business owners can best protect their businesses from theft by using integrity testing, as it has been asserted that these assessments can determine one's propensity to engage in a range of counterproductive behaviors (Miner & Capps, 1996), the identification of which can prevent the hiring of inherently deviant individuals. This approach to employee screening became a staple of the employee theft prevention tool kit. However, the idea of integrity testing as a means to prevent the occurrence of employee theft has been largely debunked (Dalton & Metzger, 1993; Lilienfeld, Alliger & Mitchell, 1995), as it is now widely accepted that it is difficult, if not impossible, to identify from a simple pre-employment assessment those who are most likely to steal from a business.

A better method for taking proactive steps toward preventing the development of opportunities for employee theft within small businesses is the use of formal and informal controls. This is because integrity testing only assesses an individual's predisposition to engage in particular behaviors, and uses hypothetical situations to determine whether an individual would engage in certain types of counterproductive behavior (Ash, 1991; Rosse, Miller & Ringer, 1996). Furthermore, the closely controlled nature of small businesses likely allows the owners and managers of the business to have greater control over the development, implementation, and maintenance of control mechanisms that will have an influence on the situational factors that lead to the development of motivations toward employee theft. The types

of controls used, and the balance of formal to informal controls, will vary across businesses, as there is variability in the factors that lead to employee theft opportunities that cannot be properly addressed through the use of a one-size-fits-all approach (George & Thomas, 2000; Lynch & Cantor, 1992).

### **Formal Control Mechanisms**

One of the ways that small businesses can prevent, or reduce, the occurrence of employee theft is by instituting formal control mechanisms within the business. In fact, the theft prevention literature that has targeted small business owners and managers has been clear to state the usefulness of formal control systems, while imploring these individuals to consistently utilize theft prevention techniques. There is very little variation in the types of techniques suggested, with most authors discussing the importance of a routine and active system of formal mechanisms such as employee screening, regular integrity testing, and the enforcement of organizational procedures surrounding the handling of cash and other valuable items (Diamond, 2005; Keogh, 1981; Wyman, 1999).

These techniques create different forms of physical guardianship (target hardening) within the business, meaning that the business should take steps to increase the effort, thereby increasing the risk, associated with employee theft. However, because small businesses typically afford employees large amounts of autonomy and responsibility, some owners and managers see the implementation of formal, business-wide, checks and balances as cumbersome and counterproductive (Avitzur, 2010). Furthermore, the resource constraints faced by small businesses may give owners and managers the perspective that the use of such interventions is just too costly (Iacob & Lile, 2008). However, the proliferation of technology within the

workplace has created many cost-effective avenues with which to exert formal internal control over workplace behavior (Appelbaum, Cottin, Pare & Shapiro, 2006). For example, the use of electronic financial records, internet banking, and electronic funds transfers between customers and suppliers, allows the managers of small businesses to monitor the flow of funds into and out of the business from any internet connected computer. Anomalies in transactions, improper allocation of funds to accounts, or other accounting irregularities – even accidental errors – can quickly be identified and addressed with an internal financial audit.

Formal control mechanisms do not, however, have to be internally based, as many service providers (CPAs, financial planners, information security consultants) can perform external monitoring of the business as well. This monitoring typically comes in the form of formal consultative reviews of the business by a certified professional, which are usually conducted on a regular basis, and help to identify specific areas of concern for the business (Osborne, 1995). However, the managers of small businesses still retain the responsibility for implementing and enforcing these control measures, as well as for ensuring the business is properly protected from motivated thieves (Shanmugam, Haat & Ali, 2012; Snyder, Whitfield Broome & Zimmerman, 1989).

Finally, the use of security systems to monitor the business constitutes one of the most highly recommended types of internal formal controls (Alstete, 2006; Niehoff & Paul, 2000). This is because these methods of control – security cameras, electronic access to restricted areas, electronic clock-in/out procedures – are highly visible to employees, and serve a dual purpose as both a way to monitor and control access, and to deter potentially motivated individuals (Chersan, 2009). Furthermore, it is argued that such procedures help small businesses by reducing the amount of external theft, reducing the occurrence of on-the-job accidents, and

alerting business owners and managers to other areas of concern, such as the need to update fire suppression and emergency medical treatment equipment (Berger, 1981).

The literature on the use and potential effectiveness of formal control mechanisms within businesses has taken the perspective that such mechanisms are implemented prior to the occurrence of theft as a means to reduce the likelihood of employee theft occurring within the business. However, it is also possible that many businesses that have been victims of employee theft use control mechanisms as a reactive means of addressing their victimization. For example, a victimized business may institute formal controls over employee access to cash and other financial instruments not as a proactive step to prevent the occurrence of theft, but rather as a reaction to an employee theft. In cases such as this, the owners and managers of the business are using control mechanisms to address an identified weakness in the protection of business resources. It is possible that the need to address an existing threat, one that has been discovered as a result of an employee theft, presents a stronger case for the use of control mechanisms than does an argument for simply preventing the opportunity for theft. Furthermore, the potential for a specific type of theft, which would prompt a particular type of control mechanism, may not become salient to the owners and managers of the business until they are victimized.

While there has been a good deal of literature discussing the benefits of formal control mechanisms, there is almost no empirical work examining the use of these mechanisms by small business owners and managers (for an exception, see Kuratko et al., 2000). However, Kuratko et al. did not focus specifically upon employee theft prevention techniques, but rather gathered data on techniques that could be used to prevent both internal and external theft. This approach to theft prevention techniques is how the majority of research on controls aimed at reducing employee theft is focused (Hogsett & Radig, 1994; Holt, 1993; Snyder, Broome & Zimmerman,



1989). Yet, formal control mechanisms are not the only means a business has to regulate employee behavior, as informal controls play an important role in the prevention of employee theft as well.

### **Informal Control within the Business**

It is clear that many managers believe their employees engage in a range of counterproductive behaviors with regularity (Coyne & Bartram, 2000), yet not all managers are willing to put formal mechanisms in place to address these behaviors. Part of this reluctance likely stems from the fact that managers, particularly small business managers, rely upon informal systems of control within the organization to address the development of counterproductive behaviors. One reason for this may be the ability of the owner/manager to make significant changes to informal systems of control in response to employee theft more quickly than changes in formal control mechanisms can be made. The owners and managers of small businesses may see informal control systems as the most appropriate means by which to address the development of opportunities for employee theft. These informal control mechanisms are developed through the relationships maintained between managers and employees, as well as those that exist within employee peer groups.

Social guardianship refers to the influence that pro-social groups and norms exert within the work environment, where these groups maintain a type of social control and monitoring of workplace behavior (Reynald, 2011). When social guardianship is low, the ability of the group to maintain pro-social norms weakens, and motivated offenders find fewer social barriers to deviance. In the case of employee theft, social guardianship reflects aspects of the informal social environment developed and maintained by work peers, the ethical climate of the

workplace, and the business's tolerance of counterproductive behaviors (Iacob & Lile, 2008). These informal networks are influenced by some of the same structural characteristics that affect individuals, such as perceptions of injustice, job dissatisfaction, and work group stressors (Niehoff & Paul, 2000). Accordingly, the presence of deviant sub-group norms and employees' perceptions of injustice or unfair treatment serve to reduce levels of social guardianship. As a result, norms tolerant of employee theft are likely to develop in response to these negative social conditions (Hochstetler, 2001; Petrosino & Brensilber, 2003).

Conversely, the presence of pro-social peer groups, norms supportive of social sanctions for deviant workplace behavior, and an atmosphere where employees value and respect their peers will work to prevent the occurrence of employee theft (Carland & Carland, 2001). In many ways, such informal peer monitoring results from the presence of business climates that are strongly supportive of ethical action. However, in many other ways these peer relationships reflect the fact that employees' personal values and work ethic synchronize, thereby creating social norms derived from peer-group value congruence (Brown & Trevino, 2006). Furthermore, businesses where employees generally value pro-social behavior should see fewer instances of employee theft as the established climate will weed-out non-conformists, and help to indoctrinate new employees to the pro-social attitudes of the group (McClurg & Butler, 2006).

As many types of counterproductive behaviors, particularly many occurrences of employee theft, occur out of view of owners and managers but within the view of other employees, a strong pro-social peer culture may lead to the identification and prevention of employee theft by other employees. While organizational norms are not the only factors that are important to determining whether an employee will blow the whistle on a peer, they do have a significant influence on such behavior (King & Hermodson, 2000). Peer reporting of employee

theft also appears to be influenced by the perceived severity of the act and whether the observer of the act perceives their peer to be someone like them, from a personality standpoint (Schmidtke, 2007). Essentially, if employees perceive theft by their peers to have significant negative effects upon the business, and if they view the individual as being less like themselves, they may be more likely to report the theft.

However, employees may be willing to turn a blind eye to the theft of others, even if they think the theft will have significant negative consequences for the organization, if the observer of the theft is unhappy with the owners and managers of the business. Small business owners and managers can influence the development of employee theft and other counterproductive behaviors in many ways, however, one of the most important ways relates to the social exchanges that occur between leaders and employees (Trevino & Brown, 2005; Walumbwa, Mayer, Wang, Wang, Workman & Christensen, 2011). Owners and managers provide guidance to employees and in many ways employee behavior reflects the behavioral models set for them by their managers (Bandura, 1977). Furthermore, the quality of the relationships that develop between owners and managers and employees will help to determine employee job performance, including their engagement in counterproductive work behaviors (Graen & Uhl-Bien, 1995).

Serious counterproductive work behaviors are most likely to result when small business owners and managers engage in destructive leadership, which represents systematic and repeated behavior on the part of owners and managers that negatively affects employees or the organization (Einarsen, Aasland & Skogstad, 2007). This type of leadership destroys trust relationships that exist among employees and owners and managers, and can lead some employees to engage in theft as a way to take revenge upon the owner/manager, who they may view as an embodiment of the business. It has been found that trust within the workplace is

significantly related to how employees feel about the business, the types of behaviors they engage in while at work, as well as the level of performance they exhibit while on the job (Dirks & Ferrin, 2002). While the quality of workplace relationships influences the development of trust among employees and owners and managers, the relationship between trust and counterproductive work behavior is likely mediated by several individual and organizational factors (Everton, Jolton & Mastrangelo, 2007).

### **Significance of the Study**

The data obtained will help to fill several gaps in the employee theft literature, while at the same time addressing calls made by earlier scholars for the investigation of crimes within small businesses. Specifically, this study addresses Barlow's (1993) call for "studies that explore small business culture and opportunity structures" by gathering data on a business's ethical climate (also referred to as ethical culture), their use of crime prevention measures, and the owner/manager's perceptions of the likelihood of employee theft. In furtherance of Peterson's (2002) work, this study attempts to gain a more complete understanding of the problem of employee theft within small businesses, and to better understand how the occurrence of theft impacts these businesses. The data obtained will have a broad impact, as it will make significant contributions to the fields of criminal justice, organizational behavior, and small business management. The results will also have broader social influence, as the data will tell scholars much about the way in which the owners and managers of small businesses deal with the occurrence of theft, and how employee theft has an impact upon these businesses.

## **CHAPTER FIVE**

### **METHODOLOGY**

This study is an attempt to obtain detailed information about the problem of employee theft within small businesses from the overlooked, yet very important, perspective of the owners and managers of small businesses. In order to accomplish this goal the study consisted of two different phases of data collection. Each phase was designed to gather the data necessary to answer several research questions intended to increase scholarly understanding of small business owners and managers' perspectives on employee theft. Specifically, there were a series of research questions for Phase One – the managerial survey, and a series of research questions for Phase Two – the managerial interviews.

#### **Research Questions**

The majority of the literature relevant to employee theft occurring within small businesses has focused upon how these businesses can use crime prevention techniques to prevent the occurrence of various types of employee theft, such as theft of products and materials, petty cash, and severe types of fraud. Given the limited empirical work specifically addressing the factors that are important to understanding employee theft in small businesses, what is known about this problem has typically been based on extrapolations from studies of employee theft in businesses generally. In these studies, lower-level employees have most often been the unit of analysis. This means that an understanding of owners and managers' perspectives of how employee theft affects small businesses has not been fully developed, nor

has sufficient effort been made to gain such an understanding. This study sought to fill these gaps.

Specifically, while there has been much research on the problem of employee theft from the perspective of employees, few studies to date have attempted to gather detailed information about formal control mechanisms used by businesses to prevent theft, the owner/manager's perceptions of opportunities for theft, or their perceptions of the ethical climate of their business. Furthermore, no study to date has surveyed the owners and managers of small businesses in an attempt to gather detailed information about specific incidents of employee theft that have occurred within their businesses. Finally, there is currently no literature discussing the effects of employee theft upon small business owners and managers in terms of their management of the business, as well as their affective responses to employee theft.

**Phase One - Managerial survey.** The managerial survey was a mailed survey questionnaire sent to the owners, or managers, of small businesses within the Cincinnati OH-KY-IN MSA. The survey, detailed below, gathered data from these owners and managers on a range of issues related to the problem of employee theft within their businesses.

Research Question 1-1: *What types of employee thefts are committed within small businesses in the Cincinnati area?*

The goals of this research question were to collect specific information about individual instances of employee theft that have occurred within the small businesses sampled, and to gain a better understanding of the prevalence and types of employee theft that occur within the small businesses located in the Cincinnati area. In order to accomplish these goals, the managerial

survey collected data on specific instances of theft that have occurred within the small businesses sampled. These data provide information about the types of theft that have occurred, how the thefts occurred, the cost (in dollars) of the items stolen, information about the employee(s) that engaged in the theft, and what action owners and managers took against the employee(s) when they were able to identify the individual(s) involved. These data also give detailed descriptions of the employee thefts that have occurred within the small businesses in the Cincinnati area. These descriptions are used as an aide in understanding how these thefts differ across types of businesses, as well as understanding any relationships that may exist among the type of theft that has occurred, the value of the property stolen, the individuals involved in the theft, and other aspects of these incidents.

*Research Question 1-2: How do businesses that have been victims of employee theft differ, in regard to the use of control mechanisms, perceptions of the opportunities for theft, and ethical climates, from businesses that have not been victims of employee theft?*

In essence, this question sought to understand whether significant organizational differences existed between victimized and non-victimized small businesses in this sample. As small businesses do not follow one developmental trajectory, answers to this question will not necessarily indicate that victimized businesses have developed in a manner significantly different than non-victimized business. Rather, this question simply sought to understand whether victimized and non-victimized businesses could be distinguished from one another, according to certain types of organizational factors. In order to gain a clearer perspective on the implications of the relationships among control mechanisms, perceived opportunity, ethical climate, and employee theft victimization, answers to this research question also incorporate qualitative data

obtained from several of the in-person interviews conducted during the second phase of data collection.

**Phase Two - Managerial interviews.** The second phase of data collection used in-person interviews with respondents of the managerial survey who indicated on their returned survey questionnaire that they would be willing to participate in an in-person interview. The data obtained from these interviews helps to answer several research questions pertaining to the occurrence of employee theft within their business, as well as the respondent's perceptions of employee theft in general. Furthermore, these interviews offer a more nuanced understanding of much of the quantitative data obtained from the managerial surveys. The first research question from this phase is a refinement of a more general research question posed at the beginning of this study, which was concerned with determining how employee theft affected the operation of small businesses.

The second research question was proposed after several conversations with pilot study participants and after the first two interviews were conducted. These individuals were clear to state that employee theft can take a large and significant toll on the owners of small businesses, as they see these acts as severe violations of trust. The second research question seeks to understand the ways in which employee theft affects the owner and managers of victimized businesses. Because of the personal investment and level of operational involvement small business owners and managers have in their business, it is not surprising that the two qualitative research questions cover overlapping and interrelated aspects of the problem of employee theft.



Research Question 2-1: *How does the occurrence of employee theft affect the way in which owners and managers of small businesses manage the business?*

This question sought to understand the changes made to processes, procedures, staffing, and other formal business structures, which occur in response to an incident of employee theft. The experience of employee theft likely prompts a variety of responses by the business, and the extent of the changes that occur within the business following an instance of employee theft likely depends upon the type of theft that has occurred, as well as the owner/manager's perception of the severity of the theft. Because each small business is unique, the specific effects of employee theft are likely to vary across businesses. While there is likely to be commonality within certain industries/types of businesses, the specific financial and organizational disposition of the business will also have an influence on the effects theft has on the business.

Answers to this question highlight the specific types of changes that businesses have made, reasons for why the business adopted these specific changes, and how these changes affected the business and its employees. Furthermore, interviews with non-victimized businesses help to gain a more nuanced understanding of how the use of prevention and control mechanisms differed across the two types of businesses, as well as the effectiveness of such mechanisms. Particular attention will be given to victimized business's use of control mechanisms prior to, and subsequent to the occurrence of theft, and non-victimized business's use and perceived need for control mechanisms within the business.

Research Question 2-2: *How does the occurrence of employee theft personally affect the owners and managers of victimized small businesses?*

Interviews also attempted to gain a more complete understanding of how acts of employee theft affected the owners and managers of these businesses. Employee theft can take a serious financial and organizational toll on a small business, however no research to date has addressed the affects this problem can have on the owners and managers of victimized small businesses. Because these businesses are so closely controlled, it is very likely that victimized owners and managers experience a range of negative emotional responses to the occurrence of employee theft. Answers to this research question allow for an understanding of how employee theft personally affects these individuals, as well as how they deal with the experience of employee theft victimization at the time when it occurs. Furthermore, answers to this question allow for an understanding of how employee theft personally affects the owners and managers of small businesses in the long-term.

### **The Study**

Most studies of employee theft gather data on the prevalence of theft, as well as the details of specific acts of employee theft, as assessed from the perspective of the employees of the business (Bolin & Heatherly, 2001; Greenberg, 2002; 1990; Hollinger, Slora & Terris, 1992; Hurrias, Uggen & McMorris, 2000; McDaniel & Jones, 1988). Other studies have reported general details regarding the occurrence of employee theft, as gathered from the managers and owners of businesses, industry associations, or fraud examiners and independent accountants (ACFE, 2012; Appelbaum, Cottin, Pare & Shapiro, 2006; Chen & Sandino, 2012; Krippel et al., 2008). However, to date there has been no attempt to gather detailed data on specific incidents

of employee theft from the managers or owners of small businesses within the U.S. This study attempted to fill that gap by examining data relevant to specific occurrences of employee theft within small businesses in the Cincinnati OH-KY-IN MSA, from the perspectives of the owners and managers these small businesses.

Furthermore, this study gathered data about the use of theft prevention techniques, the owner/manager's perceptions of the opportunity for theft to occur within the business, as well as the owner/manager's perception of the ethical climate of the business. No previous study of employee theft within small businesses, or within businesses in general, has collected this range of data. In addition to these quantitative data, this study also gathered data on the problem of employee theft through a series of interviews with owners and managers of small businesses within the Cincinnati area. These interviews focused upon the specific details of instances of theft within the business, the owner/manager's reaction to and handling of the incident, and the owner/manager's general perspectives on the problem of employee theft within small businesses. Together, this mixed-methods approach provides a unique perspective on the problem of employee theft within small businesses as it focuses upon the experiences, perceptions, and reactions of the owners and managers of these businesses.

This study used data obtained from a non-probability sample of small businesses in the Cincinnati OH-KY-IN MSA to answer the several research questions previously described. The study was designed by the author (hereafter referred to as "Principal Investigator," or "PI"), with the assistance of his dissertation committee chairperson. The study received primary funding from the Center for Criminal Justice Research at the School of Criminal Justice, University of Cincinnati, while the Goering Center for Family and Private Business at the Carl H. Lindner College of Business, University of Cincinnati, provided additional support. Additionally, the PI

received a Graduate School Dean's Fellowship from the University of Cincinnati allowing him to devote his final year of graduate study to the completion of this study, and his dissertation. The study, as well as the quantitative and qualitative data collection measures detailed below, were approved by the University of Cincinnati's Institutional Review Board (IRB) on September 19<sup>th</sup>, 2012; IRB# 12-08-21-02.

This study employed a mixed-methods design with two distinct phases of data collection; a quantitative survey of small business owners and managers, and a series of interviews with small business owners and managers. This study design was selected in order to gain a more complete understanding of the problem of employee theft within small businesses. The first phase of this study (managerial surveys) used a mailed survey questionnaire to collect data from a wide sample of small business owners and managers in the Cincinnati OH-KY-IN MSA. The second phase of this study (managerial interviews), used a purposive sample of respondents from the managerial survey.

### **Data Collection and Sample Characteristics**

**Sampling frame.** For the purposes of this study, a small business was defined as a privately owned business, which is not a subsidiary of another business, employing between 15 and 350 people. This study used a purposive sampling strategy targeting only those small businesses located within the Cincinnati OH-KY-IN MSA. There were several reasons for the selection of this strategy. First, as the second phase of this study (managerial interviews) involved in-person interviews, the PI needed to restrict potential interviewees to individuals within a distance that could be traveled to by car within a relatively short (up to an hour) period of time. The budget for this study did not allow for expenses related to long distance travel.

Second, the participants of the pilot study (described below) were clear to state that one factor that may help to increase the response rate for the study would be the fact that it was being conducted by researchers from the University of Cincinnati. These individuals stated that businesses within the Cincinnati area were familiar with the University and the quality of research that the University of Cincinnati conducts; it was asserted that this familiarity would prompt businesses within the Cincinnati area to participate in the study.

The sampling frame was developed using the business information database Hoovers™ (www.hoovers.com), a product of Dun and Bradstreet. Hoovers™ is a subscription-based product that allows registered users access to detailed information on over 85 million companies worldwide. The database allows the user to create customized search filters with over 100 different search fields and over 1,000 different subfield search options. In building the sample for this phase of the study, the PI accessed the Hoovers™ database and used the following filters to identify all relevant companies: single-location, non-public, not a subsidiary, Cincinnati OH-KY-IN MSA, employee size: 15-350, excluding the following SIC codes: 43, 70, 82, 83, 84, 86, 88, 91, 92, 93, 94, 95, 96, 97. The two-digit SIC code captures the broadest categorization of industries recognized by the federal government, and allowed for the quick removal of those industries that fell outside of the scope of this study. The excluded industries were:

#### Transportation and Public Utilities

- 43: U. S. Postal Service

#### Services

- 70: Hotels and other lodging places
- 82: Educational services
- 83: Social services
- 84: Museums, botanical and zoological gardens
- 86: Membership organizations
- 88: Private households

#### Public Administration

- 91: Executive, legal and general
- 92: Justice, public order and safety
- 93: Finance, taxation and monetary policy
- 94: Administration of human services
- 95: Environmental quality and housing
- 96: Administration of economic programs
- 97: National security and international affairs

The above-mentioned search criteria identified a preliminary sample list of 3,601 small businesses. Once compiled, the business list was checked to identify missing information, as well as to check for the presence of multiple business listings sharing a single unique mailing address. Where multiple businesses were found to exist at a single location, one of two procedures were followed to resolve the address conflict. First, if the business listings appeared to be redundant (i.e., same key personnel, identical SIC code, similar or same trade name) the listing with the highest relevant key person was retained and all other listings were deleted.

Second, if the business listings appeared not to be redundant (based upon the same criteria mentioned above) an internet search on each business was conducted to verify the status of the business (active, defunct) and to verify each business's address. If an incorrect address existed in the original sample database, the listing was revised to reflect the proper business address. However, if both businesses were found to be active and the shared address was verified as correct, both listings were retained in the database.

There were 68 such business address conflicts (representing 142 businesses) in the original sample database. Using the investigation procedures previously described, the PI examined each business involved in these conflicts, a process that ultimately led to the removal of 98 of these businesses from the database. Removal was based upon the fact that the business in question could not be verified as active businesses, or they were found to be identical to another business in the database. Additionally, this process led to the correction of 16 mailing

addresses for businesses in the sampling frame. For 14 of these conflicts, all businesses (n = 28) were retained in the database as searches indicated that multiple businesses were operating out of the same location.

After this process was completed, the database was checked for missing information, all of which came in the form of missing key personnel; there were 92 businesses missing a key officer in the original database. Identification of key officers for these companies occurred through a search of the business's website, or searches using other internet-based business information databases (e.g., manta.com, and findthecompany.com). This process led to the identification of key officers for 86 of the 92 businesses missing this information. Information for the remaining six could not be found; for these six companies, envelopes were addressed to "Business Manager."

The result of these two processes, finding missing data and removing redundant businesses, was a final sample database comprising a total of 3,503 companies. Once this list was completed, it was sent to University Printing Services to be checked against the United States Postal Service's address database. This process resulted in the correction of an additional 72 business addresses. This revised list was used to pre-print, onto 9 x 12 mailing envelopes, the names of the key officers for each business, along with the business address for each business in the sample; University Printing Services completed this process.

As previously mentioned, the survey packets were mailed to a single person at each business; this person was designated as the key business contact. However, the data obtained from the Hoovers™ website showed that many businesses had several key contacts, making it necessary to determine to whom the survey packet should be mailed. When deciding which person to use as the main mailing contact (identified as the business's key contact for the

purposes of this study), precedence was assigned via the following ordering (listed from highest precedence to lowest): Owner, Principal, Partner, Chairman, President, CEO, COO, CFO, EVP, VP, Director, Manager, Member. This ordering was used because it logically reflects a hierarchical ordering of responsibility within a business.

For example, an owner should be expected to have greater control over the operations of the business than would a Partner or a VP. Likewise, the CEO should be expected to exercise greater control over operations when compared to the COO or a Manger, but less than the Owner, if the CEO and owner are two different individuals. Where there were multiple persons within the same business carrying the same title, the first name to appear on the list was chosen to be the key contact for the business; this problem occurred in 38 of the business listings. This method was chosen after several attempts were made to find a systematic method to determine which contact, among multiple shared title-holders, should receive the survey.

The first attempt at a systematic method involved conducting internet searches for the businesses in question, then searching the business webpage in an effort to identify the key officers. This processes resulted in the identification of 22 webpages, none of which contained information about the key officers of the company. The second attempt involved searching other internet business resources (e.g., manta.com and findthecompany.com) for the businesses in question. This process also failed to provide the necessary key officer information, so the method previously described (selecting the first name to appear on the list) was used to resolve all conflicts.

All of the businesses included in the study's sampling frame are located within Ohio, Indiana, and Kentucky. Of these small businesses, 2,906 are located in Ohio, while 511 are located in Kentucky and 86 are located in Indiana. The average number of employees in these



businesses is 38.23 with the range bounded by 15 and 350; these represent the limits on employee size set in the selection of the sampling frame. A total of 3,272 businesses were listed as having between 15 and 99 employees, 180 had between 100 and 199 employees, 41 had between 200 and 299 employees, and 10 had 300 to 350 employees. In total, the 3,503 small businesses in this sample employ 133,909 people within the Cincinnati OH-KY-IN MSA.

The majority of businesses in the sampling frame ( $n = 1,243$ ) are classified as “Services,” an industrial category that captures businesses like automotive repair, legal services, and health services. This category was more than twice as large as the next largest industry, Retail Trade, which accounted for 569 of the businesses in the sampling frame. The majority of the small businesses in the sample listed a key contact with the title of President ( $n = 1,496$ ), with the second most commonly listed title being that of Owner ( $n = 867$ ).

**Data collection.** On March 14<sup>th</sup> 2013 the pre-printed mailing envelopes, self-addressed return envelopes, and managerial surveys were received from University Printing Services by the PI. Over the course of the next week and a half, the survey information sheets and cover letters were printed, and each mailing envelope was stuffed with the survey information. While compiling the contents of each survey packet, each business was assigned a unique ID number that was recorded on the survey included in that business’s packet, as well as on a master list retained by the PI. This unique ID number was then used to connect the data obtained from the returned survey form to the data obtained from Hoovers™, relevant to each business.

Data collection for Phase One of this study began on April 2<sup>nd</sup> 2013 with the mailing of 3,503 surveys to small business owners and managers in the Cincinnati OH-KY-IN MSA. Specifically, a six-page survey consisting of a total of 88 questions, which were intended to

gather data from a key officer of the small business, was mailed to each of the 3,503 businesses in the sampling frame. Because the recipients of the survey held multiple titles, this survey was titled the “managerial” survey, as all of the recipients have some form of management responsibility within the sampled businesses. The distribution of survey materials followed the Dillman (1978) method for mail surveys with the initial mailing occurring on April 2<sup>nd</sup>, a reminder postcard being mailed on May 2<sup>nd</sup>, and a final survey mailing occurring on June 25<sup>th</sup>; reasons for the temporal spacing of the distribution of materials are discussed below.

On April 2<sup>nd</sup>, 2013 the managerial survey, a copy of the study information sheet, a cover letter introducing the survey and soliciting the respondent’s participation, and a postage-paid return envelope were mailed to the key officers of small businesses in the Cincinnati area. A copy of the managerial survey information sheet, cover letter, and managerial survey can be found in Appendices A, B and C, respectively. From the initial mailing on April 2<sup>nd</sup> until May 12<sup>th</sup> 2013, a total of 203 completed surveys were received, seven businesses declined to participate, three were no longer in business, and seven did not fit the classification of a small business according to this study’s parameters. Table 5.1 displays the number of survey questionnaires completed and returned, the number of businesses declining to participate, the number determined to be out of business, and the number falling outside of this study’s parameters for consideration as a small business.

A reminder postcard was mailed on May 2<sup>nd</sup> to all non-respondents. The reminder postcard was mailed one month after the initial survey mailing for several reasons: first, the process of printing, labeling, and mailing the postcards took approximately one and a half weeks; University Printing Services completed this process. Second, the PI wanted to give respondents longer than a week to receive, complete and return the surveys sent out in the initial mailing.

Table 5.1: Responses to Mailings

Category	<u>First Complete Mailing</u>		Cumulative	Cumulative
	N	%	N	%
Completed	203	92.27%	203	92.27%
Declined	7	3.18%	7	3.18%
Out of Business	3	1.36%	3	1.36%
Not a Small Business	7	3.18%	7	3.18%
<i>Total</i>	<i>220</i>	<i>100.00%</i>	<i>220</i>	<i>100.00%</i>

Category	<u>Reminder Post Card</u>		Cumulative	Cumulative
	N	%	N	%
Completed	16	66.67%	219	89.75%
Declined	1	4.17%	8	3.28%
Out of Business	5	20.83%	8	3.28%
Not a Small Business	2	8.33%	9	3.69%
<i>Total</i>	<i>24</i>	<i>100.00%</i>	<i>244</i>	<i>100.00%</i>

Category	<u>Second Complete Mailing</u>		Cumulative	Cumulative
	N	%	N	%
Completed	95	92.23%	314	90.49%
Declined	4	3.88%	12	3.46%
Out of Business	3	2.91%	11	3.17%
Not a Small Business	1	0.97%	10	2.88%
<i>Total</i>	<i>103</i>	<i>100.00%</i>	<i>347</i>	<i>100.00%</i>

This reminder mailing led to the return of an additional 16 surveys, bringing the total number of completed and returned surveys to 219 as of June 27<sup>th</sup>; no additional surveys from the initial mailing were received after this date. In addition, one respondent declined to participate, five were no longer in business, and two did not fit this study's parameters for consideration as a small business.

Finally, on July 2<sup>nd</sup>, another complete survey packet identical to that of the initial mailing was sent to all remaining non-responding businesses; this mailing represents the last attempt to obtain data from the sample. The delay in the sending out of this final mailing is due to several reasons. First, the PI's contact at University Printing Services was on vacation for about two weeks, delaying the creation and approval of proofs of the material to be printed. Second, University Printing Services was completing several other printing jobs that took precedence over this study. Third, the actual printing of the mailing envelopes took approximately one and a half weeks. Fourth, the PI was out of town for approximately a week, delaying his ability to prepare the surveys for mailing. Fifth, it took the PI approximately one week to put ID numbers on each of the surveys, stuff the survey and related materials into the envelopes, and seal and bundle the envelopes for mailing. Finally, the completed survey packets were not picked up by University Printing Services until approximately five days after they were finished and prepared for mailing.

To distinguish the surveys sent out in this mailing from those of the initial mailing, a capital letter "B" was added to the end of each survey's unique ID number. Completed surveys began returning to the PI on July 8<sup>th</sup>, and all surveys received subsequent to this date have been from the second mailing. The final completed survey from this second mailing was received on August 28<sup>th</sup>, bringing the total number of surveys returned from the second mailing to 95. From

the second mailing an additional four respondents have declined to participate, three are out of business and one falls outside of this study's parameters of a small business.

A total of 21 businesses have been removed from the sample because they do not fit this study's parameters, as previously outlined, for consideration as a small business ( $n = 10$ ), or they are no longer in business ( $n = 11$ ). The latter group of businesses was identified through the use of internet searches for the specific company, which was prompted by the return of their respective survey packets as "undeliverable." The removal of these 21 businesses reduced the size of the sampling frame to a total of 3,482 small businesses. An additional 12 businesses have either called, sent an email, or returned the original survey materials stating they do not wish to participate in the study. The total number of completed and returned surveys, over the course of the entire study, was 314, representing an overall study response rate of 9%.

While a response rate of 9% would be considered by some to be quite low, it is actually not vastly different from other surveys of business managers. For example, Krippel et al. (2008) obtained a total response rate of 9.37% in their study of tourism managers, while White and Lou (2005) were able to achieve a response rate of 4.7% from their sample of convenience store owners. Additionally, some authors have argued that a response rate around 15%, when surveys are mailed to individuals at their business address, is an acceptable level of response as workplace factors can inhibit the completion and return of the survey (Hager, Wilson, Pollak & Rooney, 2003). The content of the survey may also have had an effect upon the response rate, as the owners and managers of victimized businesses may have been reluctant to reply because they are embarrassed about being victims or about their inability to prevent the theft from occurring.

Prior to this study, the PI was aware that it would be difficult to achieve a response rate between 30 and 50%, which some scholars view as an acceptable level for mail surveys (Fowler,

2009), so several steps were taken to try and improve response rates. While it was not possible to add a financial incentive as suggested by White and Lou (2005), other scholars have found that financial incentives do not increase response rates among samples of business owners (Baruch & Holtom, 2008). Rather than using financial incentives, it has been found that among small businesses, capitalizing upon the researcher's ties to the local business community and local research institutions is a better method to improve survey response rates (Bartholomew & Smith, 2006). The pilot study participants also suggested this idea, a suggestion the PI followed in drafting the managerial survey cover letter, and designing the mailing envelope and the cover of the managerial survey. Finally, the use of pre-notifications, or multiple mailings to the same sample of respondents has also been found to significantly increase response rates among small business owners and managers (Dennis, 2003).

Other researchers have found that the content of the study, the organization sponsoring the study, and the inclusion of a postage paid return envelope are the most significant factors in achieving high response rates from a sample of business managers (Fox, Crask & Kim, 1988; Greer, Chuchinprakarn & Seshadri, 2000); all factors included in this study's design. The pilot study participants indicated that, as business owners and managers, the topic of employee theft was an important topic and one that was worthy of their time and attention. Additionally, the prominent featuring of the Goering Center for Family and Private Business, the Center for Criminal Justice Research, and the University of Cincinnati on the survey and in the cover letter address the issues of having well known and respected study sponsorship. Finally, the initial and final mailing, which included the managerial survey, both contained postage-paid return envelopes. In short, the PI feels that he has taken all possible, and feasible, steps available to increase the response rate.

**Sample characteristics.** Table 5.2 displays the descriptive statistics for this study's sample together with the distributions of the characteristics of the sampling frame from which the study was drawn. This study obtained a final sample of 314 small businesses. Similar to the sampling frame, the vast majority of small businesses in the sample ( $n = 264$ ) are located in Ohio, while Kentucky had the second highest number of respondents ( $n = 45$ ), and Indiana had the least ( $n = 5$ ). The average number of employees per business in the sample was 41.29, which was not vastly different from that of the population. When examined by category, the vast majority ( $n = 287$ ) of the businesses in the sample employed between 15 and 99 people. An additional 20 businesses employed between 100 and 199 people, while six employed between 200 and 299 people and only one business employed more than 300 people.

As with the sampling frame, the majority of the businesses in the sample are classified, according to their SIC codes, as "Services" ( $n = 124$ ). In fact, the industry distribution of businesses in the sample mirrors the industry distribution of businesses in the sampling frame in all but two respects. First, in the sampling frame, there are slightly more businesses in the Wholesale Trade Industry than businesses in the Finance, Insurance, Real Estate industry. However, in the sample this trend is reversed with the Finance, Insurance, Real Estate industry having slightly more businesses than does the Wholesale Trade industry.

The second noticeable difference between the sampling frame and the sample, in terms of the distribution of businesses by industrial category, relates to the two industrial categories with the least number of businesses in both the sampling frame and the study sample. The Agriculture, Forestry, Fishing industry, and the Mining industry each represent 0.06% ( $n = 3$  per industry) of the total number of businesses within the Cincinnati OH-KY-IN MSA; the least of all industries

Table 5.2: *Characteristics of Study Sample and Sampling Frame*

	<u>Study Sample</u>		<u>Sampling Frame</u>	
	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>
Location of Business				
Ohio	264	84.08	2,906	82.96
Kentucky	45	14.33	511	14.59
Indiana	5	1.59	86	2.45
<i>Total:</i>	<i>314</i>	<i>100.00</i>	<i>3,503</i>	<i>100.00</i>
Number of Employees				
15 – 99	287	91.40	3,272	93.41
100 – 199	20	6.37	180	5.14
200 – 299	6	1.91	41	1.17
300 – 350	1	0.32	10	0.28
<i>Total:</i>	<i>314</i>	<i>100.00</i>	<i>3,503</i>	<i>100.00</i>
Industry Classification (Two-Digit SIC)				
Services (70-89)	124	39.49	1243	35.49
Retail Trade (52-59)	50	15.92	569	16.24
Manufacturing (20-39)	49	15.61	549	15.67
Construction (15-17)	34	10.83	519	14.82
Finance, Insurance, Real estate (60-67)	21	6.69	204	5.82
Wholesale Trade (50-51)	19	6.05	217	6.19
Transportation and Public Utilities (40-49)	17	5.41	198	5.65
Agriculture, forestry, fishing (01-09)	0	0.00	3	0.06
Mining (10-14)	0	0.00	3	0.06
<i>Total:</i>	<i>314</i>	<i>100.00</i>	<i>3,503</i>	<i>100.00</i>
Key Officer Position				
President	150	47.77	1496	42.71
Owner	81	25.80	867	24.75
CEO	27	8.60	314	8.96
VP	9	2.87	143	4.08
Partner	8	2.55	82	2.34
Principal	8	2.55	167	4.77
Member	8	2.55	114	3.25
Manager	6	1.91	117	3.34
Other	6	1.91	78	2.23
Chairman	4	1.27	34	0.97
Director	4	1.27	85	2.43
Unknown	3	0.96	6	0.17
<i>Total:</i>	<i>314</i>	<i>100.00</i>	<i>3503</i>	<i>100.00</i>



in this area. Within this study's sample, each of these industries is also the least represented as there are no businesses from either of these industries represented in the sample.

There was less continuity between the sample and the sampling frame with regard to the distribution of the position of the key officer of the business. It should be noted that when it was known that a managerial survey was completed by an individual other than the key officer to whom the survey was addressed, the key officer position listed for the responding business was changed to reflect the title of the individual completing the survey. The most frequent key officer designations found in the sample are the same as those found in the sampling frame. Namely, the position of President was the most common position in the sample ( $n = 150$ ), while the positions of Owner ( $n = 81$ ) and CEO ( $n = 27$ ) were the next most frequent. Unlike the sampling frame, the next most common key officer positions in the sample were VP ( $n = 9$ ), Partner ( $n = 8$ ), Principal ( $n = 8$ ), Member ( $n = 8$ ), Manager ( $n = 6$ ), Other ( $n = 6$ ), Chairman ( $n = 4$ ), Director ( $n = 4$ ), and Unknown ( $n = 3$ ).

Despite the close resemblance of the sample characteristics to the characteristics of the sampling frame, it would be inappropriate to generalize any findings obtained from this study's sample to the larger population. While the sample may "look" like the population from which it has been drawn, it is very possible that the businesses that comprise the sample for this study differ in significant and substantive ways from those of the larger population. The low response rate obtained in this study, a point that will be discussed below, makes it difficult to argue that this study's sample is truly representative of the population.

## **Phase One – Managerial Survey**

The majority of studies of employee theft occur at what Niehoff and Paul (2000) term the individual-level, as they explore how factors specific to an individual (e.g., pay dissatisfaction, job dissatisfaction, etc.) relate to their involvement in acts of employee theft. This study approached the issue of employee theft from what Niehoff and Paul term the systemic-level, or the way in which opportunities for employee theft are present within the business due to organizational, operational or structural features of the business. The purpose of this first phase of the study was to obtain quantitative data about the following areas of each surveyed business: theft prevention techniques used by the business; the five most recent occurrences of employee theft at the business; respondents' perceptions of the opportunity for employee theft to occur at the business; and, respondents' perceptions of the business's ethical climate.

**Pilot test of managerial survey.** On January 16<sup>th</sup>, 2013, a pilot study of an initial version of the managerial survey was held with seven members of the Advisory Board of the Goering Center for Family and Private Business, Carl H. Lindner College of Business, University of Cincinnati. During this 90-minute focus group session, pilot study participants read through the survey questionnaire and related materials, and gave constructive feedback regarding future revisions they felt should be made to the survey materials. Comments and feedback centered on question wording and presentation, structure and design of the survey, design of the mailing envelope, and the design and content of the introductory letter. The usefulness of this process immediately became clear once the initial mailing reached respondents, as several calls and emails were received from respondents, all within a week of the initial mailing date, making positive comments about the professionalism of the survey materials.

The following comments from pilot study participants were used to revise and improve the survey documents:

- The mailing envelope containing the survey, information sheet, cover letter, and return envelope was changed to include the words “Time Sensitive – Small Business Study” in bold print on the front of the envelope.
- The cover letter included with the survey was printed on University of Cincinnati letterhead with a full color logo.
- The cover letter was revised to stress the confidentiality of the survey, and that information obtained would be used to help small businesses within the Cincinnati area.
- Verbiage originally found on the inside cover of the survey was removed as it was redundant with information in the information sheet and cover letter. This information was replaced with survey questions.
- Instead of restricting incidents of employee theft to only the previous calendar year, give participants the opportunity to go into greater detail about four to five incidents of employee theft.
- Questions were reworded to allow respondents to indicate whether an incident of theft was a one-time occurrence, or an on-going scheme.
- Questions were reworded to allow respondents to “I Don’t Know” when asked whether or not employee theft has occurred in their business.
- Changed level of measurement for question pertaining to amount of theft from an ordinal scale to an open-ended response choice, as the previous scale was too restrictive.

- The layout of the survey questionnaire was revised to make the questions and related response choices easier for respondents to read.

**The managerial survey.** The managerial survey used in this study was designed by the Principal Investigator, with assistance from Dr. Michael Benson, Dr. Bonnie Fisher, and Dr. Suzanne Masterson. The survey went through a total of 11 revisions over the course of seven months; the final version of the survey consisted of four distinct sections of questions, each of which are detailed below. The survey was printed on 17 x 11 paper, double sided, so that it could be folded into an 8 ½ x 11 brochure. The survey was printed in black ink with color logos for the University of Cincinnati and the Center for Criminal Justice Research on the cover. The Goering Center logo also appeared on the cover of the survey, yet it is a black and white logo, so it did not appear in color.

**Section 1.** One of the goals of the managerial survey was to find out the extent to which small businesses in the Cincinnati OH-KY-IN MSA use various forms of internal controls. In order to assess this, the first section of the survey contains 14 questions designed to assess the business's use of formal and informal internal controls that serve as guardianship measures within the business; these measures can be found in Table 5.3. In general, the types of controls being assessed relate to the following: controls designed to centralize the activities of the business, thereby allowing tighter control over the actions of employees (Appelbaum, Cottin, Pare & Shapiro, 2006; Daft & Macintosh, 1984; Niehoff & Paul, 2000; Muir, 1996); controls designed to regulate the specific behavior of employees and reduce the opportunity for employee theft (Oliphant & Oliphant, 2001); the use of ethics-oriented internal control mechanisms that

Table 5.3: *Measures Contained in Section 1 of Managerial Survey*

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Centralize Activities of the Business

Use of formal written procedures for workplace standards of conduct	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A
Use of periodic external audits	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A
Use of periodic internal audits	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A

Regulate Specific Behavior

Use of sign-out procedures for tools, materials, goods, or equipment	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A
Use of electronic clock-in/out system	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A
Use of audio or visual cues for breaks, beginning and ending of work days	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A
Screen employees upon entering/exiting building	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A

Ethics Oriented Controls

Code of conduct	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A
Anonymous reporting system	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A
Ethics training	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A
Frequency of ethics training	1 = Monthly 2 = Quarterly 3 = Yearly 4 = Once

Monitoring of the Business

Use of CCTV system	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A
Use of other type of monitoring system	0 = NO 1 = YES 2 = DON'T KNOW 3 = N/A
Type of monitoring system used	Open Ended

help to set established standards of conduct for employees (Greenberg, 2002); and, the business's use of equipment intended to actively monitor for signs of counterproductive behavior (Dumaine, 1988). The final question in this section asks respondents whether they were aware of employee theft occurring within the business. If the respondent reported employee theft, they were directed to Section 2 to answer questions about five instances of theft.

**Section 2.** If respondents indicated they had knowledge of theft occurring within the business, they were directed to answer the questions in this section; the measures derived from this section can be found in Table 5.4. This section provides an opportunity for the respondent to give detailed information on up to five instances of employee theft that have occurred at the business. For each occurrence, the respondent is asked to indicate, to the best of their knowledge, the following: whether the act was an on-going series of thefts, or a one-time event; if an on-going event, the length of time the thefts persisted; what specifically was stolen, and the approximate dollar amount; how many people were involved with the theft; the positions of those involved; how the theft was discovered; and, what happened to the employees involved in the theft. The data obtained in Section 2 provide a unique and detailed account of individual acts of employee theft that have occurred at the business, as viewed from the perspective of the owner/manager of the business.

**Section 3.** The questions in Section 3 were intended to assess respondents' perceptions of the opportunity for various types of theft, or misuse of company property, to occur within the business. This section uses multiple questions to assess this perception because, as mentioned previously, the term "employee theft" has been applied to a broad range of behaviors. A list of

Table 5.4: Measures *Contained in Section 2 of Managerial Survey*

Was the theft a "one-time event," or an "ongoing series" of thefts	1 = One-time 2 = On-going	Categorical
If an on-going scheme, duration of the thefts, in months	Open ended	Metric
Description of items stolen	Open ended	Categorical
Approximate total dollar value of items stolen	Open ended	Metric
Was the theft committed by a single employee or a group of employees	1 = Single employee 2 = Group of employee	Categorical
Number of employees involved	Open ended	Metric
Position of the employee(s) involved in the theft	Open ended	Categorical
How theft was discovered	1 = Supervisory personnel discovered 2 = Employee admitted to theft 3 = Another employee informed business 4 = Employee caught in act 5 = Internal audit discovered theft 6 = External audit discovered theft 7 = Other	Categorical
If theft was discovered by other means, what were they	Open ended	Categorical
What happened to employee(s) involved with theft	Open ended	Multiple Dichotomous Measures



Table 5.5: Measures Contained in Section 3 of Managerial Survey

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Use the company's resources in an unauthorized manner while on the company's property	1 = Very Easy 2 = Easy 3 = Difficult 4 = Very Difficult 5 = N/A
Use the company's resources in an unauthorized manner while <b>away</b> from company property	1 = Very Easy 2 = Easy 3 = Difficult 4 = Very Difficult 5 = N/A
Steal tools or equipment from the company	1 = Very Easy 2 = Easy 3 = Difficult 4 = Very Difficult 5 = N/A
Steal materials, parts, or finished goods from the company	1 = Very Easy 2 = Easy 3 = Difficult 4 = Very Difficult 5 = N/A
Take money from the company by taking physical cash or misusing credit cards	1 = Very Easy 2 = Easy 3 = Difficult 4 = Very Difficult 5 = N/A
Embezzle money from the company <b>without</b> taking physical cash	1 = Very Easy 2 = Easy 3 = Difficult 4 = Very Difficult 5 = N/A

these measures can be found in Table 5.5. No study to date, to the PI's knowledge, has asked the owners/managers of small businesses to assess the potential for theft to occur within their business. Furthermore, most studies of employee theft do not distinguish between types of theft when asking respondents whether they have witnessed or engaged in employee theft (Jones, Slora & Boye, 1990; Kulas, McInnerney, Frautschy DeMuth & Jadwinski, 2007; McClurg & Butler, 2006; Rickman & Witt, 2007; Thoms, Wolper, Scott & Jones, 2001; Wimbush & Dalton, 1997).

Aggregating types of theft into a single category masks the fact that opportunities for particular types of theft likely vary by the type of business surveyed, role of the offender, and features of the organization that make theft certain types of theft more difficult than others. Accordingly, it is better to assess whether an owner/manager perceives the opportunity for certain types of theft to occur at the business. The literature on employee theft that has focused upon particular types of theft can be grouped into one of three categories: theft of cash and similar financial items (Greenberg, 1996; Rosenbaum, 1976; Slora, 1989); theft of tools, work-in-process and finished goods (Hollinger, Slora & Terris, 1992; Levine & Jackson, 2002; Mustaine & Tewksbury, 2002); and, theft of time and other inappropriate uses of company resources (Snider, 2001; 2002). The measures found in this section were created by the PI in order to capture the respondent's perception of employee theft opportunities at the business.

***Section 4.*** This final section of the managerial survey presented respondents with a series of statements designed to assess their perceptions of the ethical climate of the business; a listing of these questions can be found in Table 5.6. The statements and response choices comprising this section of the study form the Ethical Climate Index, or ECI (Arnaud, 2010),

Table 5.6: *List of Questions Comprising Ethical Climate Index*

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Collective Moral Sensitivity - Moral Awareness

People around here are aware of ethical issues.

People in my company recognize a moral dilemma right away.

People in my company are very sensitive to ethical problems.

Collective Moral Sensitivity - Empathetic Concern

People in my company sympathize with someone who is having difficulties in their job.

For the most part, when people around here see that someone is treated unfairly, they feel pity for that person.

People around here feel bad for someone who is being taken advantage of.

In my company people feel sorry for someone who is having problems.

Collective Moral Judgment – Self

People around here are mostly out for themselves.

People in my company think of their own welfare first when faced with a difficult decision.

In my company people's primary concern is their own personal benefit.

Collective Moral Judgment – Others

People around here have a strong sense of responsibility to society and humanity.

What is best for everyone in the company is the major consideration.

The most important concern is the good of all the people in the company.

Collective Moral Motivation

In my company people are willing to break the rules in order to advance in the company.

Around here, power is more important than honesty.

When resources run low, people in my company are willing to compensate by compromising their ethical values.

### Collective Moral Character

People I work with would feel they had to help a peer even if that person were not a very helpful person.

People in my company feel it is better to assume responsibility for a mistake.

No matter how much people around here are provoked, they are always responsible for whatever they do.

which assesses how collective moral sensitivity (moral awareness and empathetic concern), collective moral judgment (self and other focused), collective moral motivation, and collective moral character interact to influence individual ethical behavior. The ECI's use of six different ethical dimensions reflects Rest's (1984) four-factor model of ethical decision making. Rest (1984) argued that individuals engage in four separate processes when making ethical decisions, which addresses one's moral sensitivity, their moral judgment, moral motivation, and finally their moral character. The ECI component collective moral judgment measures "self," which reflects a more basic level of moral awareness, as well as "others," which reflects a more developed level of moral awareness (Abernethy, Bowens & van Lent, 2012), or empathetic concern, in a manner similar to Kohlberg's processes of cognitive moral development (1981).

The component collective moral sensitivity, inclusive of both the self (moral awareness) and other (empathetic concern) focused measures, captures one's perception of the prevailing norms within the business that address moral awareness and empathetic concern (Arnaud, 2010). The component collective moral judgment captures the respondent's perception of the prevailing system of moral reasoning that occurs within the business. The component collective moral motivation assesses "whether ethical concerns dominate over other concerns when determining actions" (Arnaud, 2010). In other words, this component assesses to what extent the respondent perceives that actions within the business are driven by a concern for ethically positive action. Finally, the component of collective moral character assesses the respondent's perception of the business's collective ability to follow through with ethically positive choices.

While other measures of ethical climate have been used more extensively in research on counterproductive behaviors within the work place, most notably Victor and Cullen's (1988) EWC, Arnaud's index was chosen for several reasons. First, Arnaud's ECI has a short-form

index, which was more suitable to the survey being used in this study. Arnaud (2010) assessed the validity of this short-form version to her original scale and found that all subsections of the scale had Cronbach's alphas of .80 or higher, indicating good internal consistency among the subscale items. Furthermore, each of the subscales on the short-form version correlated with the original subscale at .88 or higher. Table 5.7 reproduces the table of Cronbach's alphas and correlations reported by Arnaud (2010).

Secondly, the ECI addresses the methodological and theoretical critiques of the EWC by expanding upon the issue of moral judgment through the use of Rest's (1984) four component model (Arnaud, 2010). This approach makes the ECI a much broader measure of ethical climate, as it is able to capture other important factors inherent to the exercise of ethical behavior within the business (Cahn, 2013). The ECI can be used to assess the ethical climate from the perspective of both management and employees, allowing for a broader assessment of how differences in the business's ethical climate affect the occurrence of unethical behavior.

While Arnaud (2010) created the ECI in response to several methodological issues found in Victor and Cullen's ECQ, she drew heavily upon certain themes found in the ECQ during the development of her own measures. Arnaud argued that Victor and Cullen's (1988) ECQ represented a single dimension of ethical climate, and used measures from a short-form version of Victor and Cullen's (1988) ECQ, as developed by Schminke, Ambrose & Neubaum (2005), for the ECI component of moral judgment. Response choices for all questions consisted of a Likert-type scale ranging from a value of 1 to 5, where 1 indicated that the statement in question described the respondent's company well, and 5 indicated the statement did not describe the company well. No response choices other than 1 and 5 had an associated description on the survey.

*Table 5.7: Cronbach's Alpha's and Correlations for Ethical Climate Index*

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Category	$\alpha$	$R$
Collective moral sensitivity (moral awareness):	0.80	0.93
Collective moral sensitivity (empathetic concern):	0.83	0.88
Collective moral judgment (focus on self):	0.89	0.95
Collective moral judgment (focus on others):	0.81	0.96
Collective moral motivation:	0.90	0.94
Collective moral character:	0.82	0.93

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Reproduced from Arnaud, 2010

Finally, the ECI was selected for inclusion in the survey because of its focus upon assessing collective social norms within the organization. While other measures have assessed the influence of one aspect of collective social norms - collective moral judgment - upon ethical behavior within an organization, this measure alone has performed poorly (Arnaud, 2010). The ECI represents a measure that can be used to assess six distinct dimensions of a business's ethical climate, all of which influence collective and individual behavior within the business. However, Arnaud's (2011) results also suggest that the strength of the relationship between each ethical dimension of the ECI and unethical behavior varies. This indicates that the relative influence of each ethical dimension will vary as the type of behavior being examined varies. The ECI is not intended to be measured as a single latent factor, but rather as an index of six distinct latent factors, which are all significantly related to each other.

### **Variables and analyses.**

*Variables and analyses for research question 1-1.* The goals of research question 1-1 guided the development of the managerial survey to be able to collect specific information about instances of employee theft that have occurred within the small businesses in the Cincinnati OH-KY-IN MSA. It would then be possible, using this information, to describe the problem of employee theft within small businesses in the Cincinnati area in a way that not previously attempted. This description is intended to be a detailed examination of the types of theft that have occurred, and uses the data obtained from Section 2 of the managerial survey. Descriptive statistics are employed to give a general picture of employee theft within small businesses in the Cincinnati area.



Prior to conducting these analyses, several variables were created from measures found in the managerial survey, and obtained from the Hoovers™ database. The variable names, a description of the variable, the respective qualities being examined, and the source of the variable are all displayed in Table 5.8. Because of the qualitative nature of many of the measures found in Section 2 of the managerial survey, recoding of the measures was necessary to create several of the variables used in the analyses; details of any recoding are described when the variables are explained.

The first variables to be created are used to generally categorize the business. For example, the variable STATE is simply the state in which the business is located, while the variable EMPLOYED is the total number of people employed by the business, according to the most recently reported data available in the Hoovers™ database. The final categorization variable is INDUSTRY, which is the general industrial classification of each business. This variable was created by taking each businesses two-digit SIC code and assigning that business the industrial category associated with that code. Industrial categories follow the list published by the U.S. Occupational Health and Safety Administration, and were found on the following webpage: <https://www.osha.gov/pls/imis/sicsearch.html>.

The next set of variables created all relate to employee theft occurring at the business. The variable NUMTHEFT is simply the number of employee thefts a business reported in their managerial survey. Each time an incident of theft was recorded on the managerial survey, detailed data about that incident was obtained. As the survey allowed respondents to give information on up to five instances of employee theft, each unique variable described below has up to five similar variables that capture data on up to five occurrences of theft. For example, the

Table 5.8: *List of Variables Used in Descriptive Analyses of Theft Incidents*

<u>Variable</u>	<u>Description</u>	<u>Qualities</u>	<u>Level of Measurement</u>	<u>Source</u>
STATE	State in which business is chartered and operating	1 = Ohio 2 = Kentucky 3 = Indiana	Categorical	Hoovers™
EMPLOYED	Number of persons employed at the business	Range: 15 to 350	Metric	Hoovers™
INDUSTRY	Industrial category in which business operates	1 = Agriculture, Forestry, Fishing 2 = Mining 3 = Construction 4 = Manufacturing 5 = Transportation & Public Utilities 6 = Wholesale Trade 7 = Retail Trade 8 = Finance, Insurance, Real Estate 9 = Services	Categorical	Hoovers™
NUMTHEFT	Number of thefts reported by business	Range: 1 to 5	Metric	Managerial Survey

*The following variables are repeated for each incident of theft recorded by the business. Roman numerals were used in the analyses to distinguish between occurrences.*

DURATION	Duration of specific theft incident	Time in Months 999 = Unknown 9999 = Continuous	Metric	Managerial Survey
CATEGORY	Type of theft - Financial specific, non-financial generic	1 = Skimming 2 = Cash Larceny 3 = Billing 4 = Expense Reimbursements 5 = Check Tampering 6 = Payroll 7 = Cash Register Disbursements 8 = Misappropriation of Cash on Hand 9 = Non-Cash Misappropriation 10 = No Description Given	Categorical	Managerial Survey
ITEM	Item stolen from the business - Non-financial specific, financial generic	1 = Cash 2 = Tools 3 = Materials 4 = Product to be Sold 5 = Supplies 6 = Fuel 7 = Labor (wages) 8 = Other 9 = Equipment	Categorical	Managerial Survey
VALUE	Value, in dollars, of the theft	Dollar Value 9999 = No Value Given 99999 = Unknown Value	Metric	Managerial Survey
NUMPERP	Number of employees involved in the theft	Undefined	Metric	Managerial Survey

PERPPOS	Position of employee involved in the theft	1 = Accountant/ Bookkeeper/Finance 2 = Billing/Purchasing 3 = Cashier 4 = Receptionist/Secretary 5 = General Labor/ Employee 6 = Manager Executive 7 = Temporary Employee 8 = Unknown/Not Identified	Dichotomous	Managerial Survey
FIRE	Whether employee was fired for the theft	1 = Yes 0 = No	Dichotomous	Managerial Survey
ARREST	Whether employee was arrested for the theft	1 = Yes 0 = No	Dichotomous	Managerial Survey
PROSEC	Whether employee was prosecuted for the theft	1 = Yes 0 = No	Dichotomous	Managerial Survey
JAIL	Whether employee was sent to jail/prison for the theft	1 = Yes 0 = No	Dichotomous	Managerial Survey
QUIT	Whether the employee quit the business	1 = Yes 0 = No	Dichotomous	Managerial Survey
REPRIMAND	Whether the business reprimanded the employee because of the theft	1 = Yes 0 = No	Dichotomous	Managerial Survey
RETAIN	Whether person retained employment with business	1 = Yes 0 = No	Dichotomous	Managerial Survey

RESTIT	Whether employee was ordered to pay, or agreed to pay, restitution to the business	1 = Yes 0 = No	Dichotomous	Managerial Survey
OTHER	Whether some other punishment was taken against the employee	1 = Yes 0 = No	Dichotomous	Managerial Survey
CIVIL	Whether a civil lawsuit was filed against the employee for the theft	1 = Yes 0 = No	Dichotomous	Managerial Survey
POLICE	Whether the business called the police regarding the theft	1 = Yes 0 = No	Dichotomous	Managerial Survey
NOTHING	Whether nothing happened to the individual involved with the theft	1 = Yes 0 = No	Dichotomous	Managerial Survey
NOONE	Whether the business was able to identify a suspect	1 = Yes 0 = No	Dichotomous	Managerial Survey

variable DURATION captured the amount of time, in months, that a specific instance of employee theft occurred. As there is a potential to have data on up to five instances of theft, there are five DURATION variables, each distinguished by a roman numeral indicating the respective incident number.

The DURATION variables capture the number of months an employee theft persisted, however, if the theft was a one-time incident, the variable is coded “0.” The variable CATEGORY was created by examining the description of each theft for the item that was stolen. These items were then classified into one of ten categories, nine of which reflect categories of employee theft used by the Association of Certified Fraud Examiners (ACFE, 2011), while the tenth is used when no information has been given on the item stolen. Because the ACFE focuses mainly upon fraud and theft of cash, they use a single category to capture all non-financial employee thefts. This category would not be sufficient for the purposes of this study, so an additional variable, ITEM, was created to supplement the CATEGORY variable. The variable ITEM uses nine categories to capture the type of item stolen, yet this variable focuses mainly on categorizing non-financial items. Financial items are also captured in this variable through the category “Cash.”

The variable VALUE reflects the dollar value of the item, expressed in U.S. dollars rounded to the nearest dollar, as given by the respondent; several responses to the question regarding the dollar value of the theft had to be recoded for analysis. First, when respondents indicated they did not know the value of the theft or that they could not calculate the value of the theft, the incident was coded “Unknown Value.” Secondly, if no value for the theft was given for the specific occurrence, the incident was coded “No Value Given.”

The variable NUMPERP captures the number of employees involved in the theft incident, while the variable PERPPOS reflects the position of the employee(s) involved in the incident. This variable was created by recoding responses to the question asked for each incident of theft regarding the position of the individual(s) involved in the theft. Responses were examined once all surveys were collected, and the following seven employee categories were created: Accountant/Bookkeeper/Finance, Billing/Purchasing, Cashier, Receptionist/Secretary, General Labor/Employee, Management/Executive, Temporary Employee, and Unknown/Not Identified. These categories were then used to identify the position of the employee(s) involved in each incident of theft.

The final variables created for these analyses were a series of dichotomous variables capturing what happened to the employee(s) involved in the theft. Responses to a question asking what happened to the individual(s) involved in each instance of theft were examined and a scheme for coding those responses was developed by the PI. This scheme consisted of the creation of a series of dichotomous variables capturing whether a certain outcome occurred after the theft was discovered. Because it was possible to have multiple combinations of outcomes, the creation of multiple dichotomous variables that could be examined made the most sense. These variables reflect whether (Yes/No) the individual(s) involved were: fired (FIRED), arrested (ARREST), prosecuted (PROSEC), sentenced to jail or prison (JAIL), quite/resigned (QUIT), reprimanded (REPRIMAND), retained as an employee (RETAIN), ordered to pay restitution (RESTIT), given some other type of penalty (OTHER), or taken to civil court (CIVIL). Another set of variables reflect whether (Yes/No) the business contacted the police (POLICE), took no action against the individual(s) (NOTHING), or could not identify the individual(s) responsible for the theft (NOONE).

Analyses of these variables focus upon the use of descriptive statistics to discuss the problem of employee theft within small businesses in the Cincinnati area. The results of these tests will be supplemented by qualitative data obtained from the managerial surveys, so that a detailed description can be given of specific types of theft, as well as what employee theft looks like, in general, in the Cincinnati area.

***Variables and analyses for research question 1-2.*** Research question 1-2 sought to understand whether significant differences exist between victimized and non-victimized businesses in terms of their use of control mechanisms, owners and managers' perceptions of the opportunity for theft, and owners and managers' perceptions of ethical climate. Answers to this question are obtained through the use of a binomial logistic regression. Binomial logistic regression is an appropriate statistical technique to use when attempting to predict a subject's membership in one of two groups. Table 5.9 lists the variables to be used in this regression analysis, along with a description of the variable and the response choices associated with each variable, while Table 5.10 displays the relevant descriptive statistics.

*Dependent variable.* The dependent variable for this analysis is a dichotomous variable that reflects whether a business has been the victim of employee theft, as assessed by the owner/manager of the business. Through the managerial survey, respondents were asked about whether their business "Has ever been the victim of employee theft?" Respondents could then select a response of "Yes," "No," or "I Don't Know." For the purposes of this analysis, the



Table 5.9: *Variables used in Logistic Regression Analysis*

	Values	Variable Description
<b>Dependent Variable</b>		
Theft	0 = Yes 1 = No	Whether business indicated they have been the victim of employee theft.
<b>Independent Variables</b>		
Internal	0 = No 1 = Yes	Whether business uses periodic internal audits.
External	0 = No 1 = Yes	Whether business uses periodic external audits.
Audits	0 = No 1 = Yes	Whether business uses both internal and external audits.
Procedures	0 = No 1 = Yes	Whether business has formal written procedures regarding employee conduct.
Signout	0 = No 1 = Yes	Whether business requires tools, equipment and resources to be signed out.
Code	0 = No 1 = Yes	Whether business has an ethical code of conduct for employees.
Ethics	0 = No 1 = Yes	Whether the business provides ethical training to employees
Report	0 = No 1 = Yes	Whether business has an anonymous ethics reporting hotline.
CCTV	0 = No 1 = Yes	Whether CCTV systems are used to monitor the business.
Other	0 = No 1 = Yes	Whether some other type of system is used to monitor aspects of the business.
Monitor	0 = No 1 = Yes	Whether both CCTV and other monitoring systems are used by the business.

Unauthon	<p>1 = Very Easy  2 = Easy  3 = Difficult  4 = Very Difficult  5 = N/A</p>	The perceived difficulty of using business resources in an unauthorized manner while at the business.
Unaway	<p>1 = Very Easy  2 = Easy  3 = Difficult  4 = Very Difficult  5 = N/A</p>	The perceived difficulty of using business resources in an unauthorized manner while away from the business.
Tools	<p>1 = Very Easy  2 = Easy  3 = Difficult  4 = Very Difficult  5 = N/A</p>	The perceived difficulty of the theft of tools or equipment by employees of the business.
Goods	<p>1 = Very Easy  2 = Easy  3 = Difficult  4 = Very Difficult  5 = N/A</p>	The perceived difficulty of the theft of raw materials, work in process, or finished goods by employees of the business.
Cash	<p>1 = Very Easy  2 = Easy  3 = Difficult  4 = Very Difficult  5 = N/A</p>	The perceived difficulty of the theft of physical cash, or the misuse of credit cards, by employees of the business.
Embezzle	<p>1 = Very Easy  2 = Easy  3 = Difficult  4 = Very Difficult  5 = N/A</p>	The perceived difficulty of the theft of non-physical cash from the business by employees of the business.
Ethical Climate Index	See Table 5.11	Six dimensions of ethical climate of the business, as assessed by the owner or manager.

Table 5.10: *Descriptive Statistics for Logistic Regression Variables*

	<u>N</u>	<u>%</u>
Theft		
0 = Yes	202	64.33
1 = No	112	35.67
	<i>314</i>	<i>100.00</i>
Internal		
0 = No	127	41.00
1 = Yes	183	59.00
	<i>310</i>	<i>100.00</i>
External		
0 = No	191	61.40
1 = Yes	120	38.60
	<i>311</i>	<i>100.00</i>
Audits		
0 = No	212	67.9
1 = Yes	100	32.10
	<i>312</i>	<i>100.00</i>
Procedures		
0 = No	53	17.00
1 = Yes	259	83.00
	<i>312</i>	<i>100.00</i>
Signout		
0 = No	231	74.50
1 = Yes	79	25.50
	<i>310</i>	<i>100.00</i>
Code		
0 = No	32	10.30
1 = Yes	280	89.70
	<i>312</i>	<i>100.00</i>

Ethics			
	0 = No	233	74.20
	1 = Yes	81	25.80
		<i>314</i>	<i>100.00</i>

Report			
	0 = No	187	59.90
	1 = Yes	125	40.10
		<i>312</i>	<i>100.00</i>

CCTV			
	0 = No	212	68.20
	1 = Yes	99	31.80
		<i>311</i>	<i>100.00</i>

Other			
	0 = No	230	75.40
	1 = Yes	75	24.60
		<i>305</i>	<i>100.00</i>

Monitor			
	0 = No	278	89.10
	1 = Yes	34	10.90
		<i>312</i>	<i>100.00</i>

	<u>N</u>	<u>%</u>	<u>Mean</u>	<u>S.D.</u>
Unauthon				
	1 = Very Easy	50	16.20	
	2 = Easy	150	48.50	
	3 = Difficult	75	24.30	
	4 = Very Difficult	28	9.10	
	5 = N/A	6	1.90	
		<i>309</i>	<i>100.00</i>	<i>2.32</i>
				<i>.918</i>

Unaway				
	1 = Very Easy	29	9.30	
	2 = Easy	80	25.60	
	3 = Difficult	91	29.10	
	4 = Very Difficult	92	29.40	
	5 = N/A	21	6.70	
		<i>313</i>	<i>100.00</i>	<i>2.99</i>
				<i>1.09</i>

Tools

1 = Very Easy	36	11.50		
2 = Easy	143	45.80		
3 = Difficult	83	26.60		
4 = Very Difficult	29	9.30		
5 = N/A	21	6.70		
	<i>312</i>	<i>100.00</i>	<i>2.54</i>	<i>1.04</i>

Goods

1 = Very Easy	34	11.00		
2 = Easy	124	40.00		
3 = Difficult	74	23.90		
4 = Very Difficult	31	10.00		
5 = N/A	47	15.20		
	<i>310</i>	<i>100.00</i>	<i>2.78</i>	<i>1.23</i>

Cash

1 = Very Easy	16	5.10		
2 = Easy	43	13.80		
3 = Difficult	95	30.50		
4 = Very Difficult	144	46.30		
5 = N/A	13	4.20		
	<i>311</i>	<i>100.00</i>	<i>3.31</i>	<i>.940</i>

Embezzle

1 = Very Easy	4	1.30		
2 = Easy	10	3.20		
3 = Difficult	94	30.00		
4 = Very Difficult	187	59.70		
5 = N/A	18	5.80		
	<i>313</i>	<i>100.00</i>	<i>3.65</i>	<i>.695</i>

categories of “No” and “I Don’t Know” are collapsed into a single category of “No.” This was done because the research question being answered seeks to understand what differences exist between businesses that have been the victim of theft and those that have not. Without having identified a specific instance of employee theft within the business, responses of “I Don’t Know” can be treated in the same manner as responses of “No.”

A response of “No” to the question of whether employee theft has ever occurred at one’s business indicates that the respondent is certain the business has never been a victim of employee theft. This response is a strong statement on the part of the respondent regarding the occurrence of theft within the workplace. It may be the case that respondents selecting the response “No” will have different views on the opportunity for theft to occur, or employ control mechanisms to differing degrees, than will respondents who indicated that theft has occurred within the business. A response of “I Don’t Know” might suggest that the respondent is aware there is a possibility of employee theft occurring within the business, yet they have not detected any theft to date.

A potential weakness of this variable is its unbounded nature, as it asks about the respondent’s knowledge of employee thefts that have *ever* occurred at the business. Surveys of criminal victimization typically ask questions about victimization occurring within a particular period, for example, the number of victimizations that have occurred within the past calendar year. This approach is used to increase the accuracy of survey responses, as the need to recall incidents over long periods of time can lead respondents to confuse the details of particular incidents, or estimate or guess about the facts of the situation. Furthermore, the use of specific temporal end points can aid respondents in retrieving details about the incident in question (Tourangeau, Rips & Rasinski, 2000). The issue of telescoping, or remembering events or

portions of events as happening more recently than they actually have, is reduced when recall time periods are given to respondents (Bradburn, Sudman & Wasink, 2004). Additionally, setting a referent time period in the question, or within the preamble to the question, allows the respondent to focus upon recalling less information, and may aid in the accuracy of question response (University of Wisconsin, 2010).

However, the accuracy of one's recall of information about specific events is tied to both the amount of time that has passed between the event and the collection of the data, as well as to the salience of the event in question (Sudman & Bradburn, 1974). While employee theft may be, in the aggregate, a significant problem affecting a large number of small businesses in this country, it is likely the case that most small businesses do not experience a very high number of employee thefts. Those industries that do experience consistently high numbers of employee thefts on a repetitive basis – the high-theft industries mentioned above – are a relatively small proportion of this study's sample (.009%). The overwhelming majority of small businesses in this study should not be expected to experience a large number of thefts within short periods of time. This suggests that when theft does occur it will be salient; it will stand out as a significant event in the life of the business, particularly to the owners of the business.

Because these incidents can be expected to be very significant occurrences within the business, it should also be expected that study respondents will be able to accurately distinguish the events of one specific incident of employee theft from another incident. The need to place temporal bounds on the questions in an effort to improve information recall may be unnecessary, as the respondents may not have to recall many instances, and when they do recall instances of theft, there are likely to be very few specific instances to recall, all of which are likely to have

left a significant impression upon the respondent. The salience of the victimization experience should be enough to ensure the respondent accurately recalls the necessary information.

Yet, there is another reason for the use of specific temporal reference periods that must also be mentioned. It is the case that most surveys of victimization seek to create a time-line of events, necessitating that the respondent report information specific to incidents, as well as responses to that event, that occur within a particular period of time (Tourangeau, Rips & Rasinski, 2000). This study was concerned with understanding the problem of employee theft within small businesses from the perspective of the owners and managers of those businesses. It was not concerned with using the quantitative data obtained to create a causal ordering of victimization and subsequent responses to victimization; such an approach would have necessitated a dependent variable that was time-bound, as well as the time-bounding of many other variables included in these analyses.

Rather than attempting to capture these data quantitatively, this study uses in-person interviews with owners and managers of small businesses to assess the businesses responses to the occurrence of employee theft. In other words, the identification of a time-line of victimization and response should emerge from the qualitative data obtained through Phase Two of this study. No research, to date, has attempted to assess what specifically happens within small businesses following employee theft victimizations. Rather than attempting to gather quantitative data in an ad hoc fashion using the managerial survey, the PI decided that it would be better to use a grounded theory approach to this issue. Such an approach allows for the development of theory related to managerial decision-making that occurs in the wake of employee theft.



Finally, given the nature of employee theft schemes, time-bounding the variable may have created difficulties for respondents. In particular, it may have been difficult for respondents to place an occurrence of theft within a particular time frame, as factors of the incident may have made it difficult to determine when the theft “occurred.” Not all employee thefts are detected as they are occurring, some are identified after they have been completed; in some cases, a number of years may elapse between the conclusion of the theft and its discovery. Should the business determine that an employee who left the business five years ago embezzled from the company for more than ten years, would they indicate the theft had occurred in the year it was discovered, when the thefts ended, or the year in which the thefts began? Employee theft schemes that persist for a number of years, as many do (ACFE, 2011) can be difficult to classify into a time period, as the theft may persist across multiple time periods, or may start and stop over the course of a number of years. The question of whether or not these incidents should be considered to be one single instance of theft, or multiple instances of theft would likely create ambiguity for respondents regarding the specific time period within which the theft occurred.

A final potential weakness of this variable is the ambiguity it may create for respondents (Korjenevitch & Dunifon, 2011) regarding the response choices of “No” and “I Don’t Know.” As the question on the managerial survey was not time bound and asked respondents about their knowledge of employee thefts that have ever occurred at the business, it is possible that some respondents answered “I Don’t Know” because of the ambiguity of the term “ever.” For example, if a respondent has been an employee of the business for the past 20 years, yet the business has been in existence for over 60 years, he/she may not be aware of thefts that may have happened prior to their term of employment. The unbounded nature of the question may have changed their choice of responses from what would have been “No,” to “I Don’t Know.”

However, as this variable combines the categories of “No” and “I Don’t Know,” any ambiguity that may have existed for respondents will not influence the distribution of responses for this variable.

*Independent variables.*

Control mechanisms. Using several measures from Section 1 of the managerial survey, a total of 11 variables were created to capture a business’s use of control mechanisms that are likely to reduce opportunities for employee theft. Each of these variables is a dichotomous variable reflecting whether (Yes/No) the business uses the control in question. Several of the measures from Section 1 were recoded to create these variables; two variables were created to capture the presence to multiple types of similar controls co-occurring at the business. As the original measures from Section 1 of the survey gave respondents the option to indicate “Yes,” “No,” “Don’t know,” or “N/A” as to whether their business used the control mechanism in question, recoding of the measures focused upon collapsing these response categories in a way that, theoretically, made the most sense.

After examining the distributions of the measures in question, it was decided that responses of “Don’t know” and “N/A” would be collapsed into the category of “No” for the purpose of this analysis. The decision to collapse categories in this manner was made because this research question is concerned with identifying the presence or absence of the control in question. If the owner/manager is not aware of the use of a particular measure, it is likely not a significant part of the business’s efforts to control employee behavior or prevent the occurrence of employee theft. Furthermore, the category “N/A” indicates that the business does not use the

control in question, and therefore, can be treated in the same manner as a response of “No” to the use of the control.

Four of the variables created for this analysis assess the business’s use of controls that are meant to centralize activities of the business. The first two variables, INTERNAL and EXTERNAL, capture whether the business conducts, respectively, periodic internal audits and periodic external audits. Audits are one important way in which businesses can exert control over their operations, as they allow owners and managers to get a clear picture of how funds are moving into and out of the business. Specifically, internal audits are a way for businesses to objectively analyze their operations, and align business resources to the accomplishment of business objectives (Carcello, Hermanson & Raghunandan, 2005). Internal audits also serve a risk management function, as they create an internal system of checks and balances (Bou-Raad, 2000).

External audits are conducted by third-party consultants as a way to double-check the internal auditing process, and gain an even more objective perspective on the financial operations of the business. According to federal regulations, all publicly traded corporations must have an annual external audit, however, many small businesses forgo these audits as they can become cost prohibitive. Small businesses may view less costly internal audits as a substitute for external audits (Carey, Simnet & Tanewski, 2000). However, external audits provide for a more objective view of business finances, and are less likely to be corrupted by theft occurring among employees responsible for the conduct of an internal audit.

A third variable, AUDITS, was created by combining responses from the previous two variables, resulting in a measure that captured whether the business used both types of audits together. This variable assesses whether the business uses both internal and external audits; a

practice that may be more likely to identify employee theft occurring within a business, when compared to the utility of using either internal or external audits. The last variable created to capture controls aimed at centralizing business activity was PROCEDURES, which captures whether the business uses formal written procedures to set workplace standards of employee conduct.

The specific types of procedures used by the business was not assessed, rather this variable captures the mere presence of formal written procedures used by the business. Written procedures within the workplace help to establish behavioral expectations, which typically include both in-role and extra-role behaviors that the business seeks to promote, or those it seeks to prevent. While it is not likely that these written procedures will explicitly state that theft is frowned upon by the business, it is likely that these formal procedures will contain admonitions against general deviant behavior within the workplace. Formal written procedures may serve to inhibit opportunities for employee theft as they outline behavioral expectations for employees.

The variable SIGNOUT captures a business's use of formal sign-out procedures for tools, materials, goods, or equipment owned by the business. This variable assess the use of procedures meant to control the movement of business property, while also allowing the business to track who has control over business resources. The use of sign-out procedures within a business is a sign that the business monitors who has equipment and resources throughout the course of the day, which should create barriers to the perception of opportunities for employee theft. These procedures also send a signal to employees that business owners care about the disposition of business resources, and that it is important for employees to keep track of the resources they are using while on the job.

Three variables were created to capture the business's use of controls meant to establish or reinforce ethical conduct within the workplace. The variable CODE captures whether a business has a formal code of conduct for employees, as the presence of such a code can help to set a climate supportive of pro-social behavior within the workplace. Furthermore, the presence of an ethical code of conduct may be a sign of a general organizational focus upon corporate citizenship, and ethical corporate practices (Somers, 2001). However, just having a code of ethics may not be enough to illicit ethical conduct from employees (Harrington, 1996; McCabe, Treviño & Butterfield, 1996). Rather, it may be more beneficial for the business to provide formal ethics training to employees.

The variable ETHICS was created to assess whether a business provides any type of formal ethics training to employees. As the quality of this training could not be assessed, and there are no conclusive data regarding the optimal frequency at which ethics trainings should be provided, this study simply assesses whether the training was provide by the business. Research on the effectiveness of ethics training within businesses indicates that such training does have significant positive effects upon employees (Delaney & Sockell, 1992). Specifically, employees who undergo ethics training are more likely to be more satisfied on the job (Valentine & Fleischman, 2004), to help create a more ethical culture (West & Berman, 2004), and were more likely to use ethical decision-making processes when facing challenges (Grady, Danis, Soeken, O'Donnell, Taylor, Farrar & Ulrich, 2008).

When employees do face ethical challenges, it is necessary for them to have avenues to report the ethical dilemma, or lines of communication that allow them to discuss the issues they are facing. The most common method used by businesses to achieve these ends are anonymous ethics hotlines, which allow employees to anonymously report ethical violations, or discuss

potentially unethical decisions. The presence of an internally controlled, anonymous system for the reporting of potential ethical violations has been found to be an important factor in an individual's decision to report problems within an organization (Kaplan, Pany, Samuels & Zhang, 2009). Furthermore, when employees feel they are part of the problem-solving process, and they see tangible results from their ethical efforts, they are more likely to continue their pro-social ethical acts within the workplace (Trevino & Weaver, 2009). The variable REPORT captures whether the surveyed business provides employees with an anonymous system they can use to report problems within the business.

The final three variables addressing control mechanisms within the business captured by this study relate to active monitoring of the business by owners and managers. The variable CCTV captures whether the business uses a closed circuit television (CCTV) system to monitor the business, while the variable OTHER captures whether the business uses any other means to monitor the activities of the business. The use of CCTV in crime prevention efforts is well documented both within businesses (Lippert, 2012; Minnaar, 2002), as well as in society more generally (Harris, Jones, Hillier & Turner, 1998; Sutton & Wilson, 2002). This type of monitoring offers many benefits to small business owners and managers; chief of which is the ability to extend guardianship over the business and its resources without having to increase the physical presence of human guardians.

CCTV systems allow small businesses, and businesses of all sizes, to monitor the physical aspects of the business at all times of the day. When these systems are connected to recording devices, they allow business owners the ability to catalogue the activities of the people who frequent the business. Should deviant acts occur within the business, owners and managers can review these recording to determine how the acts occurred, and who may have been

involved. While these systems are not fool-proof means of capturing the activities that occur within the business, they do provide an increased measure of guardianship over business resources, over and above that which can be obtained through traditional observations of the workplace.

Furthermore, it is difficult for CCTV systems to capture activities that, on the surface appear to be normal, but in fact are actually deviant and counterproductive. For example, an accountant working alone at a computer may appear on CCTV to be diligently completing her work, yet in reality she may be using the computer to transfer funds from the business to her personal account. To address these and other issues, businesses may use a variety of other monitoring systems in an effort to track and observe employee behavior. The variable OTHER assess whether a business uses any other types of monitoring systems, outside of CCTV systems, to monitor activities at the business. Supplementing these two variables, the final variable in this category, MONITOR, assesses whether the business uses both CCTV and another means of active monitoring to watch over the activities of the business.

Perception of opportunity measures. Section 3 of the managerial survey presents respondents with six questions asking about their perceptions of the opportunity for employee theft to occur within their business. Response choices were presented as a Likert-type scale where 1 = Very Easy, 2 = Easy, 3 = Difficult, 4 = Very Difficult, and 5 = N/A. The response choice N/A was placed as the fifth category so that it would not be interpreted by respondents to stand for a neutral option between “Easy” and “Difficult.” Rather, it was intended to stand for the non-applicability of the theft opportunity to the business. As not all businesses will be

vulnerable to all types of theft, this option allowed a business to indicate the theft in question is not a possible occurrence within their business.

For example, within an insurance firm there is likely to be very little opportunity to steal work-in-process or finished goods, as the products of the company are services provided to clients. At best the company produces stacks of paper with words printed on them, where the value of the product is held in the printed words, rather than the physical printed pieces of paper prepared by the firm. Accordingly, the threat of the theft of finished goods or work-in-process is not applicable (N/A) to these firms, as this threat does not exist in the firm's particular line of business. Had the category "N/A" been placed in the middle of the scale, its ordering would have suggested that the theft of finished goods is neither easy nor hard. In its location at the end of the scale, its placement suggests that the theft of finished goods is beyond Very Difficult because such a theft is virtually non-existent.

Because the category "N/A" is intended to represent the threat of a type of theft the owner/manager perceives to be virtually non-existent within the business, the ordering of responses represents an appropriate ordinal scale for the purposes of statistical analyses. Moving from a response of 1 to a response of 5, there is a monotonic increase in the assessment of the difficulty associated with the likelihood of occurrence of a particular type of employee theft. Each question in Section 3 represents a unique variable assessing the perceived opportunity for a particular type of theft or workplace deviance to occur at the business.

The first two variables assess the respondent's perception of how easy/difficult it would be to use the business's resources in an unauthorized manner. Specifically, the first variable, UNAUTION, assessed the likelihood of unauthorized use of business resources while on company property, while the second variable, UNAWAY, assessed the likelihood of



unauthorized business resource use while away from company property. Although both variables capture the unauthorized use of business resources by an employee, the variable UNAWAY addresses the opportunities that exist when employees are allowed to remove business resources from company property. Because the ability of employees to legitimately remove property from the business, as part of their normal duties, is not constant across types of businesses, it was necessary to provide the opportunity for certain businesses to distinguish between opportunities for deviance while at the business location, as well as when employees are away from the business. Businesses that do not have a need for employees to take property away from the business will have the option to select the “N/A” response, indicating that there is no potential for unauthorized use of business resources while an employee is away from the business.

The next set of variables assesses the respondent’s perception of the opportunity for employees to steal the physical property of the business. Two variables are used to separate out physical goods that are used as part of output production processes from those that generate some form of income for the business. For example, the variable TOOLS is used to assess the perception of the ease at which an employee can steal tools or equipment from the business. Tools and equipment owned by the business can take on many forms, from construction tools to document creation software and equipment, yet this property is not sold to create income for the business. While these tools are used in income generating activities, they are distinctly different from other business property that, in and of itself, creates income for the business. This category of assets is valued at its cost to the business, while property that generates direct income for the business is an asset that is valued in a different way.

The variable GOODS assesses the opportunity for an employee to steal business property that is used to generate income for the business. These items are assets that are valued at their actual cost prior to being turned into a finished good, at which point they are valued at their market price. This distinction is important for businesses, as the loss of items captured in the variable GOODS has a direct impact upon future profits, as well as input and production costs. Each of these variables captures the perceived opportunity for an employee to steal a distinct type of property from the business.

The final sub-grouping of variables assessed the respondent's perception of the likelihood of the ease at which employees could steal the financial assets of the business. The variable CASH reflects the respondent's perception of the ease at which an employee could steal from the business by taking physical cash or misusing credit cards. As mentioned above, cash and other financial items are the most targeted items for theft by employees. Taking physical cash and misusing credit cards are two of the easiest types of thefts for employees to complete, as it is difficult to track physical cash once it has been stolen, and illicit credit card purchases can often times look like legitimate business expenses.

Certain businesses are considered to be "cash heavy," meaning that a large number of each business's sales are completed via the transference of cash, and many different employees are likely to have access to this cash. In these businesses, maintaining control over the inflow and disbursement of cash can be difficult for business owners. Even if physical cash is scarce within a business, it is likely that several key employees possess company credit cards, and have the authority to make purchases with these cards<sup>1</sup>. While procedures for verifying the legitimacy of

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<sup>1</sup> When the author was an employee of a Fortune 100 corporation, he was given a corporate credit card with the instruction that he should "use it, or they (the company) will take it back." The author was given a card with a daily credit limit of \$2000, and a monthly credit limit of \$20,000. However, he was required to complete weekly expense reports that, upon their acceptance, would automatically apply a credit to the card, returning the outstanding balance

business credit card purchases vary, it is relatively easy for an employee to amass personal charges in the name of company business. However, the increased reliance upon computers and internet technology means that many businesses are much less cash based than they previously were. There are also fewer checks being used, as businesses rely more heavily upon electronic transfer of funds through automatic account debits (ACH transactions), and wire transfers.

While some businesses may be more cash heavy than others, all businesses deal in the transferal of cash among customers, suppliers, employees and others. Accordingly, within every business there exists the opportunity for the theft of non-physical cash by an employee. The variable EMBEZZLE captures the respondent's perception of the ease at which an employee could steal from the company without actually taking physical cash. Embezzlement is the concealed taking of funds from a business by an insider, typically an employee, and this type of theft typically persists for longer periods of time than do other types of cash theft. Because the target of this type of theft is not a physical product that can be walked out of the building by the employee, those most likely to engage in embezzlement are employees with privileged access to sensitive parts of the business.

Ethical Climate Index. The 19 questions that compose the Ethical Climate Index (ECI) are designed to assess six latent dimensions of a business's ethical climate. This study uses owner/manager perceptions of ethical climate to represent the business's perception of its own ethical climate. Specifically, the ECI identifies six ethical dimensions of a business, each of which captures a unique aspect of the business's overall ethical climate. These climate

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to \$0. In essence, so long as the card was not charged more than \$2000 in a single day, and so long as the weekly expense reports completed by the author did not approach \$14,000, he was free to use his card in the completion of his business tasks in any manner he saw fit. Once entered into the company computer system, it was rare for a credit card expense report to take longer than two hours to be approved for payment.

dimensions are used in the logistic regression associated with this phase of data analysis in order to determine whether differences in ethical climate dimensions exist between businesses that have experienced employee theft, and those that have not. In order to create these variables, a confirmatory factor analysis (CFA) was conducted to confirm the presence of the six latent ethical dimensions, as described by Arnaud (2010). These dimensions are: collective moral sensitivity – moral awareness; collective moral sensitivity – empathetic concern; collective moral judgment – self; collective moral judgment – others; collective moral motivation; and, collective moral character.

As Arnaud's (2010) research has theoretically and empirically specified the latent structure expected for the ECI, her model serves as the basis for the current study. Following Arnaud, a six-factor model of ethical climate was hypothesized and tested; this model is displayed in Figure 5.1 with the displayed path coefficients derived from this study's CFA. In these figures, the labels "u1" through "u19" refer to the ethical climate questions found in the managerial survey in Section 4. The labels "f1" through "f6" represent the ethical climate dimensions discussed previously, and the arrows connecting each climate dimension represent correlations among the dimensions.

The structural equation modeling software MPlus 6 was used to perform the Confirmatory Factor Analysis (CFA) to determine whether the data obtained from the ethical climate questions found in the managerial survey supported the latent factor model developed and proposed by Arnaud (2010). In line with Arnaud's model, this analysis supported a six factor model of ethical climate, where each hypothesized dimension of ethical climate was found

Figure 5.1: CFA Model for Ethical Climate Index with Path Coefficients

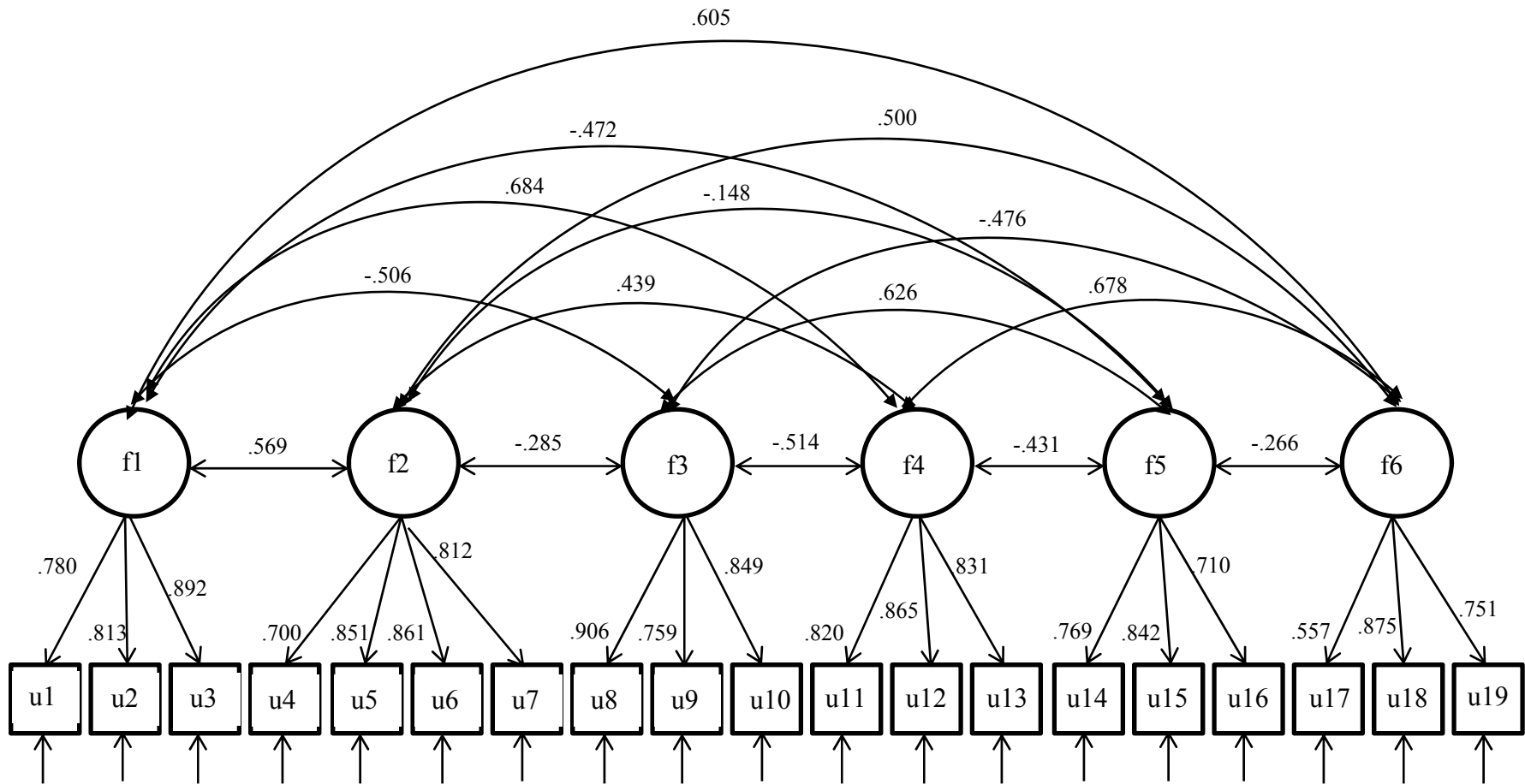


Table 5.11: CFA Factor Loadings from Ethical Climate Index

<u>Collective Moral Sensitivity - Moral Awareness</u>	<u>Loadings</u>
People around here are aware of ethical issues.	0.780
People in my company recognize a moral dilemma right away.	0.813
People in my company are very sensitive to ethical problems.	0.892
<i>Cronbach's Alpha</i>	<i>.817</i>
<u>Collective Moral Sensitivity - Empathetic Concern</u>	<u>Loadings</u>
People in my company sympathize with someone who is having difficulties in their job.	0.700
For the most part, when people around here see that someone is treated unfairly, they feel pity for that person.	0.851
People around here feel bad for someone who is being taken advantage of.	0.861
In my company people feel sorry for someone who is having problems.	0.812
<i>Cronbach's Alpha</i>	<i>.845</i>
<u>Collective Moral Judgment – Self</u>	<u>Loadings</u>
People around here are mostly out for themselves.	0.906
People in my company think of their own welfare first when faced with a difficult decision.	0.759
In my company people's primary concern is their own personal benefit.	0.849
<i>Cronbach's Alpha</i>	<i>.819</i>
<u>Collective Moral Judgment – Others</u>	<u>Loadings</u>
People around here have a strong sense of responsibility to society and humanity.	0.820
What is best for everyone in the company is the major consideration.	0.865
The most important concern is the good of all the people in the company.	0.831
<i>Cronbach's Alpha</i>	<i>.814</i>

<u>Collective Moral Motivation</u>	<u>Loadings</u>
In my company people are willing to break the rules in order to advance in the company.	0.769
Around here, power is more important than honesty.	0.842
When resources run low, people in my company are willing to compensate by compromising their ethical values.	0.710
<i>Cronbach's Alpha</i>	.749

<u>Collective Moral Character</u>	<u>Loadings</u>
People I work with would feel they had to help a peer even if that person were not a very helpful person.	0.557
People in my company feel it is better to assume responsibility for a mistake.	0.875
No matter how much people around here are provoked, they are always responsible for whatever they do.	0.751
<i>Cronbach's Alpha</i>	.738

to be a distinct latent factor. Table 5.11 displays the factor loadings and Cronbach's Alpha's for each of these dimensions. The comparative fit index (CFI) was .95; the Tucker-Lewis Index (TLI) was .93; and the Root Mean Square Error of Approximation (RMSEA) was .08. These values indicate that the model produced by the data fit the population reasonably well. A chi-squared test of goodness-of-fit indicates ( $\chi^2(413.023, df = 137), p < 0.00$ ) a potential issue with model fit, however, the sample size may be driving this result. Regression scores for each dimension were saved for use in the logistic regression analysis.

### **Phase Two - Interviews**

In addition to collecting quantitative data from the owners and managers of small business within the Cincinnati OH-KY-IN MSA, this study collected data through a series of interviews with small business owners and managers. The purpose of this phase of the study was to gain a better understanding of how, in their own words, employee theft affected the operation of the business, as well as the owners and managers of the business. Specifically, the goals of these interviews were to understand how small business owners and managers make changes to the business in response to an occurrence of employee theft, and to understand how employee theft personally affects the owners and managers of victimized business. To achieve these goals, this phase of data collection used a systematic process of in-person interviews structured around the several research questions previously discussed. All interviews were conducted by the PI, and the PI was responsible for contacting potential interview subjects and scheduling all interview sessions.

This phase of the study took a grounded theory approach to data collection. The grounded theory approach is based upon a set of "systematic, yet flexible guidelines for



collecting and analyzing qualitative data to construct theories ‘grounded’ in the data themselves” (Charmaz, 2006; Miles & Huberman, 1994). In essence, the previously described research questions guided the development of specific interview questions; however, these interview questions were modified, removed, or replaced as necessary as the data collection process proceeded. Participant responses to these questions were then coded and analyzed by the PI, in a systematic manner, allowing for themes in the responses to be identified. This approach has been shown to be very effective within organizational settings, including research conducted within businesses.

**Data collection procedures.** Participants in this phase of data collection were individuals who indicated through a response on the managerial survey that they would be willing to participate in an interview. The PI personally contacted respondents of the managerial survey who indicated they would be willing to participate in an interview. In early spring of 2013 the PI compiled a list of all potential interview participants related to the managerial survey and began contacting these individuals by telephone to reaffirm their desire to participate, and to schedule a time and date to complete the interview with willing participants. Potential interview subjects were contacted by telephone in order of the date their managerial survey was received, beginning with the earliest returned survey to the most recently returned survey.

As the initial list of potential interview participants was compiled prior to the completion of phase one (managerial surveys) of this study, the list of potential interview participants became a living document. Throughout the remainder of phase one of this study, when a managerial survey respondent indicated he/she would be willing to participate in an interview their information was added to the potential subject list, preserving the earliest to latest survey

receipt date ordering. A total of 108 survey respondents indicated they would be willing to participate in an interview; however, far fewer than 108 interviews were conducted.

The first reason that all 108 respondents were not interviewed is that some of these individuals indicated they no longer wished to participate in the interview phase of this study. Specifically, once contacted three individuals declined to participate any further. The second reason that the remaining 105 respondents were not all contacted for an interview is that a reasonable level of variation in participant and business characteristics was reached early in the interview process (Marshall & Rossman, 2006). Third, and most importantly, the number of completed interviews was determined by an assessment of theoretical saturation. Theoretical saturation (Charmaz, 2006) was reached when, during the coding of interview transcripts and a review of recently completed interview recordings, it was determined that no new themes were emerging from the data, and no new information was being added to existing themes.

The same logistical procedures were used during each interview conducted for this study. First, as mentioned above, the PI telephoned the key officer associated with any completed and returned managerial survey, where the respondent indicated “Yes” to interview participation. The PI introduced himself, thanked the respondent for completing the managerial survey, and reminded the respondent of their indication to participate in the interview. The PI then reconfirmed whether the respondent was still willing to participate in the interview. If the respondent was not willing to participate, the PI thanked them for their time and ended the call. If the respondent was still willing to participate, the PI suggested several dates and times to meet with the respondent.

Respondents were given the choice of meeting at their office, on the campus of the University of Cincinnati, or at another location of the respondent’s choosing. All but one

interview took place at the respondent's office; in this lone exception, the interview took place at a bookstore located away from the University of Cincinnati's campus. Once a date and time for the interview was set, the PI confirmed the respondent's contact information, confirmed the address of the meeting location, thanked the respondent for their time and ended the call. At the time of the interview, each participant was given two copies of the IRB approved Adult Informed Consent sheet (see Appendix D). The PI began each interview by reviewing the information in the consent sheet and having the participant sign and date both sheets, which the PI then counter-signed and dated. One signed copy of the informed consent sheet was given to the participant, while the PI retained the other copy for his records.

The informed consent sheet asked the participant to indicate whether they would be willing to have the interview voice recorded by the PI for the purposes of the study. The respondent was reassured that only the PI, the University of Cincinnati's IRB, and the PI's mentor, Dr. Michael Benson, would have access to the actual verbal record of the interview or any identified transcripts. Each participant was asked to check a box indicating their willingness to allow voice recording of the interview prior to the PI asking any study related questions; all participants but one agreed to have their interview voice recorded. In this lone case, the PI took detailed notes of the conversation, which were later approved by the participant. Supplemental notes of all voice recorded interviews were also taken by the PI, in order to assist with the coding and analysis of the interview data.

The total time needed to complete an interview was as short as 25 minutes, and as long as 68 minutes; the median interview length was approximately 43 minutes. In each case, the length of the interview was determined by the speed and depth at which the participant responded to questions, and the occurrence of tangential or off-topic conversations. The PI made every

attempt to keep the interview to a maximum of 45 to 60 minutes, in order to not become a time burden upon the participant. At times, an interview was interrupted by a visitor to the participant, or by the need for the participant to take a phone call. The PI did not record the conversations that occurred during these interruptions, and clear indications of when the voice recorder was recording and when it was paused were given to the participant.

The interview ended when all relevant questions had been asked, and the participant was given the opportunity to answer, in as much detail as they wished, each of the PI's questions. Prior to the end of the interview, participants were also given the opportunity to address any issues the PI's questions may not have addressed. Once the interview was completed, the participant was thanked for their time, the PI ensured that all paperwork was completed properly, and the PI checked to ensure the voice recorder operated properly. Finally, the PI verified all contact information, and asked whether it would be okay to re-contact the participant should the PI have any questions about the participant's responses in the future, or should the PI need clarification during the data transcription process. Within a week of each interview, the PI mailed a hand written thank you note with the University of Cincinnati logo on the cover to each participant, thanking them for their time and support.

**Participant characteristics.** The data used to answer the final two research questions of this study came from 30 interviews with owners and managers of small businesses in the Cincinnati OH-KY-IN MSA. The characteristics of interview participants are displayed in Table 5.12, and reflect requisite variety in interview subjects (Tracey, 2010). Each participant was assigned a number, a unique identifier, which is used to connect the quotes presented throughout

Table 5.12: *Interview Participant Characteristics*

<u>Identifier</u>	<u>Position</u>	<u>Gender</u>	<u>Industry</u>	<u>Theft</u>
001	Owner	Male	Services	Yes
002	Owner	Male	Services	Yes
003	Owner	Male	Wholesale Trade	Yes
004	Owner	Female	Services	No
005	Vice President	Female	Manufacturing	Yes
006	Owner	Female	Services	Don't Know
007	Owner	Male	Services	Yes
008	Owner	Male	Services	Yes
009	Owner	Male	Services	Yes
010	Owner	Female	Retail Trade	Yes
011	Owner	Male	Manufacturing	Yes
012	President	Male	Services	No
013	Owner	Female	Manufacturing	Yes
014	Owner	Female	Services	Yes
015	Owner	Male	Retail Trade	Yes
016	Owner	Male	Retail Trade	Yes
017	Owner	Female	Retail Trade	Yes
018	Owner	Male	Wholesale Trade	No
019	Owner	Male	Manufacturing	No
020	Owner	Male	Retail Trade	Yes
021	Owner	Female	Services	Yes
022	President	Male	Services	No
023	Owner	Male	Retail Trade	Yes
024	Owner	Male	Manufacturing	Yes
025	Owner	Female	Manufacturing	Yes
026	Partner	Male	Services	No
027	Owner	Male	Retail Trade	Yes
028	Owner	Male	Services	No
029	Owner	Male	Manufacturing	Yes
030	Owner	Male	Manufacturing	Yes

the results section back to the participant characteristics. All but one interview participant was either an owner, CEO or president of their respective business, and all but one of these businesses is located in Ohio. The average number of employees for participating businesses was 44.63; four businesses had 15 employees (the minimum number of employees needed for inclusion in this study), while the largest business in this phase of the study had 225 employees. Most interview participants had businesses operating in the Services industry (36.7%), while the remaining interview participants had businesses in the Retail (26.7%), Manufacturing (16.7%), Finance/Insurance/Real Estate (10%), or Wholesale Trade (10%) industries. A total of 21 (70%) participants indicated they had experienced at least one instance of employee theft; of the remaining nine participants, two (6.7%) indicated they did not know whether theft had occurred within their business. The average loss associated with these thefts was \$11,296.50, however the median loss was \$1,000.00; the lowest loss reported was \$20.00 and the greatest loss reported was \$130,000.00.

**General structure of interview questions.** The PI developed a series of interview questions asked of respondents, which focused upon understanding, in detail, many different aspects of the problem of employee theft. There were several questions asked of owners and managers of small businesses that had been the victim of employee theft that were different from those asked of the owners and managers of businesses that had not experienced employee theft. The questions developed for owners and managers of victimized small businesses, listed in Table 5.13, are intended to gather data relevant to the business's specific experiences with employee theft, the participant's perceptions of employee theft generally, and the impact employee theft has had on the business, as well as on the participant. Table 5.14 lists additional

Table 5.13: General Structure of Initial Interview Questions

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- What types of acts, in your opinion, should be considered acts of employee theft?
- What types of employee theft have occurred here at the business?
- Can you describe the most recent occurrence of employee theft here at the business?
- Can you describe what, in your opinion, was the most impactful occurrence of employee theft here at the business?
- What was your relationship like with the individual(s) who committed the theft?
- How did the business respond to the theft? In other words, did you decide to make any changes in the formal operation of the business?
- How did the theft affect the climate or culture of the work environment here at the business?
- What happened to the individual(s) who committed the theft?
- Do you think it is possible for this same type of theft to occur again here at the business? Why?

Table 5.14: Additions and Modifications to Initial Interview Questions

- What, in your opinion, constitutes a "serious" theft?
- In terms of dollars, how big would a theft have to be to place the business in jeopardy of closing?
- In your opinion, what might have happened to the business had a serious occurrence of employee theft, in terms of dollars, occurred during the recent economic recession?
- How did you react, emotionally, when you discovered a theft had occurred within your business?
- Did the theft have any affect upon your particular style of management? If so, what changed?
- Do you carry fidelity insurance? Why?
- Did you contact the police after the theft? Why/why not?



questions, as well as modifications to the original questions, which were developed over the course of data collection. As interview participants raised theoretically relevant topics not previously accounted for in the interview questions, the PI amended the battery of questions used in subsequent interviews. This approach to the reformation of the interview questions has allowed subsequent interviews to yield much useful information about the impact of employee theft on small businesses. Additionally, these questions have led to more open and intense conversations with interviewees.

Furthermore, the questions asked of the owners and managers of victimized businesses were altered once it was determined that understanding the relationships that exist among non-victimized small businesses and the police would be important to explore. While this series of questions (found at the end of Table 5.14) were initially asked of only a portion of the interview participants, after all in-person interviews had been completed the PI contacted earlier interview participants by phone to ask them these questions. Responses obtained from this process are included in the overall analysis of the interview data.

When the interviewee was the owner/manager of a non-victimized small business, some of the questions asked varied from those asked of owners and managers of victimized small businesses. The intent of these questions was to assess the participant's perception of the opportunity for employee theft to occur within the business, their perceptions of why theft has not occurred within the business, and their thoughts on how the business, as well as the respondent themselves, might respond to the occurrence of employee theft. These questions are listed in Table 5.15.

Table 5.15: General Structure of Initial Interview Questions for Non-Victimized Businesses

- What types of acts, in your opinion, should be considered acts of employee theft?
- Are you aware of employee theft occurring within other small businesses in your same industry, here in the Cincinnati area?
- Do you know the owner(s) of the victimized business(es)?
- What steps have you taken to try to prevent the occurrence of employee theft?
- In your opinion, which of these steps have been the most successful in preventing the occurrence of employee theft here at the business?
- If employee theft were to occur here at the business, how might the business react?
- If employee theft were to occur here at the business, how might you, personally, react?
- Leaving employee theft aside, how prevalent are other acts of counterproductive behaviors here at work? For example, loafing on the job or bullying?
- What happened to the individual(s) who committed the theft?
- Do you think it is possible for this same type of theft to occur here at the business?
- Why?

**Data analysis.** All but one interview was voice recorded. For all recorded interviews, the PI transcribed the interview into a Microsoft Word document; the hand written notes taken by the PI during each interview supplemented these transcriptions. After transcribing each interview, the PI reviewed each transcript for errors and question responses needing further clarification. When errors in transcription occurred, the PI made corrections to aid readability; errors associated with these corrections occurred during the process of transcription, and were not related to ambiguity in the respondent's answers. Reviews of the transcripts found no further information needing clarification. Interview transcripts and notes were coded and analyzed as they were conducted, a process that follows grounded theory techniques (Glaser & Strauss, 1967).

Specifically, in the early stages of data collection, once a series of interviews were completed (typically 3 to 5, or about a week's worth of interviews) they were transcribed and coded for emergent themes. These early themes led to the addition and modification of questions previously discussed. While this phase of the study was guided by an interest in understanding how employee theft affects small businesses, the specific questions that guided the data collection process evolved throughout data collection. Because grounded theory calls for an iterative approach to data collection, where early data are analyzed for themes that affect the direction of later data collection, the questions asked of respondents evolved as the research evolved (Marshall & Rossman, 2006). This allowed for the progression from concrete data (i.e., data from interviews) toward a conceptual understanding of the impact of employee theft upon small businesses, their owners, and managers (Ladge, Clair & Greenberg, 2012). Later in the data collection process, interviews occurred less frequently so 3 to 5 interviews at times represented two or three weeks' worth of interviewing.

The data obtained from the in-person interviews conducted with small business owners and managers were analyzed in the software program NVivo to identify the presence of important themes and concepts. The analysis of the data began with the development of emergent codes; once transcribed, the PI reviewed each of the interviews to identify emergent themes within the data. Coding is the process of moving beyond concrete statements (i.e., data) to analytic interpretations by categorizing segments of data with a code that summarizes that piece of data (Charmaz, 2006); therefore, codes emerge from the data. The following is an excerpt of a coded transcript from one of the interviews conducted for this study. This passage is a part of a transcript of the interview subject's description of an occurrence of employee theft within their business; codes and sub-codes are shown in brackets behind the statements.

Our business halted, it just came to a complete and utter, every momentum, like I look at business like a train. Once you get it moving it's hard to stop, once you get it stopped it's hard to get it moving again, and this thing held us to a stop.

[Organization: Impact]

I decided not to prosecute, which was um, more of the; had all our business advisors telling us to prosecute. And I think it's part of the study that I think would be interesting. You know, his wife and children, because I knew them so well, and it would probably destroy a marriage. [Non-report: Emotion]

In this example, "Organization" and "Non-report" are parent codes, while "Impact" and "Emotion" are sub-codes. The first code and sub-code summarize themes related to the organizational impact the theft had upon the victimized business. The second code and sub-code summarize the fact that the small business owner indicated that he chose not to report the theft to the police due to an emotional connection to the employee and his family. While the parent

codes capture larger themes emerging in the data, the sub-codes capture variation in those themes and together these parent codes and sub-codes form the beginning stages of the qualitative data analyses undertaken in this study. This is just a brief example of the coding process, yet it shows how codes are used to categorize data and capture themes emerging in the data.

When no new codes emerged from the interview process, and when no new data were contributed to existing codes, it was determined that the point of theoretical saturation had been reached. The result of the coding process was a coding dictionary, which can be found in Appendix E. These codes were then grouped into relevant categories capturing similar first-order themes; groupings of these second-order categories form the aggregate dimensions found in the data. The aggregate dimensions are then used to create a diagram that describes the theoretical relationships that emerged from the data (Gioia & Thomas, 1996). This process is shown in Table 8.1, which illustrates the process of moving from key themes present in the interview data to the conceptual categories that are used in theoretical explanation. While this diagram may suggest that the process of going from codes to aggregate dimensions is neat, clean, and linear, this could not be further from the case. In reality, this process is messy and iterative, with codes being adjusted and modified as data are added to the analysis, and early categories and themes are adjusted as later data are analyzed.

## CHAPTER SIX

### A DESCRIPTION OF EMPLOYEE THEFT WITHIN CINCINNATI

Of the 314 businesses to respond to the survey, 64.3% (n = 202) indicated they have experienced at least one instance of employee theft. Another 26.1% (n = 82) indicated they have not experienced an employee theft, and 9.6% (n = 30) indicated they did not know whether an employee theft had occurred at their business. The large proportion of businesses responding “I Don’t Know” may be due to the fact that respondents acknowledge that theft is possible and may be occurring within their business, yet they have never actually caught anyone stealing from the company.

There were no significant differences in the reporting of theft among the states sampled in this study ( $\chi^2(4, N = 314) = 7.984, p = .09$ ), nor were there any significant differences in theft reporting by the size category of the business ( $\chi^2(6, N = 314) = 3.324, p = 0.77$ ). The modal number of employee theft victimizations per business was one, with 37.3% (n = 117) of businesses in this study experiencing only one employee theft; the median was also one, while the mean was 1.05. Of the remaining survey respondents, 18.2% (n = 57) reported two occurrences of theft, 6.1% (n = 19) reported three occurrences, 1.3% (n = 4) reported four occurrences, and 1.6% (n = 5) reported five employee theft victimizations. Just over one-third of the respondents (35.7%) (n = 112) had no theft or did not know whether theft was occurring within the business.

## **Differences Between Victimized and Non-Victimized Small Businesses**

One goal of this study was to determine whether significant differences in the use of control mechanisms, perceptions of opportunity for theft, and perception of ethical climate existed between businesses that had experienced employee theft and those that had not. In order to assess this a binomial logistic regression was conducted to determine which independent variables were predictors of the employee theft status (YES/NO) of the small businesses in this study. The control mechanism variables measured whether the business used audits (internal, external, or both), employed formal written procedures, signout procedures for company equipment, and several ethics related procedures (code of ethics, ethics training, and an anonymous ethics hotline). The remaining control mechanism variables measured whether the business used CCTV systems, some other type of business monitoring system, or both.

Perception of opportunity independent variables measured the respondent's assessment of the ease at which employees could engage in deviant activity. These included measures of the ease at which business resources could be used in an unauthorized manner while at the business location, as well as away from the business, and measures of the ease at which tools, good and materials owned by the business, and cash could be stolen. The final six independent variables measured the respondent's perception of the ethical climate of the business, and form the ECI (ethical climate index).

Prior to analysis, the data were checked for the presence of multivariate outliers and significant amounts of missing data. Calculation of Mahalanobis distance found that there were no multivariate outliers that needed to be eliminated. Missing data fell within acceptable ranges, however, two cases were removed because of a lack of data; in both cases respondents failed to answer any of the perception of opportunity or ethical climate measures.

Regression results indicated that the overall model fit of 22 predictor variables was good (-2 Log Likelihood = 282.054), and that the model was statistically reliable in distinguishing between the categories of the dependent variable ( $\chi^2 (22, N = 312) = 85.56, p = 0.000$ ). The model correctly classified 76.7% of the cases. Regression coefficients are displayed in Table 6.1, and Wald statistics indicate that conducting internal audits, using CCTV systems, having the perception that it is difficult to misuse business resources, having the perception that it is easy to steal cash, and having the perception that it is easy to steal goods from the business, were all significant predictors of businesses that have experienced employee theft.

The Wald statistic is a measure of the significance of a variable's contribution to the model and while it is considered a conservative measure, a significance level of .05 is used as the threshold for significance in this study. Odds ratios for each variable are also displayed in Table 6.1, and indicate that perceptions of the ease of theft of goods and perceptions of the ease at which cash can be stolen have a much smaller influence on the outcome variable than do the other significant predictor variables. Collectively, the Wald statistics and odds ratios suggest several important things about the businesses that have experienced employee theft in the past.

It appears that businesses that have experienced employee theft perceive that employees do have many opportunities for the theft of cash and goods from the business. This is further highlighted by the fact that businesses that experienced a cash theft ( $M = 2.81, SD = .946$ ) perceived there to be greater opportunities for the theft of cash from their business than did businesses that experienced any other type of theft ( $M = 3.61, SD = .797$ ),  $t(309) = -7.97, p = 0.000$ . Similarly, businesses that experienced a theft of goods (i.e., materials, supplies, product



Table 6.1: Results of Binomial Logistic Regression

<u>Variables</u>	<u>B</u>	<u>Wald</u>	<u>P</u>	<u>Odds Ratio</u>
Internal Audits	-1.051*	6.208	0.013	2.861
External Audits	0.321	0.230	0.631	0.725
Audits (Internal and External)	0.449	0.345	0.557	0.638
Procedures (formal, written)	-0.011	0.000	0.985	1.011
Code of Conduct	-0.259	0.164	0.686	1.296
Ethics Training	-0.463	1.527	0.217	1.589
Reporting System (anonymous)	-0.174	0.277	0.599	1.191
CCTV	-0.870*	4.337	0.037	2.388
Other Monitoring Procedures	-0.817	2.966	0.085	2.263
Monitor (CCTV and other procedures)	0.924	1.554	0.213	0.397
Unauthorized use of resources at business	-0.428*	4.567	0.033	1.534
Unauthorized use of resources away from business	0.142	0.899	0.343	0.865
Tools (Ease of theft)	-0.242	1.385	0.239	1.274
Goods (Ease of theft)	0.552***	11.763	0.001	0.576
Cash (Ease of theft)	.788***	14.042	0.000	0.455
Embezzle (Ease of theft)	0.392	1.966	0.161	0.675
Collective Moral Sensitivity - Moral Awareness	-0.672	2.391	0.122	1.958
Collective Moral Sensitivity - Empathetic Concern	0.308	0.812	0.367	0.735
Collective Moral Judgment – Self	-0.162	0.290	0.590	1.175
Collective Moral Judgment – Others	0.030	0.006	0.939	0.970
Collective Moral Motivation	-0.026	0.005	0.942	1.027
Collective Moral Character	-0.775	1.927	0.165	2.170
Constant	-4.091***	11.218	0.001	59.791

Note:  $p < .05 = *$ ,  $p < .01 = **$ ,  $p < .001 = ***$

to be sold, or fuel) ( $M = 2.19$ ,  $SD = .871$ ) perceived greater opportunities for the theft of goods from the business than did all other businesses that experienced a theft ( $M = 3.04$ ,  $SD = 1.273$ )  $t(309) = -5.90$ ,  $p = 0.000$ . Experiencing an employee theft does not mean that small business owners and managers perceive that opportunities for all types of theft are present within the business. Rather, the type of theft experienced by the business likely influences one's perception of specific opportunities for theft within the business.

### **Variety of Behaviors Reported as Employee Theft**

There is currently no consensus regarding the types of behaviors that constitute employee theft, and respondents reported a host of behaviors as employee theft including theft from co-workers and theft from customers or suppliers. Data on the types of behaviors respondents considered theft were obtained from a question on the survey asking the respondent to describe the theft incident, the response to which was open-ended; these responses were then coded into one of several categories describing who the victim of the theft was (e.g., the business, a customer, a supplier, or another employee), which is displayed in Table 6.2. Table 6.3 displays the type of item stolen by victim category.

The majority of employee thefts, 93.9% ( $n = 309$ ), were committed against the business, another 3.3% ( $n = 11$ ) were committed against a customer, 2.1% ( $n = 7$ ) were committed against another employee, and 0.6% ( $n = 2$ ) were committed against a supplier. Respondents described many types of behaviors they deemed to be employee theft, all of which help to shed light on the scope of behavior that small business owners and managers perceive to be employee theft.

Examples of employee thefts that targeted the business were the use of “company [computer]

Table 6.2: *Victims Targeted by Employee Thieves*

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<u>Category</u>	<u>N</u>	<u>%</u>
The Employer (business)	309	93.92%
A Customer	11	3.34%
Another Employee	7	2.13%
A Supplier	2	0.61%
<i>Total:</i>	<i>329</i>	<i>100.00%</i>

Table 6.3: *Type of Item Stolen by Victim Category*

<u>Item</u>	<u>Employer</u>		<u>Customer</u>		<u>Another Employee</u>		<u>Supplier</u>	
	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>
CASH	121	38.29%	6	40.00%	5	71.43%	2	100.00%
PRODUCT	52	16.46%	5	33.33%	0	0.00%	0	0.00%
MATERIALS	38	12.03%	1	6.67%	0	0.00%	0	0.00%
TOOLS	25	7.91%	0	0.00%	1	14.29%	0	0.00%
EQUIPMENT	28	8.86%	1	6.67%	0	0.00%	0	0.00%
SUPPLIES	11	3.48%	1	6.67%	0	0.00%	0	0.00%
LABOR	14	4.43%	0	0.00%	0	0.00%	0	0.00%
FUEL	16	5.06%	0	0.00%	0	0.00%	0	0.00%
OTHER	11	3.48%	1	6.67%	1	14.29%	0	0.00%
<i>Totals:</i>	<i>316</i>	<i>100.00%</i>	<i>15</i>	<i>100.00%</i>	<i>7</i>	<i>100.00%</i>	<i>2</i>	<i>100.00%</i>

equipment and material to download and distribute illegal materials” [007], instances where “items were given to friends for little or no cost” [003], and the prolonged theft of items totaling “a couple thousand dollars” that were then “sold to a friend who had a retail store” [020].

The business-targeted theft behaviors described by respondents routinely included the manipulation of tracking systems or policies meant to control organizational resources, as well as the shifting of blame to other parties, thereby allowing the employee to present the appearance of legitimate workplace behavior. For example, the “changing of tags on merchandise and [reporting] short items received from vendors” [027] is one way that employees used knowledge of business processes and procedures to commit theft. More devious uses of business knowledge occurred when an employee set up a “personal bank account at the same bank as the company” [029] and deposited customer payments into the personal account rather than the business’s account.

Other employee thieves created the potential for serious economic harm (if not an actual economic harm) for their employers by “stealing electronic files and [setting] up a business using the files,” and stealing “software” [007]. Many of the thefts reported by the respondents required a significant amount of physical energy and mental planning, such as when an “employee put good merchandise in [the] garbage can then later put it in the dumpster” only to retrieve the goods afterhours, or when an employee “set product near the exit door and placed [the product] in his vehicle when [the] opportunity presented itself” [016].

The two thefts committed against a supplier were thefts of cash, as were five of the thefts committed against another employee; the remaining two employee thefts involved the taking of one employee’s makeup bag, and the other involved the taking of a co-worker’s personal tools. In one instance of theft from a supplier, where an employee failed to pay the supplier and instead

pocketed the cash, the value of cash stolen from the supplier was unknown. In the other instance, an incredibly persistent employee stole \$500.00 worth of coins over time (two months) from a vending machine operated by a vendor by taking advantage of a malfunctioning coin return function on the machine.

In cases of theft from other employees of the business, several thieves seemed to take advantage of the their victims' levels of comfort within the business, as these thieves physically went into other employees' belongings and "stole money from [the employee's] purse," or "systematically stole \$10, \$20, \$30 out of purses and bags" [010]. One employee's theft "from the doctor's billfold" was likely facilitated by the doctor's level of comfort within the work environment, as well as the employee's identification of an opportunity for theft and a lack of guardianship over the item. In this case, the doctor "left his billfold on his desk and went to the hospital to do rounds. [The employee] opened the office in the morning and was by herself for an hour." The doctor's level of comfort within his business led to an opportunity for theft when the employee realized a suitable target was present and there was no one in the business to act as a guardian over the doctor's property.

### **The Types of Items Stolen**

There were a total of 354 items reported stolen across the 329 reported employee thefts, and respondents were clear to state in the description of these thefts when employees were stealing multiple items in a given instance of theft. The most common item reported stolen was cash, which was stolen in just over 40% (n = 143) of the thefts described by respondents. The theft of cash involved the taking of money by an employee, irrespective of whether the theft involved the taking of hard cash or some other financial instrument (e.g., checks, credit cards,

electronic funds transfer). Cash and other financial instruments are a major target for employee thieves; this point is further reinforced by the fact that the next most prolific type of theft identified by respondents, the theft of products to be sold by the business, was targeted in only 18.6% (n = 66) of thefts. Table 6.4 displays the distribution of theft frequency by type of item stolen, and further supports the idea that, with regard to the crime of employee theft, cash is king.

Each description of a cash theft was coded and assigned to one of the Association of Certified Fraud Examiner's categories of asset misappropriation. These categories are: skimming, cash larceny, billing, expense reimbursements, check tampering, payroll, cash register reimbursements, or misappropriation of cash on hand. An additional category capturing instances when cash was stolen from another employee of the business was also created; Table 6.5 lists a description of each of these categories, and displays the descriptive statistics associated with each category. Misappropriation of cash on hand was the most frequent type of cash theft, occurring in 21.3% (n = 29) of thefts where a description was given; cash theft from another employee occurred the least number of times, comprising just 4.4% (n = 6) of all reported thefts where a description was given.

Unlike the ACFE's (2012) findings, billing schemes were the least frequently occurring scheme, being reported in only 7.6% (n = 10) of thefts. When the types of items stolen were broken down by industrial classification, cash was found to be the most stolen item within each industry; Table 6.6 displays this information. There were no significant industry differences in the types of items stolen ( $\chi^2(48, N = 325) = 44.16, p = .631$ ). However, within the construction industry, cash was tied for the most commonly stolen item with products to be sold by the business. Within the wholesale trade industry, which had low numbers of respondents and

Table 6.4: *Frequency of Items Reported Stolen*

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	<u>N</u>	<u>Valid %</u>
Cash	143	40.40%
Product	66	18.64%
Materials	42	11.86%
Tools	29	8.19%
Equipment	23	6.50%
Supplies	14	3.95%
Labor	13	3.67%
Fuel	12	3.39%
Other	12	3.39%
	<i>354</i>	<i>100.00%</i>

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Table 6.5: *ACFE Asset Misappropriation Categories and Frequency of Reporting*

<u>Misappropriation Category</u>	<u>Description</u>	<u>N</u>	<u>%</u>
Misappropriation of Cash on Hand	Scheme in which the perpetrator misappropriates cash kept on hand at the victim organization's premises.	29	21.32%
Cash Register Disbursements	Scheme in which an employee makes false entries on a cash register to conceal the fraudulent removal of cash.	21	15.44%
Payroll	Scheme in which an employee causes his or her employer to issue a payment by making false claims for compensation.	18	13.24%
Skimming	Cash is stolen from an organization <i>before</i> it is recorded on the organization's books.	16	11.76%
Expense Reimbursements	Any scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses.	14	10.29%
Cash Larceny	Cash is stolen from an organization <i>after</i> it has been recorded on the organization's books.	11	8.09%
Check Tampering	Scheme in which a person steals his or her employer's funds by intercepting, forging or altering a check drawn on one of the organization's accounts.	11	8.09%
Billing	When a person causes his or her employer to issue payment by submitting invoices for fictitious goods or services, inflated invoices or invoices for personal purchases.	10	7.35%
Theft from Another Employee	When an employee steals cash or other goods from another employee of the business.	6	4.41%
		<i>136</i>	<i>100.00%</i>

reported thefts, the theft of cash had a one incident advantage over products to be sold by the business. In fact, in six of the seven industries (all but manufacturing) products to be sold by the business were the second most targeted item for theft by employees. Within the manufacturing industry, the theft of products to be sold by the business ranked a close third behind the theft of tools. Additionally, there were no significant differences in the items stolen from the business, another employee, a customer, or a supplier ( $\chi^2(24, N = 298) = 14.37, p = .938$ ).

### **The Duration of Reported Thefts**

Survey respondents reported a total of 329 incidents of theft, or just over 1.6 incidents per business reporting a theft. Over half of these incidents ( $n = 202, 61.4\%$ ) were classified as on-going schemes, meaning that the theft was not a one-time incident, but rather persisted for some period. Previous research has found that the longer a theft scheme persists, the more harmful the theft is to the business (ACFE, 2012). This makes sense, as on-going schemes allow employee thieves to steal from the business multiple times over long periods. Furthermore, several business owners stated during in-person interviews that their experiences with on-going schemes suggest that the longer these schemes persist, the more emboldened or proficient the employee thief becomes. For example, the owner of a manufacturing firm described the growth of an employee's theft from his business in the following way:

And at first, you know, obviously it was just a couple grand here, couple grand there. Every month, they don't catch it, oh, okay. Got a little greedier, got a little greedier. We went back two years. And again, because you're dealing with hundreds of thousands of dollars in payroll, and that's what she figured, she knew

that, you know, there's such a big number, they're just gonna figure, you know, it's just another category. [011]

Another business owner's [016] description of theft within his business highlights the ability of employee thieves to adapt to changing levels of guardianship within the business as a means to prolong their criminal acts:

Owner: Occasionally, well, on a couple of occasions I can think of its been somebody [that says] 'Oh, I forgot to put an invoice in for it' and, so we give you a second chance, then we watch real careful. Cause its, once it starts, it doesn't stop.

PI: So, they might become bolder?

Owner: Well, not even necessarily bolder, but more sneaky so that they figure out different ways to get it out.

It seems, therefore, that thefts that persist for long periods have the potential to create greater losses for the business, while also allowing the thief to identify additional, related forms of employee theft.

Respondents reported the duration of on-going employee theft schemes by giving the number of months the scheme persisted; these reports ranged from a low of half a month to a high of 240 months, or 20 years, in duration. A total of 26 schemes occurred for an unknown length of time, and an additional five were listed as continuously occurring. The average length of all on-going theft schemes was 16 months, while both the median and the modal length were six months.

Table 6.6: *Distribution of Items Stolen by Industry*

<u>Item</u>	Construction		Manufacturing		Transportation & Public Utilities		Wholesale Trade		Retail Trade		Finance, Insurance, Real Estate		Services	
	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>
Cash	11	29.73%	27	60.00%	9	45.00%	4	50.00%	24	38.71%	8	44.44%	59	43.70%
Product	9	24.32%	3	6.67%	3	15.00%	2	25.00%	16	25.81%	3	16.67%	19	14.07%
Tools	5	13.51%	4	8.89%	0	0.00%	1	12.50%	3	4.84%	2	11.11%	13	9.63%
Materials	5	13.51%	2	4.44%	3	15.00%	1	12.50%	8	12.90%	1	5.56%	20	14.81%
Fuel	2	5.41%	2	4.44%	0	0.00%	0	0.00%	3	4.84%	1	5.56%	4	2.96%
Labor	2	5.41%	0	0.00%	1	5.00%	0	0.00%	3	4.84%	1	5.56%	5	3.70%
Equipment	1	2.70%	3	6.67%	0	0.00%	0	0.00%	4	6.45%	1	5.56%	7	5.19%
Supplies	1	2.70%	1	2.22%	2	10.00%	0	0.00%	0	0.00%	0	0.00%	7	5.19%
Other	1	2.70%	3	6.67%	2	10.00%	0	0.00%	1	1.61%	1	5.56%	1	0.74%
<i>Totals:</i>	37	100.00%	45	100.00%	20	100.00%	8	100.00%	62	100.00%	18	100.00%	135	100.00%

When broken down by industry, the median length of on-going schemes was the same, six months, for five of the seven industries (Construction, Manufacturing, Wholesale Trade, Retail Trade, and Services). The finance industry had a slightly higher median length at seven and one-half months, while the Transportation and Public Utilities industry had a much lower median employee theft scheme duration, four months. Table 6.7 displays the descriptive statistics for the duration of reported thefts broken down by industry, item stolen, and number of employees, there were no significant differences in the average duration of theft by industry ( $F(21, 180) = 1.469, p = .093$ ).

Three industries (Services: 16.6 months; Manufacturing: 17.8 months; and, Construction: 21.9 months) had average theft scheme lengths greater than the overall average of 16 months. The average scheme length for Construction was pulled higher by the presence of a single scheme that lasted for 20 years (240 months); without the inclusion of this scheme, the average length of schemes in this industry would be 9.3 months. The remaining industries had average on-going theft durations of 13.2 months (Wholesale Trade), 11.7 months (Retail Trade), 12.5 months (Finance/Insurance/Real Estate), and 7.8 months (Transportation and Public Utilities).

While there were no significant differences in the average duration of theft by item stolen ( $F(21, 176) = 1.000, p = .466$ ), cash theft schemes had the highest average scheme length at 25.8 months, although the median length was only six months. Three other categories had median scheme lengths of six months, including Products to be Sold by the Business, Labor (wages), and Other items, however, their average scheme lengths varied from 14.3 months, to 10.9 months, to 6.8 months, respectively. No category of items stolen had a median scheme length less than six months. The remaining item categories had median scheme lengths of 12 months (Materials, average of 14.2 months and Fuel, average of 14 months), 9.5 months (Tools, average of 24.1

Table 6.7: *Descriptive Statistics for Duration of Theft (in months) by Industry, Item Stolen, and Number of Employees in the Business*

<u>Industry</u>	<u>Min.</u>	<u>Max</u>	<u>Mean</u>	<u>Median</u>
Construction	1	240	21.89	6.00
Manufacturing	1	108	17.81	6.00
Transportation & Public Utilities	2	24	7.80	4.00
Wholesale Trade	1	36	13.17	6.00
Retail Trade	0.5	60	11.70	6.00
Finance, Insurance, Real Estate	2	36	12.45	7.50
Services	1	120	16.68	6.00

<u>Item Stolen</u>	<u>Min.</u>	<u>Max</u>	<u>Mean</u>	<u>Median</u>
Cash	0.5	240	25.82	6.00
Product to be Sold	1	60	14.31	6.00
Materials	1	84	14.19	12.00
Tools	1	24	24.14	9.50
Equipment	1	120	11.95	9.00
Supplies	2	24	11.69	8.00
Labor (Wages)	1	24	10.90	6.00
Fuel	1	36	14.00	12.00
Other	1	18	6.83	6.00

<u>Number of Employees</u>	<u>Min.</u>	<u>Max</u>	<u>Mean</u>	<u>Median</u>
15 to 99	1	120	15.72	6.00
100 to 199	2	240	24.50	3.50
200 to 299	3	24	11.00	6.00
300 to 350	2	6	4.00	4.00

months), 9 months (Equipment, average of 11.9 months), and 8 months (Supplies, average of 11.7 months).

### **Business Losses Due to Theft**

The respondents reported a range of losses associated with identified thefts, including losses that could be viewed as trivial, and others that are simply shocking. For three of the thefts reported, no value on the business's losses were given, and for another 31 incidents, losses associated with the theft were unknown to the respondent. The remaining incidents had losses that ranged from a low of \$5.00 to a high of \$2,000,000.00; with the average loss for all thefts being just over \$19,000.00, yet the median loss was only \$1,000.00.

The total losses associated with all theft incidents described by respondents was just over \$5,600,000.00, however these losses represent “ball park” figures rather than specific dollar losses, and they were not distributed equally across the various types of theft described by respondents. Table 6.8 displays the descriptive statistics associated with the financial losses for each type of item reported stolen. In addition to the results presented in Table 6.8, when across industry variation was examined there were no significant differences in the average value of loss reported ( $F(77, 249) = .984, p = .521$ ). The average loss associated with cash schemes, where a value for the theft was given, was \$37,579.25 yet the median loss was only \$2,000.00; losses from these schemes ranged from a low of \$10.00 to a high of \$2,000,000.00. Compared to the losses associated with all other items stolen, cash schemes were far more costly in terms of both the average and median loss.

The next most costly item stolen was fuel, an item that previous studies of employee theft have failed to capture as an item targeted by employee thieves. Even though fuel was not stolen

Table 6.8: Descriptive Statistics for Theft Losses by Item Type

	<u>Min.</u>	<u>Max</u>	<u>Mean</u>	<u>Median</u>
Cash	\$10.00	\$2,000,000.00	\$37,579.25	\$2,000.00
Fuel	\$20.00	\$125,000.00	\$15,952.22	\$1,000.00
Materials	\$30.00	\$83,000.00	\$7,558.33	\$750.00
Labor (Wages)	\$15.00	\$25,000.00	\$4,972.08	\$950.00
Product to be Sold	\$10.00	\$60,000.00	\$4,063.78	\$1,000.00
Tools	\$5.00	\$10,000.00	\$2,510.46	\$775.00
Supplies	\$35.00	\$15,000.00	\$2,373.50	\$650.00
Equipment	\$10.00	\$10,000.00	\$1,875.63	\$875.00
Other	\$10.00	\$8,000.00	\$1,615.71	\$300.00



frequently, representing only 3.6% of all reported thefts, it nevertheless resulted in substantial financial losses to some businesses. The high losses associated with the theft of fuel is likely due to the fact that fuel prices have reached record highs in recent years, making it a valuable commodity. The owner of a trucking company detailed just how costly the theft of fuel has become for businesses that purchase fuel in large quantities:

We've had diesel being stolen, and some of the guys were just blatantly taking fuel and selling it. When we first started in '01 the fuel price was relatively low, as a percent of cost it was running about 10 to 12 percent. By 2008 fuel cost, fuel per revenue, was about 47 percent. So with the cost of that operation, the cost of fuel, it became like liquid gold. [015]

The dramatic increase in the raw cost of fuel, as well as its cost as a percentage of business revenue, highlights the impact the theft of this resource can have upon small businesses. Rising fuel prices cut into business profits even when theft is not occurring, but when employees steal fuel, the business is required to purchase more of this valuable resources than necessary, creating an exacerbated drain upon business finances.

### **Employees Involved in Reported Thefts**

The majority of thefts reported by respondents, 84.4% (n = 281), were perpetrated by a single employee; for 3% (n = 10) of thefts the number of perpetrators was unknown. The majority of group thefts (n = 20) involved two employees, five involved three employees, two involved four employees, four incidents involved five employees, one incident involving eight employees, and another one incident involved 10 employees; 5 cases of group thefts had no number of employees given.

Respondents were also asked to identify the position of the individual involved in the theft when describing each theft incident. These responses were coded into the following categories: General Labor/Employee, Manager/Executive, Accountant/Bookkeeper/Finance, Billing/Purchasing, Cashier, Receptionist/Secretary, and Unknown/Not identified. No response was given in five of the cases, and for another 18 instances, the perpetrator was either unknown or unidentified. The majority of group thefts ( $n = 30$ ) involved employees from within the same employee category (e.g., both employee thieves were classified as General Labor/Employee).

The remaining eight group thefts involved employees from the General Labor/Employee and Manager/Executive categories ( $n = 6$ ), and employees from the General Labor/Employee and Receptionist/Secretary categories ( $n = 1$ ). Table 6.9 displays the distribution of perpetrators by employee category for all reported thefts, as well as category average and median losses. Interestingly, there were significant differences in the average value of loss across employee category ( $F(74, 240) = 1.937, p = .000$ , with the highest-level employees being responsible for the most costly thefts.

In the majority of all incidents, irrespective of their duration, where an employee thief was identified, 58.4% ( $n = 192$ ), the theft was committed by an employee in the General Labor/Employee category. These employees held specific job titles such as “laborer,” “installer,” “truck driver,” and “customer service,” and represented the “lowest level employees” of the business. This is not to say that these employees are unimportant or disposable, but rather that these employees sit at the bottom of the organizational hierarchy and likely have little to no supervisory responsibilities. However, their ability to engage in employee theft is dictated by their specific role, the responsibilities they have within the business, and factors specific to the business such as the total number of employees, industry, and access to business resources. Yet,

Table 6.9: *Distribution of Number of Thefts and Losses by Employee Category*

<u>Category</u>	<u>N</u>	<u>%</u>	<u>Mean</u>	<u>Median</u>
General Labor/Employee	192	58.36%	\$9,956.08	\$850.00
Manager/Executive	61	18.54%	\$85,169.02	\$10,000.00
Unknown/not identified	18	5.47%	\$23,916.50	\$1,350.00
Accountant/Bookkeeper/Finance	15	4.56%	\$18,541.17	\$5,000.00
Receptionist/secretary	14	4.26%	\$8,255.07	\$250.00
Cashier	9	2.74%	\$7,333.44	\$300.00
Billing/Purchasing	6	1.82%	\$46,333.33	\$875.00
General Labor/Employee & Manager/Executive	6	1.82%	\$14,040.83	\$13,500.00
Temporary Employee	4	1.22%	\$2.00	\$2.00
General Labor/Employee & Receptionist/Secretary	1	0.30%	Unknown	Unknown
Accountant/Bookkeeper/Finance & Receptionist/Secretary	1	0.30%	Unknown	Unknown
Accountant/Bookkeeper/Finance & General Labor/Employee	1	0.30%	\$8,000.00	\$8,000.00
Cashier & Receptionist/Secretary	1	0.30%	\$112,102.00	\$112,102.00
<i>Totals:</i>	<i>329</i>	<i>100.00%</i>	<i>\$30,331.77</i>	<i>\$1,350.00</i>

while the majority of reported thefts involved these low-level employees, the losses associated with thefts committed by these employees represent only 22.3% (\$1,881,700.00) of the total losses reported for all thefts.

Employee thieves high on organizational flow charts, those who likely had large amounts of supervisory responsibilities (i.e., those falling within the Manager/Executive employee category), were the second most prevalent category of employee thieves, comprising 18.5% (n = 61) of identified thieves. When the job title of an identified employee thief contained the word “manager,” the individual was categorized as a Manager/Executive. Additionally, individuals categorized as Manager/Executive had job titles such as “VP of Operations,” “Partner/owner,” “Group Supervisor,” and “Operations Superintendent.” In other cases, job titles appeared to cross employee category boundaries, yet the titles suggested the individual should be categorized as a Manager/Executive as opposed to some other category. For example, job titles such as “Controller,” “CFO,” and “Financial Manager,” all of which might also be classified within the Accountant/Bookkeeper /Finance category, were classified as Manager/Executive because their titles suggested supervisory job responsibilities.

Managers and executives of small businesses likely have the most autonomy and authority within the business, as well as the greatest ability to identify and capitalize upon opportunities for theft. This is reflected in the fact that employees within the Manager/Executive category committed the six most costly employee thefts, which ranged from \$200,000.00 to \$2,000,000.00 and totaled \$3,670,000.00; the total of all thefts reported by survey respondents was \$8,449,554.16. The thefts committed by employees within the Manager/Executive category represented 61.5% of all thefts, and totaled \$5,195,310.16. In essence, 20% of all employee

thieves identified by survey respondents were responsible for over 60% of the total losses due to all reported thefts.

Many small businesses are the victim of employee theft, many types of items are targeted by employee thieves (yet cash is the most targeted item), and the most harmful thefts are committed by those in the highest positions. Finding that the most serious victimizations, in terms of financial loss, are attributable to employees in the highest positions within the business is consistent with research on white-collar crimes generally. It is not surprising to find that the most harmful employee thefts were the longest lasting, as previous research has identified this theme (ACFE, 2012); what previous research has not fully explored is how victimized small businesses respond to employee theft.

## CHAPTER SEVEN

### RESPONSES TO THEFT

Another aspect of employee theft that is not well researched is how these thefts are discovered; it is also not well understood what role small business owners and managers play in the discovery of employee theft. The survey asked respondents to identify how the theft they described was discovered by selecting at least one of the following discovery methods:

- A supervisor discovered the theft
- The employee admitted to the theft
- Another employee informed the business about the theft
- The employee was caught in the act
- An internal audit identified the theft
- An external audit identified the theft
- The theft was discovered by some other means

If the theft was discovered by “Other” means, the respondent was given the opportunity to state what they were. Respondents were not limited to the number of theft discovery methods they could select, and it was possible to have several theft discovery methods identified for any one instance of theft. In fact, this was the case in 19.6% (n = 64) of the incidents described by respondents; the remaining 80.4% of reported thefts identified only one method of discovery. Irrespective of the number of methods of discovery indicated by respondents, it is most likely the case that the theft was detected through several means. Table 7.1 displays the distribution of discovery methods reported by respondents

Table 7.1: *Distribution of Theft Discovery Methods*

<u>Method</u>	<u>Single Method Identified</u>		<u>Multiple Methods Identified</u>		<u>Total</u>	
	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>	<u>N</u>	<u>%</u>
Supervisor Discovered	94	35.88%	39	28.06%	133	33.17%
Employee Admission	1	0.38%	2	1.44%	3	0.75%
Employee Informant	55	20.99%	21	15.11%	76	18.95%
Employee Caught in Act	14	5.34%	32	23.02%	46	11.47%
Internal Audit	48	18.32%	30	21.58%	78	19.45%
External Audit	4	1.53%	2	1.44%	6	1.50%
Other	46	17.56%	13	9.35%	59	14.71%
<i>Totals:</i>	<i>262</i>	<i>100.00%</i>	<i>139</i>	<i>100.00%</i>	<i>401</i>	<i>100.00%</i>

While the selection of only one theft discovery method could mean that the theft actually was detected via one specific avenue, it is more likely the case that such a selection identifies the primary means by which the theft was detected. For example, when considering the role of supervisors in the discovery of theft, 94 incidents listed the supervisor as the sole means of discovery. However, when multiple means of discovery were identified a supervisor was listed as being involved with theft discovery in 61% (n = 39) of the time. This suggests that the guardianship role of small business managers and owners is key to the identification of employee theft incidents, and that guardianship and detection activities typically funnel through, and involve, owners and managers.

However, these guardianship activities may be limited in scope, as it appears that small business owners and managers may be reluctant to use third-party services that could assist with the discovery of theft. For example, among cases where only one method of discovery was identified by respondents, an external audit was listed as the means of theft discovery in only 1.2% (n = 4) of cases. Furthermore, in cases of multiple methods of discovery, external audits were only listed as a method of discovery an additional two times. Internal audits were much more frequently listed as a means of discovery, being identified in 14.7% (n = 48) of incidents where one method of discovery was listed. The overall use of internal audits in the discovery of theft (including where it was listed with other means of discovery) represented 19% (n = 64) of all theft cases.

Internal audits are another good means for small business owners and managers to exert guardianship over the business, yet it is not the only method. For example, in 20.9% (n = 71) of cases the discovery method involved an employee informant, which reflects the fact that individuals other than owners and managers can serve as capable guardians of business



resources. This guardianship is essential to the discovery of employee theft as the two least cited methods of theft discovery were catching the employee in the act, which occurred in 8.9% (n = 30) of incidents, and discovery via an employee's admission, which occurred in less than 1% (n = 3) of all incidents.

While it was rare for small business owners and managers to catch an employee in an act of theft, and even more rare for an employee to admit their deviant acts, several other unique methods of theft discovery were identified by respondents. These methods were grouped into the category of "Other" methods, and were indicated in 15.6% (n = 53) of all described thefts. An examination of these cases highlights the fact that parties other than owners, managers, or employees can act as active guardians of business resources. For example, respondents described instances where their "bank found missing checks and reported them," or a "client called [the] office." In other cases, the discovery of theft occurred by sheer coincidence, as one employee was "arrested for a different matter" and the company's property was "found in their possession," and another incident was reported to the business by a "disgruntled sub-contractor who took part in the theft."

Customers and clients were also cited as partners in the uncovering of theft, with one scheme becoming exposed as a result of a customer "calling trying to claim personal property." In another instance, a customer came to the business to "show a receipt" for services that had not been rendered, while in several other cases a "customer called" the business to report problems, which led to the identification of the theft. The owner of a lumber company described how the relationships he maintains with customers and suppliers helps to extend guardianship over his business's resources:

A lot of my customers are good friends, I vacation with them, it's the same way with some of my suppliers. I have suppliers that I talk to every day, and that I go on trips with and what have you. There are some customers that, if we make an honest mistake will call and tell us that we shipped them too much product, and we've always had the philosophy to do that with our vendors. And it doesn't happen often, but we've had an instance where a customer's employee and one of our employee's conspired to steal some materials...we contacted the customer when we found out about this and they wound up firing the employee. [003]

As the above discussion illustrates, guardianship within small businesses can come from multiple sources. As mentioned by the small business owner just quoted, one key to the inclusion of employees, customers, and suppliers into guardianship networks is the presence of a solid relationship with the owners of the business.

### **How Businesses Dealt with Employee Thieves**

As shown in Table 7.2, the small businesses in this study dealt with employee thieves in a variety of ways, many of which shed new light on the interactions that occur between employee thieves and their victims. There were no significant differences in the handling of employee thieves across the type of theft, industry, or employee category. Overall, only 16.4% of businesses contacted the police in cases of employee theft. The identified employee was arrested in 14.8% (n = 48) of instances, prosecuted 11.4% (n = 37) of the time, but sentenced to jail or prison in only 3.1% (n = 10) of cases. One reason that more employee offenders were not arrested is that respondents had a lack of confidence in the police, as well as other aspects of

Table 7.2: *How Businesses Dealt with Employee Thieves*

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	<u>N</u>	<u>% of Incidents</u>
Employee was fired	233	71.91%
Business called the police	53	16.36%
Employee was arrested	48	14.81%
Employee was prosecuted	37	11.42%
Employee quit	24	7.41%
Forced to pay restitution	23	7.10%
No one was identified	22	6.79%
Nothing happened to employee	20	6.17%
Employee retained employment	18	5.56%
Other	17	5.25%
Employee was reprimanded	16	4.94%
Employee was sentenced to jail	10	3.09%
Business pursued civil case	3	0.93%

the criminal justice system, with regard to the proper handling of employee thefts.

Victimized small businesses were highly unlikely to initiate civil suits against employee thieves, turning to this option in only 0.9% (n = 3) of cases, yet restitution was listed as an outcome of theft in 7.1% (n = 23) of cases. While some restitution likely occurred alongside criminal and civil actions in certain cases, in other cases an agreement on restitution was reached between the business and the employee thief who was able to retain their employment with the business (4.9% of identified thieves; n = 16), or who separated from the business on their own terms. In 6.2% (n = 20) of cases survey respondents stated the “nothing” happened to identified employee thief.

### **Typology of Non-Reporting Rationalizations**

Overall, a substantial majority of employee thefts (83.6%) were not reported to the police. According to data from the National Crime Victimization Surveys (NCVS) conducted between 2006 and 2010 (Bureau of Justice Statistics, 2012) this is a greater percentage of underreporting than is found with motor vehicle thefts (17%), victimizations involving a weapon (31%), household theft (67%), or even rape and sexual assault (65%). While the underreporting of employee theft has been previously discussed in the literature (Fisher & Looye, 2000; Taylor, 2002), the reasons behind the underreporting of employee theft have only been sparsely researched. What work has been conducted on the non-reporting of employee theft has often been confounded with work on the non-reporting of other crimes committed against businesses such as burglary, shoplifting, and customer frauds. For example, Taylor’s (2002) work on small business crimes in Australia found that the main reasons for the non-reporting of all crimes against committed against businesses included the perception that reporting the crime would not

achieve anything, the perception that the police could not do anything about the thefts, and the perception that the offense was not serious enough to report.

The Bureau of Justice Statistics report cited above also looked at reasons for the non-reporting of violent crimes (rape, sexual assault, robbery, and aggravated assault), and found that the most commonly given reasons for non-reporting were: the victim dealt with the crime in another way (reporting to another official or handling the matter “informally”), victim felt the matter was not important enough to report, victim felt the police could not do anything about the crime, and the victim was fearful of reprisal from the offender. There are overlapping themes regarding the under-reporting of crimes as found in Taylor’s (2002) work on crimes against small businesses and the data from the NCVS. However, a clear picture of the specific reasons employee theft is not reported does not emerge from previous research because the non-reporting of employee theft has not been examined outside of the influence of other crimes committed against the business.

This study found that there are many reasons for the low number of police contacts in instances of employee theft, and these reasons can be placed into a typology of non-reporting rationalizations that are similar to those discussed above. Table 6.8 displays the emergent themes related to small business owners and managers’ decisions not to report employee theft to the police. The first-order themes were then grouped into second-order categories, which formed the aggregate dimension of non-reporting rationalizations; these second-order categories are also displayed in Table 7.3. The second-order categories indicate that victimized small business

Table 7.3: *Small Business Owner/Manager Non-Reporting Rationalizations*

<u>First-Order Themes</u>	<u>Second-Order Categories</u>
Statements that the theft is not significant enough to report	Triviality
Statements that theft cannot get large enough given controls	
Statements that the owner would rather address with incident without the police because of their personal outlook on dealing with these issues	Philosophy
Statements that business owners would be embarrassed to admit theft has occurred within the business	Embarrassment
Statements conveying an empathetic concern for the offender – impact to marriage and relationship with children	Emotional Connection
Statements describing the familial nature of the business	
Offender was a family member; did not want to prosecute because of family	
Statements about prior negative experiences with the police	Police Experiences
Statements that businesses likely do not report because they do not have a good relationship with the police	
Statements about general perceptions of attention given to crimes by police	
Statements about negative outcomes/unhappiness with outcomes from justice system responses, as well as costs of pursuing case	Post-Police System Experiences
Statements that businesses likely do not report because they do not see the legal system as helpful to small businesses	

owners and managers chose not to report employee theft for reasons that varied from an apathetic perspective toward employee theft within the business, to low perceptions of the efficacy of the legal system.

**Triviality.** Some business owners and managers chose not to report employee theft because they thought the theft was too trivial to report, or because they believed that theft could not get large enough to have a serious negative financial impact on the business. For example, one small business manager stated that businesses like his “simply don’t report it because it’s not a significant event” [023]. However, the criteria determining what constitutes a “significant event” varied, as some respondents stated that the loss of a few dollars would warrant a call to the police, while others indicated that it was perfectly alright for employees to take supplies and materials as it was “a perk of the job” [006].

This suggests that small business owners and managers assess the seriousness of the theft by making judgments about the potential impact of the theft on the business. If they perceive the theft to have a small or insignificant impact to the business, they are not likely to report the theft, as they do not view it as an issue warranting justice system attention. However, the value of what is considered by owners and managers to be an insignificant theft is not consistent across all businesses, as the assessment of seriousness is likely influenced by the financial health of the business, as well as the owner’s perspective on how employees can use business resources. For example, the owner of a small manufacturing company [019] was aware that his employees used business resources in off-work hours for personal activities, stating that “we have three trucks, and I know that they borrow them... gotta haul some fire wood, or I gotta help my sister move” [019]. However, he was more than happy to let his employees use business resources for

personal activities because “you know, we trust people.” Additionally, his desire to allow employees to use business resources in off-work hours is likely influenced by the fact that “A lot of the times, I come back and the gas tank is full.”

While this business owner does not see an employee’s personal use of business resources as employee theft, other owners are more stringent about such behaviors. For example, owner of an electrical contracting company stated that:

We will monitor cell phone bills [for company issued cell phones]. Now I don’t have time to examine phone numbers, but we have detailed billing, and... that’s theft. If you’re on the phone for 20 minutes that’s not work related, that’s theft.

[008]

This small business owner went on to state that he tells his employees that such monitoring activities are a good thing and they “should be glad that you work for an employer that monitors that cause it gives you a little more certainty that the business you work for is at least marginally well run” [008]. This statement suggests that this particular small business owner views the monitoring of non-work expenses during working hours as a type of costs control, employee theft control, and proper business practices. The owner of a metal plating firm that specializes in precious metals plating for the aerospace industry described how he considered employee tardiness a type of employee theft, stating:

We expect good attendance, and that used to be... that’s kind of another theft is when you have poor attendance. So you start up Monday morning, you got the tanks on, and the guy that’s supposed to run the line isn’t there. So you’ve got the utilities, you’ve got parts not going out. [009]



In short, the failure to follow business procedures and practices ends up costing the business money, a loss that directly results from an employee's action (or inaction), and represents a theft to the business. Together, these statements highlight the discretion that small business owners and managers use in determining the types of behaviors that constitute employee theft. This discretion means that each small business defines what behaviors are serious enough to be considered employee theft. However, just because a business owner views a particular behavior as a serious harm to the business does not mean they will report that behavior to the police, as some small business owners and managers use multiple factors (or rationalizations) when determining whether the police will be contacted.

Other business owners believed that they would not have to contact the police because any thefts that could occur within the business would be very small. For example, the owner of a medium sized veterinary hospital and pet hotel stated:

I would say that we would even find \$50; it's just the way the drawers balance every night...[my general manager] is probably the only person I think that could steal from me, she has the power to, but even when anything gets ordered, I get an email in my inbox...on [the financial] end, it's my wife that does the books, so I hope I trust her. And I would probably never have it any other way. I would not have a non-relation, a non-family member, keeping my books. And I have known of other [business owners] that have had employees do that and the money just goes away fast. [023]

In essence, this small business owner felt that it would be unnecessary to contact the police in any instances of employee theft that occur within his business, as he had developed internal controls that are strong enough to prevent large-scale thefts from occurring. In cases such as

this, business owners may be willing to contact the police for large-scale employee thefts, however, the fact that such thefts are viewed as unlikely to occur within the business, they feel that police intervention in employee theft is unnecessary. Such a perception likely results from the confidence the owner or manager has in the processes, procedures, and controls in place at the business, as well as the relationships that exist among employees of the business.

**Philosophy.** The reasons some small business owners and managers gave as to why they would not contact the police were grounded in the personal philosophies, or their perceptions of justice. Some of these philosophies reflected the owner or manager's beliefs regarding "the way [the owner] chooses to handle" [013] theft, and others were grounded in religious philosophies. For example, the owner of an architectural firm that has completed many prominent projects within the Cincinnati area stated:

I mean, my faith says... there's a plan of good, not of evil, so I just move on. Evil gets you nowhere, eventually it catches up with you, so you know, that's kinda my thoughts. If you want to go and do that, eventually you're gonna pay for it.  
[007]

In essence, this small business owner chose to rely upon justice from above, and eschew a reliance upon the criminal justice system. Interestingly, it was not the case that the small business owner felt the individual should not be punished; they simply felt that punishment was in the hands of a higher being, and that the guilty party would ultimately pay for their transgressions. In a similar line of belief, the owner of small firm that provides document solutions to lawyers and insurance firms had a religious philosophy that was so strong that she struggled with deciding whether or not to fire an employee who had stolen from her:

Honestly, my first inclination wasn't to let her go because I loved her, she was my friend, and she paid it back, and it was a mistake and I was ready to just forgive her, but I pray about it and...God showed me the problem, and then he showed me the solution. And I haven't let anybody know. They know she's gone and I'm sure they put two-and-two together, but I don't want her reputation to suffer.

[017]

This small business owner was more concerned with being virtuous to her friend than with ensuring that justice was achieved via formal criminal or civil means. However, it is possible that the business owner's actions, as well as the employee's actions in response to the business owner, constituted a type of justice for the business owner.

The above statement also suggests that the small business owner saw the criminal justice system as an inappropriate response to employee theft because of the personal relationships that developed over the course of the employment relationship. The influence of personal relationships on the decision to involve law enforcement in employee theft became apparent in other interviews, as some owners and managers saw police involvement as more harmful than helpful. In essence, because of their relationship with the thief, a small business owner may sympathize with the employee thief and view the negative outcomes associated with criminal justice system involvement as too detrimental for that individual. For example, the owner of one of the largest funeral homes in the Cincinnati area described her husband's (the co-owner of the business) philosophy toward the reporting of employee theft:

My husband would chastise him and spank him on the back of his hand...he will give you, at least he used to, he would give you the shirt off his back, and he has a heart for people. And that's one reason, probably the main reason, that he started

the business is because he had this heart for people, he had this caring heart that he wanted to help people. And, he would not like to see anyone go to jail... that's just the type of person that he is, and he felt that it really didn't warrant people going to jail. [013]

This small business owner's husband did not make a direct statement about the triviality of the theft, nor did he state that controls were strong enough to prevent large-scale thefts within the business. Rather, his philosophy about the criminal justice system, and the types of justice to be meted out to people influenced his decisions not to report employee theft to the police. Had he not had such a "caring heart" [013] his position may have been different.

**Embarrassment.** Small businesses that experience employee theft may be unlikely to report employee theft to the police, or to seek other justice system means to address employee theft, because they are embarrassed about the incident. Interestingly, none of the victimized businesses in this study identified embarrassment as a reason why they did not report employee theft to the police. However, several interview participants mentioned this as a potential reason why victimized businesses might not report. While no victimized businesses identified with this rationale, one business owner made it clear that, this rationalization is legitimate, stating that "nobody wants to press charges because it's embarrassing, you hear that all the time" [014]. In essence, small business owners may feel more comfortable telling other small businesses owners about the theft than telling the police about these acts because contacting the police may cause details of the incident to become public knowledge.

The head of a local small business incubator – a government funded organization that is intended to help increase the success of new small businesses by providing them office space,

access to office equipment, and assistance with obtaining financing – suggested that while prosecuting is embarrassing in and of itself, reporting the theft may lead to the identification of other improprieties at the business, which would be even more embarrassing:

On the other side there may be some embarrassment where they let the person go and they say “I’m just keeping it quiet” or who knows what they do with it. I think a lot of it just doesn’t get reported. So maybe there’s someone going “Okay, you’re gonna pay this back,” or they’re too embarrassed, or they just say “get out.” Because if they prosecute they’ve got to go through the whole [process] and there may be extenuating circumstances, there may also be a situation where they’re doing it, or they’re cheating somewhere. [012]

The embarrassment of having one’s dirty laundry aired for all to see, as well as the embarrassment of losing control over who knows about the theft may lead small business owners and managers to keep these crimes secret, rather than report them to the police.

It is also likely to be the case that the level of embarrassment a victimized business owner/manager feels regarding an instance of employee theft is tied to the type of theft, as well as the size of the theft, they are facing. For example, a small business owner may be more likely to feel embarrassed about reporting the theft of \$200,000 by a trusted employee, than the theft of \$25 worth of office products by an administrative assistant. In the former case, reporting the theft may mean that the owner/manager is reporting that they did not have the proper controls in place to manage the business, let alone prevent employee theft. For example, a trusted employee’s ongoing theft scheme is more likely to be caught if the business conducts regular audits. The owner of a well-known and very successful construction company described the

value of these audits to proper management of the business, as well as the prevention of employee theft:

We have an audit once a year from an outside auditing company. They, part of their audit, is that they specifically look for opportunities for embezzlement or employee theft. So they do a check, they will, and then part of the close out interview they always tell me about where they think the vulnerabilities are. [018]

While the reporting of large-scale employee thefts may cause a great deal of embarrassment to victimized small business owners and managers, small-scale thefts likely do not carry the same potential for embarrassment. As discussed earlier employee theft is not an uncommon phenomenon, particularly within certain industries. Many of these thefts are not large-scale, high dollar thefts, but rather involve small-scale, low dollar amounts. Worries about poor business practices becoming known, or worries about the unwanted scrutiny that criminal investigations may bring to the business are not likely to exist with many employee thefts. It should be expected that employee thefts that are not likely to lead to embarrassment for the business owner/manager would be more likely to be reported. However, it is possible that small business owners and managers may see such thefts as trivial or unimportant, leading them to avoid interaction with the criminal justice system for other reasons.

**Emotional connection.** Because of the structure of the business, many small business owners and managers have very strong emotional connections to their employees. This fact was made clear in interviews with small business owners and managers, as almost all participants

referred to their business as a “family.” These familial connections can even affect the selection of new employees, as the VP of a manufacturing firm stated that:

“we’re pretty much a family. So, we think long and hard before we bring anybody onboard. Sometimes it’s to our detriment because somebody we think would really be a good candidate ends up getting another job because we’re still processing. So, for us to have somebody steal something from us it really goes to the heart.” [005]

As this quote details, beyond the selection of employees, the “small” nature of these businesses facilitates familial connections that lead to the development of affective ties amongst employees.

For example, the owner of a residential and commercial construction company stated that:

I mean, it’s a small business, you only got three people out there, three or four people, so you know, it’s not like you hide a whole lot, you see them every day, it’s almost like family. You talk about kids, you talk about what you did this weekend, you know each other. [011]

Another small business owner, who described riding a live horse down the street during an employee event in an effort to bring “spirit” to the festivities, described the familial relationships that exist within small businesses, stating that:

If you have a small business your employees become your family, you become attached to them because you have relationships with each one of them and then it gets to the point where sometimes it’s difficult to separate friendship from employer/employee relationship. [001]

When employee theft occurs within small businesses, these emotional connections often inhibit the reporting of theft to the police, irrespective of how large or small the theft may be. For

example, the owner of an insurance firm decided not to report a theft of several hundred thousand dollars because of the emotional connection the owner had to the employee (a friend for over 15 years), as well as his connection to the employee's family:

I decided not to prosecute [because of] his wife and children, because I knew them so well and it would probably destroy a marriage. I mean, I don't know if my children would look at me right if I was caught stealing something. [002]

This small business owner actually showed empathy for the person who victimized him, going so far as to place himself in the employee thief's shoes. This occurred because of the relationship the business owner had with the employee and his family, a relationship that led the business owner to feel "angry" and "ripped apart" when he discovered the theft, yet still prevented him from bringing the theft to the attention of the criminal justice system.

The salience of the emotional relationships that exist between small business owners and managers and their employees is often seen as a positive defining characteristic of the business. Small businesses that are led by owners and managers who maintain close, supportive personal relationships with employees are more likely to see employees mimic these relationships between each other (Matlay, 1999). When these relationships lead to higher levels of employee satisfaction, the business profits from greater productivity and higher financial performance (Harter, Schmidt & Hayes, 2002). However, when employee theft challenges or severs these relationships, businesses may suffer as owners and managers may pull back on their investment in employee relationships.

As the emotional distance between employees and owners and managers increases, the reporting of employee theft may increase, yet business outcomes are also likely to suffer. If the management style of a small business owner/manager is characterized by high-levels of



emotional investment in employees, it is difficult to change this style after trust has been violated through employee theft. For example, an owner stated the following regarding the emotional impact of employee theft on him:

In our business, especially me, I've always been a pretty trusting person. And it's like, I felt like I really went out on a limb, and other people did here for her, and it's like... she just slammed... and it's like, and I don't let that stop me, but it's like... you just gotta be more cautious. [011]

While this business owner made changes to business processes and procedures that are intended to identify or prevent future instances of theft, he made no comments about changes in the amount of trust he extended to his employees. For this small business owner, the theft was specific to a particular employee and did not warrant a change to the general level of trust he gave to other employees.

**Police experiences.** Small business owners and managers' perceptions of the efficacy of the police was a major factor in the non-reporting of employee theft. These perceptions developed either as a result of the owner/manager's previous experiences with the police in regard to an issue with their business (including employee theft), or from their general perception of the ability of the police to address the problem of employee theft. For example, when the owner of a robotics firm was asked why, in her opinion, small businesses do not call the police when employee theft occurs she stated that:

I would say that the police are not responsive to this at all, they could care less. This is not something they are interested in. it's just like identity theft, the police don't really care about identity theft. If [identity theft] was easy [to address], they

might care, but it is not an easy crime to unravel. But for the most part they just tell you to take care of it. [Employee theft] is very similar to that. [014]

This business owner had experienced minor forms of employee theft (e.g., employees stealing tools and materials), and did not report these issues to the police. However, her comment about the ability of the police to solve cases involving employee theft were related to complex financial thefts; a type of theft she had not experienced. Her perception about the attention given to employee theft by the police was informed by her perceptions of the attention the police give to other similar types of crimes, as well as her interactions with other small business owners.

It appears that some small business owners may be very willing to discuss their issues with the police with their colleagues, as well as doctoral students who present them with questions. For example, the following exchange occurred between the PI and the owner of a metal plating firm [009] located in Cincinnati:

Owner: I contacted the police and told them who we thought it was, it was an inside job because we have alarm systems and we thought it was somebody that had access...so you get the police involved and they're like "Well, what did you do about it? Did you talk to the person?" [I responded] "No, I thought I'd let the professional handle the investigation." I've never had luck with the police and dealing with theft. I guess if somebody gets murdered it's a little more important, and I understand that you have to prioritize, but really the police take no action. So, you know, I pretty much put the guy in their lap and they wouldn't do anything about it. I don't know if they even questioned him.

You know, there's a lot of times that I won't report things because I know the response. And particularly district four, which is the district I report to. I'll walk in there; have you ever been in district four?

PI: I have not.

Owner: You should just visit and pretend like you're going to report something; it's a hell hole. I mean, it's this concrete façade and you go down into the basement, and you have to speak through the bullet-proof glass, and it's really hard to communicate. You know, they're like, "Hurry up, fill out your form." And they're really rude, and customer service is really poor. It's the same experience, five year span it's the same experience every time. I just dread, I dread having to go over there.

This small business owner has become so frustrated with his attempts to involve the police in his issues with employee theft, as well as the general process of dealing with the police in his area that he refuses to contact them when employee theft occurs. His response to these situations was to become "hyper vigilant...checking stuff all the time." In other words, he increased his guardianship of business resources, and his oversight of employee actions to the point where he became completely involved in the process of theft prevention.

While this business owner was clear to state that the customer service he received from the police was a large part of the reason that he would not use them as a resource in future instances of theft, the owner of a diversified manufacturing firm [024] and his human resources manager were clear to state that their positive interactions would lead them to contact the police in all future instances of employee theft.

PI: So if another situation happened you wouldn't hesitate to call them again?

HR: Oh no. I would prefer that we call them.

PI: Other businesses that I have spoken to seem less ready to utilize the police when employee theft occurs. Why do you think this might be the case?

HR: Did the other business owner's that you've spoken with...participate with their local business council? Because we have an officer, sometimes several officers, that come to our meetings once a month. They give us a regular police report, they ask all the business owners there [about problems in the area]. We have a really good relationship, as a business, with our district. And maybe that might be the key for getting the kind of service that we get versus some other businesses.

PI: That may very well be true. I have not asked that question; you're the first business to bring it up.

Owner: Yeah, if you're just another call, you're just another problem.

HR: And they have a lot of different calls.

In the case of this particular business, their positive experiences with the police in several instances of employee theft, the relationships they maintain with local street-level officers, and their relationship with the district police office, all contribute to their desire to contact the police in future instances of theft. Clearly, perceptions of the effectiveness of the police in handling issues of employee theft influence whether small business owners and managers' are willing to report these crimes to the police.

**Post-police system experiences.** The final category of non-reporting rationalizations is similar to the previous in that it captures the business owner/manager's perceptions of the

criminal justice system. Yet, this category of responses addresses the owner/manager's frustrations with the legal system once they have contact the police and are attempting to prosecute the individual(s) involved. While their interactions with the police may have been problem free, their experiences with the rest of the legal system suggest that they are not likely to call the police in future instances of employee theft. Even when social justice is achieved and the employee thief receives jail time, other failings in a legal system that is "so frickin' lenient" [011] with how these issues are handled can lead business owners to turn away from the criminal justice system as a means to address employee theft. For example, one owner of a specialty heavy equipment manufacturing firm stated that:

We prosecuted him and he actually got jail time, and then he got probation and was supposed to have paid restitution and never had; that was part of his probation deal. In the legal system it becomes such a minor issue, no body follows up to make sure that the victims, this time being me or my company, were ever compensated for what was actually lost. [029]

Many victimized small business owners are seeking to have the individual prosecuted (why they contact the police), but also to recoup the funds they may have lost. This latter part of the process can actually wind up costing the business money; however, as they have to pay to force employee thieves to repay the money they have stolen. The following exchange with a group of small business owners [029] best illustrates this point:

PI: So what did you do to her? What happened?

Owner 1: We discovered it and called the police.

PI: How was that? Did they follow up with it pretty well?

Owner 1: Yeah, they did.

PI: Okay, you prosecuted her and all that?

Owner 1: Yes, yes we did.

PI: Okay. Were you happy with that result, with what came out of it?

Owner 1: Um, well I would have been happier if they'd have forced her to pay back more of the money. It's gonna take forever if we ever get it all back.

Owner 2: Is she still making payments now?

Owner 1: Yeah.

Owner 2: What happened is she wound up going to court and the judge pretty much called us, gave us the option of "Look, are you willing to settle where she pays back so much per week, and if she doesn't then she's gonna go do these three years in jail or two years in jail" or whatever it was. She had a small child and so we agreed to that.

PI: And she's held up on that so far?

Owner 1: Well, it was forced. I mean we had to hire an attorney to garnish her wages to get this done.

Even non-victimized small business owners recognize the problems that may result at later stages in the legal system when attempting to prosecute employee theft. One such business owner stated that "the cost of prosecuting these people. The legal system is just, you know, it's gotten to the point where you can't hardly afford to press your case anymore" [018]. If victimized small businesses must incur costs in an attempt to recoup the funds stolen from them with no guarantee they will receive full restitution, they may opt to cut their losses, avoid the added expense of the criminal or civil justice system, and decline to involve the police in matters of employee theft.

The information above shows that there was wide variation in the reasons that small business owners and managers have for refusing to contact the police in instances of employee theft. It is also the case that small business owners and managers likely have several reasons for both reporting and non-reporting. For example, several of the quotes listed above were given by the same interview participant. This was done to highlight the fact that small business owners and managers in this study held multifaceted views regarding the reasons why employee theft should/should not be reported.

While the owners and managers of small businesses that had not experienced employee theft were not able to discuss specific instances where they had not reported employee theft, they were able to give their opinions as to why victimized small businesses do not report employee theft, as well as their opinions as to the reasons why they might or might not report employee theft. With the exception of feelings of embarrassment, non-victimized small businesses did not identify any reasons for non-reporting that were not identified by victimized small businesses. However, victimized and non-victimized small businesses are likely to differ in other significant ways when it comes to employee theft, as the experience of employee theft has been shown to have a lasting impact upon those who own, manage, and handle the day-to-day operations of victimized businesses. One important way that employee theft affects the operations of victimized small businesses is the changes that are made to control mechanisms in an attempt to prevent future instances of theft.

## CHAPTER EIGHT

### EVOLUTION OF THE USE OF CONTROL MECHANISMS

One of the goals of this study was to identify how employee theft affects the operations of victimized small businesses, particularly in terms of the changes that are made to internal controls in the wake of employee theft. The results of the binomial logistic regression described in Chapter Six indicated that there were only two significant differences between victimized and non-victimized small businesses in terms of the types of control mechanisms used. Control mechanisms can provide protection against employee theft, yet finding that there were no significant differences suggests that victimized and non-victimized businesses use certain controls to equal extents. It was identified during the construction of the survey that it would be difficult to determine the exact relationship between employee theft and changes made to business controls. Therefore, the in-person interviews asked owners and managers about their use of controls, and how these controls changed after employee theft was identified within the business.

The interview data yielded information about the use of business processes and procedures meant to act as controls, or checks, against employee theft that were in place prior to the theft, those that employee thieves took advantage of, and the controls that were modified or added after the theft. However, victimized small businesses did not always modify their use of controls in response to instances of employee theft. In particular, business controls were not modified if the business perceived the theft to be trivial or inconsequential. When the theft was seen as significant, however, small businesses took definitive steps to change controls within the business.



The interview data identified how businesses change controls to address theft that has occurred within the business, as well as the types of controls they focus upon. The result of the analysis of the interview data regarding the effects of employee theft upon business processes and procedures is a detailed description of small business organizational responses to employee theft. In particular, the data capture the decision-making process used to determine how modifications and additions are made to existing control mechanisms within the business following employee theft. Table 8.1 displays the first-order (emergent) themes, second-order categories, and aggregate (theoretical) dimensions related to organizational changes made in response to employee theft, and Figure 8.1 displays the theoretical model suggested by these data.

### **Employee Theft**

As shown in Figure 8.1, employee theft acts as a trigger event initializing a series of events relating to the change processes surrounding organizational controls intended to reduce opportunities for future thefts. While the specific controls implemented by victimized businesses is dependent upon idiosyncratic factors of the business, as well as the owners and managers, interview data clearly show that a recognizable pattern can be found in the process of control change. This process is a decision-making process that begins with the identification of employee theft and ends with organizational controls, however, controls are not always modified once employee theft has occurred.

Although employee theft forces small business owners and managers to reconsider the presence of opportunities for theft that are present within the business, it does not necessitate a change in organizational controls in all cases. The process of deciding whether, and how, to

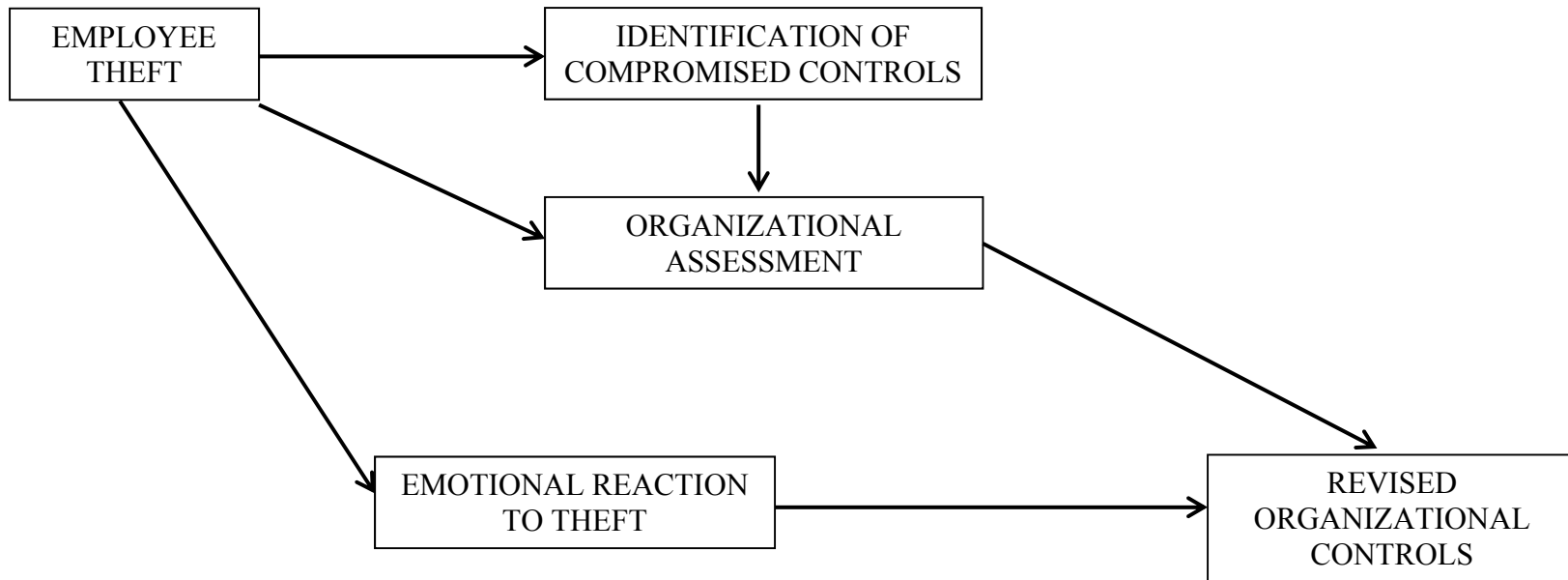
Table 8.1: *Business Controls Data Structure*

<u>First-Order Themes</u>	<u>Second-Order Categories</u>	<u>Aggregate Dimensions</u>
Specific details about the theft	Incident-Specific Factors	Identification of Compromised Controls
Statements describing how employee thief took advantage of specific opportunities for theft		
Statements describing how the theft was identified		
Descriptions of controls in place prior to occurrence of theft	Organizational Controls	
Controls used by the business to control and preserve business resources		
General statements about the use of controls by small businesses		
Statements describing vicarious experiences with theft	Vicarious Experiences	
Identification of opportunities for theft to occur within the business	Organizational Factors	Organizational Assessment
Descriptions of acts of generosity, originating in the business and directed toward employees		
Description of the culture of the business prior to theft	Cultural Factors	
Statements describing employees' shared perceptions regarding the appropriateness of theft		
Statements regarding familial nature of the business		
Statements describing the level of trust given to employees prior to the theft	External Support	
Statements regarding the business's interaction with the legal system after theft		
Statements regarding post-theft changes to controls suggested by outside parties		
Pre-theft influence of counselor or advisor regarding how to handle theft should it occur		

Description of how theft affected the ability to trust employees	Personal Factors	Emotional Reaction
Statements capturing the anger felt as a result of theft		
Statements describing the emotional hurt that resulted from theft		
Description of how theft altered respondent's management style	Managerial Role	
Statements reflecting regret at the way in which the business handled the employee thief		
Reflection on respondent's personal acts of generosity toward employee thief		

Statements related to the global modification of controls following theft	General Changes	Revised Controls
Impact of employee theft on existing organizational controls/processes		
Statements describing organizational changes aimed at reducing employee autonomy or authority		
Description of controls targeting specific employees	Specific Changes	
Statements regarding changes to specific organizational processes resulting from employee theft		

Figure 8.1: *Model of the Evolution of Control Mechanisms within Victimized Small Businesses*



address employee theft through the revision of controls can be complex and multifaceted. While the diagram displayed above may suggest a clean process of moving from theft to changes in controls, in reality the process appears to be much more difficult.

### **Identification of Compromised Controls**

One of the first steps that victimized business owners/managers took, after the identification of employee theft, was to identify the specific internal controls that were compromised by the thief. The interviews often included a discussion of the factors specific to the theft including how the theft occurred and how the theft was identified. Additionally, interview participants gave details about controls that were in place prior to the theft, as well as how those controls were developed or adopted within the business. These discussions centered around identifying where the organization stood in regard to internal controls prior to theft, and identifying which controls were compromised by the employee thief and how. Often times, interview participants discussed all controls within the business generally, while discussing the specific controls that failed in a particular instance of theft. In doing so, it seems that part of the process of identifying compromised internal controls is the evaluation of all organizational controls.

**Incident specific factors.** Employee theft is the ultimate litmus test of the effectiveness of organizational controls meant to prevent the misuse of business resources. When employee theft occurs, small business owners and managers examine the situation to determine how, specifically, the employee was able to steal from the business. This examination includes the process business owners and managers go through to discover just how large the theft had

become, a process that can take a substantial amount of time and effort. However, the result of this process is an understanding of which organizational controls need to be strengthened in order to prevent future occurrences of that particular type of employee theft. For example, the owner of an insurance firm described the process of discovery in the following way:

He was away and I sat at his old desk because I just happened to be here, I didn't have a space in here at the time, and I said "Oh, there's our credit card statements" ...and then I got to his, and I don't even know why I even looked at it in particular, I didn't look at anybody else, but I noticed like a hundred and thirty dollar charge from Orlando...So I just got up and I grabbed a few other ones and you find out, oh look, a month before I paid not only for his airfare to Florida, but his wife, his two children, his mother-in-law, paid for the hotel at Disneyworld, meals, that was close to \$5000 for a trip. So then I started pulling other ones and I replaced a radiator in his [car]. Well I was too emotional at that point so I gave it to [another employee] and said "you've gotta do this, because I just can't." [002]

The "accidental" discovery of employee theft was a common theme among cash-related thefts, and reinforces the idea that small business owners place a large amount of trust in higher-level employees. Identifying the specific ways in which an employee is able to steal from the business allows victimized businesses to understand where weaknesses in controls exist, and prompts them to search for weaknesses in other areas of the business.

**Organizational controls.** Businesses use processes and procedures that, in part, are intended to control deviant activity within the business prior to the occurrence of theft. These controls are typically not put in place to specifically address employee theft, but rather represent

attempts to run the business in the most appropriate ways. For example, financial controls are intended to ensure that cash flows into and out of the business efficiently, as well as to ensure that the money that the business earns remains with the business. In short, the use of practices aimed at ensuring the business most efficiently meets its goals and objectives can serve to protect the business against employee theft (Hollinger & Clark, 1983). However, in some cases small businesses specifically institute certain processes and procedures in an attempt to deter or prevent the occurrence of theft. The data from this study indicate that these processes and procedures represent business best practices, vicarious learning, attempts to be proactive in the prevention of employee theft, and the recommendations of professional advisors.

Business best practices (i.e., the best ways to manage the operations of the business, as well as the best practices to use in business resource management) guide small business owners and managers decisions on the types of controls they use in the business. One business owner stated that prior to employee theft occurring, his business followed several best practices with regard to financial oversight and control:

We had the typical systems in place, you know, as far as pay roll and bank balances, no one person does the whole thing, you know, somebody does the bank statements, the other person does the monthly reconciliations, a different person does, you know, which is good business practice. No one person does it all. [011]

As another business owner [001] put it, “in a small business, having a system of checks and balances is key to ensuring proper internal controls.” Internal controls allow the business to know exactly how funds are spent so that owners and managers can quickly identify when spending exceeds the budget, thereby allowing them to ensure the ongoing financial health of the

business. Another victimized small business owner described one of his business's practices in the following way:

Here, every dollar that we pay has to be expensed to a department, or person. I can't just, it would say "[employee's name] \$412.32" and then I can run a report and I can see everything that you did. [002]

Controls such as these help to control costs by monitoring the amount of money spent by the business, while also ensuring transparency of an employee's use of business funds. However, employee thieves are also cognizant of these controls and know how to circumvent them; the following passage is the continuation of the previous quote:

And so, he would run it through as auto repairs and maintenance, or, you know, it just didn't matter that it wasn't a fleet car, it was his personal expense...everything was run through his card, and everything was expensed. [002]

Small business owners and managers know their businesses well; they are intimately familiar with the valuable resources held by the business that may be accessible to motivated offenders. Furthermore, as the following passage highlights, they are cognizant of the value a thief may get for their stolen property:

The types of product that we have, and that are outside, and on our lot, and in our store and around are typically not the types of products that thieves are looking for.... I mean, most of our product requires work and it's not something they can get quick money for. I mean, who's gonna buy plants at a flea market? [020]

For the above small business owner, controls based around the opportunity to steal product from the business are not a high concern, as the products are not highly sought after



targets of theft. Like this business owner's perspective on the theft of product, many small business owners and managers do not sit around thinking about the ways in which their employees could potentially steal from them, nor do they spend a good deal of their working days trying to identify the nuances of specific opportunities for employee theft. Instead, they are much more focused upon the operations of the business and ensuring that costs are controlled, output is produced, and profits are made. When controls based upon perceived opportunities for theft are developed, they tend to be more general in nature, as opposed to being focused on very specific types of opportunities.

Addressing general opportunities for crime can be as simple as ensuring that proper oversight is given to the handling of business finances. As one business owner described, even when other people are involved in handling the finances of the business, strong controls can prevent the occurrence of large-scale theft:

We operate on very thin margins, very thin margins. So, a hole in the boat leaks very quick so you start finding out where things are going. And because of the way our accounting is set up in that I'm the guy that does all the bill paying, somebody else does the receivables and the cash deposits, but I get a copy of that every day, so I know what went in, I know what the cash account should have in it, and I can plug that hole pretty quick. It's always good when you have the boss looking over your shoulder. [016]

A drawback to controls that are based upon the perception of opportunities for theft is the inability of small business owners and managers to determine just how an employee might steal from the business. While it may be relatively easy to identify general types of opportunities for

theft that exist within the business, it is much more difficult to identify how specific theft opportunities develop for specific employees.

**Vicarious experiences.** Some small business owners implemented controls because of experiences their peers have had with employee theft. In cases such as this, the business owner has the ability to use another business's misfortune to their own benefit, as they know what things they will do in their own business to prevent the types of theft that have occurred in other businesses. For example, the owner of the veterinarian hospital stated that his cash control practices came from his experience working in other small businesses:

I've seen other veterinarians, before I bought my own practice, I've seen them robbed pretty quick, or heard stories where someone got robbed or [had] fraud [committed] against them, or skimmed...that guy got robbed from all the time, even deposits disappeared. And all he did was give his books to the accountants every quarter, so he used to handwrite checks so they [the accountants] would take the check copy and then do his books for him every quarter. And it took like months for them to figure out that this employee was stealing money from him.

[023]

This small business owner got his financial control practices from the failings of other business owners for whom he has worked. The employee theft experiences, as well as the amount of money lost as a result of those thefts, led him to exercise a great deal of control over his business finances; he chose someone he trusts greatly - his wife - to be the only person to handle the finances of the business.

Experiences with employee theft are also shared among members of small business peer groups, a forum that allows victimized small business owners to describe how breakdowns in controls at their business led to theft. These descriptions can serve as guides for other small business owners who are seeking to implement effective controls against employee theft. The owner of an electrical contractor described his experiences with such a group in the following way:

I am a member of a peer group, which is a national group, a small group of 10 to 12 electrical contractors, and we share virtually everything. And we've discussed, it's been a topic, keeping an eye on probably more management accounting and trusted employees. How it's [employee theft] occurred at other businesses, what to look out for. Lastly, there have been two other companies that I'm aware of in our small group that have had significant thefts of probably a few hundred thousand dollars by bookkeeper types. So I do discuss that with other business owners... I am aware of practices, of the practices of a thief. [008]

Being aware of how employees of other businesses have taken advantage of their knowledge of control mechanisms intended to control employee theft can help small business owners and managers to better protect their own businesses from theft.

### **Organizational Assessment**

In addition to identifying the specific internal controls compromised by an employee thief, many interview participants conducted a general assessment of their business. The organizational assessments conducted in the wake of employee theft focused upon identifying organizational and cultural factors that may have contributed to the theft, as well as assessing the

level of support the business receives from the outside. These assessments seemed to be more than merely reviews of organizational factors relevant to the employee thief and his or her crimes. Rather, business owners appeared to assess every facet of the business related to their interactions with all employees, the interaction of employees with each other and with the business, and the businesses general interactions with advisors. The outcome of this process was a general view of the changes the business needed to make to address opportunities for employee theft, as well as an objective self-reflective look at how the owner/manager typically interacts with his/her employees.

**Organizational factors.** When assessing their businesses, interview participants discussed several factors of their organization they felt were important to comprehending why an employee chose to steal from them. These discussions typically began with the owner/manager reflecting, generally, upon opportunities for theft they perceived to be present within the business. Some owners, such as the owner of small construction company felt that such opportunities were consistently available to motivated employees, stating that because of the large amount of autonomy given to employees, “forgery of time cards, pilferage of tools” [019] are consistent concerns. In another instance, the owner of a transportation company stated that “the pilfering of scrap is a continuous thing” [015], acknowledging that the opportunity for theft was an ever-present feature of his business.

Another victimized business owner, while discussing how theft had impacted his business over the past several years, described how he had learned tricks to steal materials while he was an apprentice tradesman:

There are practices in the trades, I came up through the trades, where an employee would order X number of feet of wire knowing that he's gonna have extra. The extra gets scrapped. It's very hard to identify. He could bring back two or three foot cutoffs, but scrap thirty feet that he takes. [008]

Conversely, the manager of a manufacturing services business described how employees could potentially steal from the business, yet due to the nature of the company their pilferage would be noticed very quickly:

We've got hundreds of thousands of dollars of equipment here, and nothing that I'm aware of has ever been stolen. It would show up pretty easily. We don't use RFID tags so if it did walk out the door we couldn't find it. Employees have the key and the passcode to the alarm system. Now when we do let somebody go or somebody leaves we re-key the locks and then we reprogram all their passwords, all their access to their computer software programs, everything. [022]

Each of the two businesses above has opportunity for theft, yet only one business has experienced theft, which is most likely due to the nature of the products available for theft. Additionally, the manager of the manufacturing services company described how the company culture promoted positive conduct within the workplace. While his specific thoughts on the company actions that are successful in building a pro-social work environment are detailed in the next chapter, it is important to note that many interview respondents identified the organization's treatment of employees as key to creating an atmosphere where employees would not feel the need to steal.

Several interview participants discussed how their business treats its employees with generosity, which in the case of victimized owners and managers seemed to lead them to struggle

with how someone could steal from an organization that had treated its employees so well. For example, when discussing an emotionally impactful instance of theft the owner of a legal services firm described how her business has gone out of its way to help employees in the past:

I've had people come to me when their electric was cut off and I've helped them get it back on. I've had people come to me when they were gonna lose their house and we gave them an advance. Nobody's usually afraid to come to me and ask me for help when they need it. [017]

More specific instances of victimized businesses and their owners showing generosity to employees are described in the following chapter. However, it is important to point out that when businesses engaged in this behavior they were clear to state its importance to the development of positive relationships among employees and the business.

**Cultural factors.** The quality of the relationships that existed among the employees of victimized businesses and their owners and managers was typically described by interview participants in terms that identified elements of the culture of the organization. One small business owner described how the culture in her businesses had taken on a less than professional tone, partly due to her influence on the business, yet not a tone that promoted theft:

I think that when you do have a family environment and it's not as disciplinarian and people aren't fearful of their jobs, you [the employee] take more liberties. And I see that in the way that people interact and talk with one another. When you are dealing with coworkers who are strictly professional, who you don't know anything about then you tend to give them more respect, you're more polite, and you're more standoffish. When they're your best friend and you're talking to

them after work and you're doing things with them on the weekends, you'll turn around and say something rude, because, you do that at home, to your family.

[017]

While the familial nature of the work environment, and the development of close interpersonal relationships are a defining characteristic of small businesses, this business owner seems to be implying that such relationships may not be what is best. The closeness and familiarity of small business employees allows them to do things they might not do in a more formal corporate setting. Interestingly, this small business manager did not mention how the familial nature of the business reinforced a sense of shared responsibilities among employees, nor did she mention the development of certain standards of interaction with business owners and managers. The owner of a non-victimized construction company did, however, comment on his efforts to create an environment that, while familial, espoused conduct counter to deviant workplace behavior:

We're doing everything we can to establish a culture that translates into people wanting to be here. We also try to transmit a culture of honesty and integrity in terms of, you know we don't, we try not to treat people in a way to where they think they can steal five two-by-four's and nobody cares. [018]

Once theft has occurred, small business owners and managers tend to reflect on this culture in a way that helps them to assess whether the theft is partly the result of larger cultural issues in the business, or if the employee thief has violated some bond with his/her fellow employees. For example, when discussing the impact of a theft by a well-liked employee, an employee who other employees often gave assistance to, the owner of a retail establishment stated:

When it was all going down and until [the employee] came clean and it was all over, everybody certainly was relieved and everybody had a lot of compassion for [the employee] and his problem and addiction or whatever that drove him to this, cause he was a great guy, he was everybody's buddy, family member, you know...but once everybody's over that, if anything it probably brought us all a little tighter, closer because of that incident" [020].

The same culture that allowed a victimized business owner and his employees to support an employee who had stolen from them allowed the business to become a tighter knit group of people. This experience likely influenced the owner's decision not to make changes to business policies and procedures in response to the theft.

Conversely, the HR manager of a victimized manufacturing firm described how the employee culture at the business allowed for significant changes to be made following an instance of employee theft:

Well, they [the other employees] were surprised, but then they also were upset because, you know, you jeopardize the business, especially the one with the customer. I mean, casino days were good days for us, I mean really, over time those were good customers for us, and they [the other employees] looked at it as jeopardizing our ability to keep them employed. So they were upset about that, more upset about that one than the other [theft]... And they didn't balk too much at some of the changes that we had to make as far as, you know, we kinda stepped up, we used to do hand wandering when you came out of the area, and we said you could only be in certain areas on a needs-to-be basis, you know we had to limit some of the access in and out of areas, they didn't have a problem with that



because they see that as, this is our livelihood and we've gotta keep these valuable customers. [024]

When employee theft threatened the welfare of the business, employees showed their support for the business and were accepting of changes to internal controls, even when that meant significant changes to some of their workplace liberties. In this case, the owners and managers of the business assessed the culture of the business, found that employees were supportive of organizational efforts to tighten controls (and maintain customers), and implemented appropriate controls. It also appears that the business has since relaxed those controls, suggesting that increases in organizational controls may not always be permanent responses to employee theft, but rather may be short-term, situationally appropriate responses that are later modified or removed.

**External support.** Small business controls also develop from the advice given by professionals who provide services to the business. The professionals who assist small businesses are specialists in a particular area, such as accounting or finance, who use their professional training, experience, and judgment to identify areas of the business that could use attention. In the best cases, the advice received from professionals occurs within the context of a relationship where the small business is sharing information with their advisor, and the advisor is suggesting strategies that are specific to the small business. In such a relationship, the types of controls suggested by the advisor evolve as the businesses needs evolve, yet the relationship continues to center on the identification of areas where harm could come to the business. The working relationship between the small business owner and a business advisor was best

described by the owner of a construction firm whose business had not experienced an employee theft:

In the beginning we used to have, like, open accounts at hardware stores, and employees would just go buy things and say “charge it to so-and-so job, I’m Joe Smith.” But that probably was a comfortable and informal way to do it, but that’s not a great way. So then we developed a little system here where all of our employees had an ID card. Then we used the ID card as a way to try to control purchases, so we sent letters to all of our regular vendors, and we’d say that a person must have an ID card to buy anything that they’re gonna charge to this company. Lately, we are using credit cards. So we have our credit cards in the hands of people, I mean we must have 20, 30 credit cards out there with people, with our superintendents and field people. And at first it sounded a little reckless, but what it really does is it enables you to track every purchase, and they have to either have a receipt or they pay for it themselves. The credit card was really kind of an evolutionary thing and the growth of the business where the banks, our bank, giving us tips on how to do things and do them well, and how to track costs and all that, and they suggested this. As their business developed and they got more sophisticated with credit cards, they were able to sell these products. [018]

This passage highlights the win-win scenario created by collaborations among small businesses and their advisors. Small businesses benefit from more sophisticated controls, as well as controls tailored to their specific needs, while small business advisors benefit from being able to sell a valued-added product to their clients.

Increases in controls can also come as part of a process of business improvement; as the small business is seeking to increase the efficiency of its operations, the professional advisors working with the business may suggest the addition of controls that ultimately influence opportunities for employee theft. For example, one small business owner described how an ongoing business improvement process has helped to create a culture where employees became invested in the relationship between their own performance, servicing the customer, and the success of the business:

And we're continually sort of nudging the culture along too, like with the KPI process that we just started doing...what we instituted was a process, and what we did was we brought in someone to help us for a day and we mapped out the entire process of the company, all the different things we do to create value for the customer. And once we had it all mapped out, then everyone was a part of it and they all agreed that that's what [the process] was. And then, we had surveyed people ahead of time for problems they see, you know, things they see that cause their job to be harder, for us to miss customer promises, whatever it is that drives them [employees] crazy. At first we only kept the ones we could measure, then we kept the most important ones and those became the basis of this KPI, or Kontinuous [sic] Performance Indicators, for each one of those. So now it's not their [employees] problem, it's our [the company] problem, and people were working to solve them. So a number of them have kinda solved the problem and moved on, moved to the next thing...what [we're] doing is trying to connect the financials to the everyday actions...so each of the KPI's has a behavioral measurement and a financial measurement, and then that gets connected to the

bottom line. So, and then the next step is to teach everybody about how the financials, you know the balance sheet and income statement, work and then you start watching multiple bottom lines, not just your traditional one's related to the KPI. [024]

While this process did not specifically address issues of employee theft, what this system has done is to increase employee involvement in the operations of the business. As employees become more aware of the types of issues that inhibit growth and success of the business, they may also be more likely to identify and work to prevent employee theft, as the outcomes of theft run contrary to the goals of the business, as well as the goals of the business redesign process.

When theft occurs, some small businesses will turn to outside professionals for specific advice on how to handle a particular instance of theft, or what they should do in the future to address the potential for theft to occur. In the latter case, several small business owners spoke of the need to increase the amount of theft liability insurance coverage they carry. While an increase in liability coverage represents an increased operating cost to the business, the benefits provided by this coverage can be invaluable. As the owner of a manufacturing firm discussed, the recurring costs of greater insurance coverage far outweigh the potential losses associated with a significant employee theft:

Obviously we immediately went out and bought more liability insurance of our own so we raised that, our insurance guy said you should at least raise that to 75 or 100 [thousand dollars]. So it costs me more money to be in business, not major money, cause that kind of insurance is not real expensive, but it's a cost, you know. [011]

Victimized small business owners often times seek the support of outside professionals when they are dealing with employee theft because the owner is unsure of what should be done, or needs direction regarding the handling of the issue. While some business owners were keen to take the advice of these professionals, other owners discussed situations where outside professionals became tools used to achieve some desired ends. One business owner described his use of attorneys in his attempt to seek retribution against the employee who stole from him:

I had an initial attorney that was a friend of mine, and his thought was, you know, hey, let's put him on notice and let's do some things, but let's not spend a lot of your money. But the figure I wanted and what he [the employee thief] wanted to give me was something different, so I ended up going to another attorney and I spent a shitpot full of money, but he loved it because I had that burning desire.

[015]

The burning desire this business owner speaks of is his emotional response to being a victim of employee theft. The use of outside parties (an attorney in the most recent example) as a tool to extract retribution against an employee was infrequent, yet many business owners discussed using attorneys and Certified Fraud Examiners as tools to bolster guardianship within their business, and reduce opportunities for theft (for example, see statement by participant 002 on page 235 below).

### **Emotional Reaction**

Employee theft can take a significant emotional toll on the owners and managers of victimized small businesses. The exact impact, as described by interview participants, is discussed in the following chapter, however, at this point it is necessary to briefly discuss the

role that emotions played in the decision-making process relevant to changes to internal controls. While Figure 8.1 shows the emotional reaction of victimized business owners and managers having a direct influence on revised controls, the data from the interview suggest that it had both a direct and a moderating role. However, it is inappropriate to place moderators in a diagram of qualitative data, as there is no way to assess the strength of the moderating influence.

It is left to future research to develop and test a moderating model of emotion's influence on the relationship between organizational assessment and the revision of internal controls. However, it is important to note that the emotional reactions of interview participants was a key part of the data collection process. Every owner/manager had some type of reaction, whether it was dispassionate and uninterested, detached and angered, emotionally distraught, and anything in-between. Because of the range of emotions expressed by interview participants, it is difficult to classify them into a typology or even a spectrum that can be included as part of the description of their narratives. Despite this fact the emotional reaction of participants influenced how the business decided to handle changes to controls, which followed an expected general pattern: the more emotional the incident, the more influence emotions had on the types of decision to change or implement internal controls.

As described below, employee theft represents a type of dual victimization where the business is the victim of a property crime and the owner/manager is the victim of a more personal type of crime. Because of this, the emotional reaction of owners and managers can have a significant negative affect on the business if controls are modified to address issues of personal victimization, rather than property victimization. In essence, the business and the owner/manager are confounded, with the owner/manager at times unable to separate themselves from the business. When the business experiences a theft, the owner or manager experiences a

victimization. Because feelings of personal victimization can be so strong among victimized small business owners and managers, changes to internal controls may be more focused on protecting the individual from future victimization and restoring a sense of security for the owner/manager, rather than being focused upon reducing opportunities for future business victimizations.

### **Revised Controls**

The result of the process of identifying compromised controls, assessing the organization, and addressing the emotional issues attendant to employee theft victimization, is usually a change in the system of internal controls used by the business. As mentioned previously, changes were not always made to address employee theft opportunities, however, the changes that were made can be classified into one of two general categories: general changes and, specific changes. In most cases, business owners/managers used both types of changes as they sought the most effective means to address opportunities for theft within the business. Rarely, a business chose to focus upon one category of change; in these cases changes can be classified as general in nature.

**General changes.** Victimized small businesses typically made changes to internal controls following employee theft, with these changes addressing general areas of theft opportunity. For example, a small business that experienced a cash theft by an accounting employee described the general changes made in his business:

We're pretty comfortable with the way it is now, because it's just, it's still a four person office... I mean we do do crosschecking, and now we do quarterly in-

house audits, you know, so we have much more of a check in-house. But it's just, you know, it's just one of those live and learn type of things. [011]

Another business owner described how changes were made to his company's credit card policy following abuses by employees:

We have adjusted slightly on that to where we have cards assigned, and it's a fuel service company that monitors time of day, amount of gallons, and we can monitor it closer than just a credit card that didn't have tracking. [008]

Increases in monitoring business resources was one of the most common types of internal controls improvements discussed by victimized business owners, and one business owner's discussion of the controls put in place after theft went as follows:

Our accountant does a review of all expenditures and so that's increased fees, but I think that it's something we need to have, the outside perspective on that. And then personal expense accounts, like your personal visa accounts, are monitored monthly for verification. We've always had dual check signing and all that kind of stuff, I mean we've been doing that for all the 15 years that I've been here. So like checks going out and checks coming in there's really great controls where we ended up realizing that where we were loosest was on the credit card. [002]

As the above passages highlights, one of the "benefits" of employee theft, if it can be said that a benefit can be derived from this crime, is the identification of areas of the business that are susceptible to employee theft.

The above passage further highlights the fact that all of the owners and managers of victimized small businesses interviewed in this study indicated they had mechanisms in place to prevent employee theft prior to the occurrence of theft within their business. However, when



employee theft occurred, the small business owners and managers in this study become aware of the areas where new prevention mechanisms needed to be instituted, or where existing prevention mechanisms needed to be reinforced. This is not to say that victimized small businesses failed to use mechanisms to prevent the occurrence of employee theft, but that they were not targeting the right areas. Once theft occurred, owners and managers were able to target the areas related to the theft and find ways to prevent future occurrences of theft.

Changes to controls that are meant to address opportunities for employee theft have also been developed by companies seeking to develop, market, and profit from the provision of services that benefit potential victims of employee theft. For example, the owner of a trucking company described how the theft of fuel is a major issue for his business, as well as for all other companies within his industry. While several businesses use “fuel cards” that are monitored like credit cards, the trucking company owner described how fuel service providers and truck stops have developed mechanisms to track the delivery of fuel to trucks:

There's some new devices besides what we have on QUALCOMM. Pilot has come out with it and so has, I think Loves. When you pull up, when the truck pulls up, it will actually tell you, it will tell the company, that truck number whatever it is has this much fuel on board and [will ask] whether it's okay to fuel it or not. And then it will read how many miles per gallon and give the report right back to the company. So, the sophistication of the fueling stations, because stealing fuel has been such a huge issue across the country, they're gonna really work that and make that a big sales tool because it's such a big number for us.

In essence, the trucking industry has recognized the problem of fuel theft and legitimate fuel suppliers have developed innovative solutions to the problem.

**Specific changes.** Changes to internal controls also focused upon specific areas of the business or specific types of opportunities for theft. In particular, one victimized small business described their customer recommended changes be made to address the specific threat of theft of a particular product:

Well the one with the casino, that was actually our customer who caught it because [the casino] has all these things in place and [the employee thieves] didn't realize that [the casino] has these tokens in play, and [the casino] knows which set is in play. So when you take up a set [of chips] and [the casino] gets these tokens that are not in play, then the casino says "well, this is not the current in play." So that is how [the casino] caught that. [024]

Following this theft, the customer mandated that the business make several changes to controls, which were intended to enhance the protection of their products:

There wasn't any financial impact on us, but there was a customer relations impact with the casino, that our security was such that their material could be stolen. So we had to change our security procedures, put up more cameras, and we had to secure the area so that people couldn't get in and that sort of thing. So there were sort of process and procedure changes that we had to do internally. I think our sales person had to go out and talk to them and make it alright, so there was definitely some cost.

As shown in the above passages, customers can be a very good resource for small businesses when theft occurs, as their perspectives on the use of controls can help the business to address theft in many different ways.

In addition to having a customer point out potential gaps in controls meant to address specific theft within a small business, the business's interactions in the marketplace can give them insight into potential vulnerabilities within their own business. This is best highlighted by a small business that has not experienced employee theft. The manager of a tooling services firm described the following situation:

As a matter of fact, we buy stuff on eBay all the time. We purchased, particularly when the economy went south, we purchased a, it's basically a big incubator is the best way to describe it. Typically that unit will go for five to ten thousand dollars, we purchased it for five hundred bucks plus shipping. Because what happened is that a lot of these plants closed, and some guy just does one big bid, I'll take everything in the plant and get rid of it, and then he warehouses it and he puts it up on eBay...and then we talk amongst ourselves, we're always like "okay, how can we make sure we're not buying stolen property?" Because it'd be very easy for an employee to go in and steal, like master rings...it'd be very easy for an employee to put that in his pocket. So we've questioned that, how do we know that what we're purchasing isn't stolen? [022]

In response to this uncertainty, the manager has adopted a policy of verifying the legitimate nature of the products they purchase online:

A lot of the time we'll go direct to the owner of the company, and we purchased a very nice torque machine, we picked it up for about fifteen thousand. I was very suspect, so we called the guy that owned this business. He'd used it for many years, he decided to buy the new latest greatest fanciest. He really didn't care, he just wanted to get rid of it, you know, just really didn't care about making a profit.

Figured that was a fair price considering how much he'd used it. So you know, there are those scenarios where I'm always going "Let's make sure this isn't stolen property."

Furthermore, this manager began to reflect upon the potential ways in which the business has taken steps to implement controls that would prevent the proliferation of employee theft, taking time to discuss the details of the business's "thorough tracking system" for customer products as he led a tour of the facility. Additionally, the manager detailed how the influence of the "business paradigm" led the business to hire employees who "fit," while also creating an atmosphere that was tolerant of mistakes, intolerant of dishonesty, and sympathetic to the issues employees face in their personal lives. For example, the manager made the following statement about the owner of the business:

The owner has done a lot where people have just come to him and say "Hey, I'm short" or "This came up" or car thus and such. And, he'll [the owner] advance them and then split it up amongst their paychecks, or however they want to do it. And we're small enough that we can do that, but you know large companies do the same thing... if the culture is there that you feel comfortable asking for that, not the intimidation of "well, if I ask for that he's gonna fire me because I can't manage my personal finances," or that kinda thing.

Employee theft triggers several actions within small businesses, including decisions on whether to report the incident to the police, decisions about how to deal with the offender, and decisions regarding changes that need to be made to control mechanisms. When employee theft occurs, it is a signal to small business owners and managers that changes need to be made in

order to protect the business from future instances of theft. These changes are designed to address the weaknesses in business controls that the employee thief took advantage of when committing their theft. It is ironic that employee theft, while posing a serious harm to the small business, also becomes a significant benefit for owners and managers who are willing to take the steps necessary to implement changes to business controls. While no small business owner is likely looking forward to experiencing an employee theft, it may be fair to state that victimized small business owners may take some comfort in the resulting increases in protection and controls resulting from employee theft. However, addressing the business side of employee theft is only one hurdle facing small business owners and managers, as they may also need to address their own emotions and the personal challenges that employee theft creates for them.

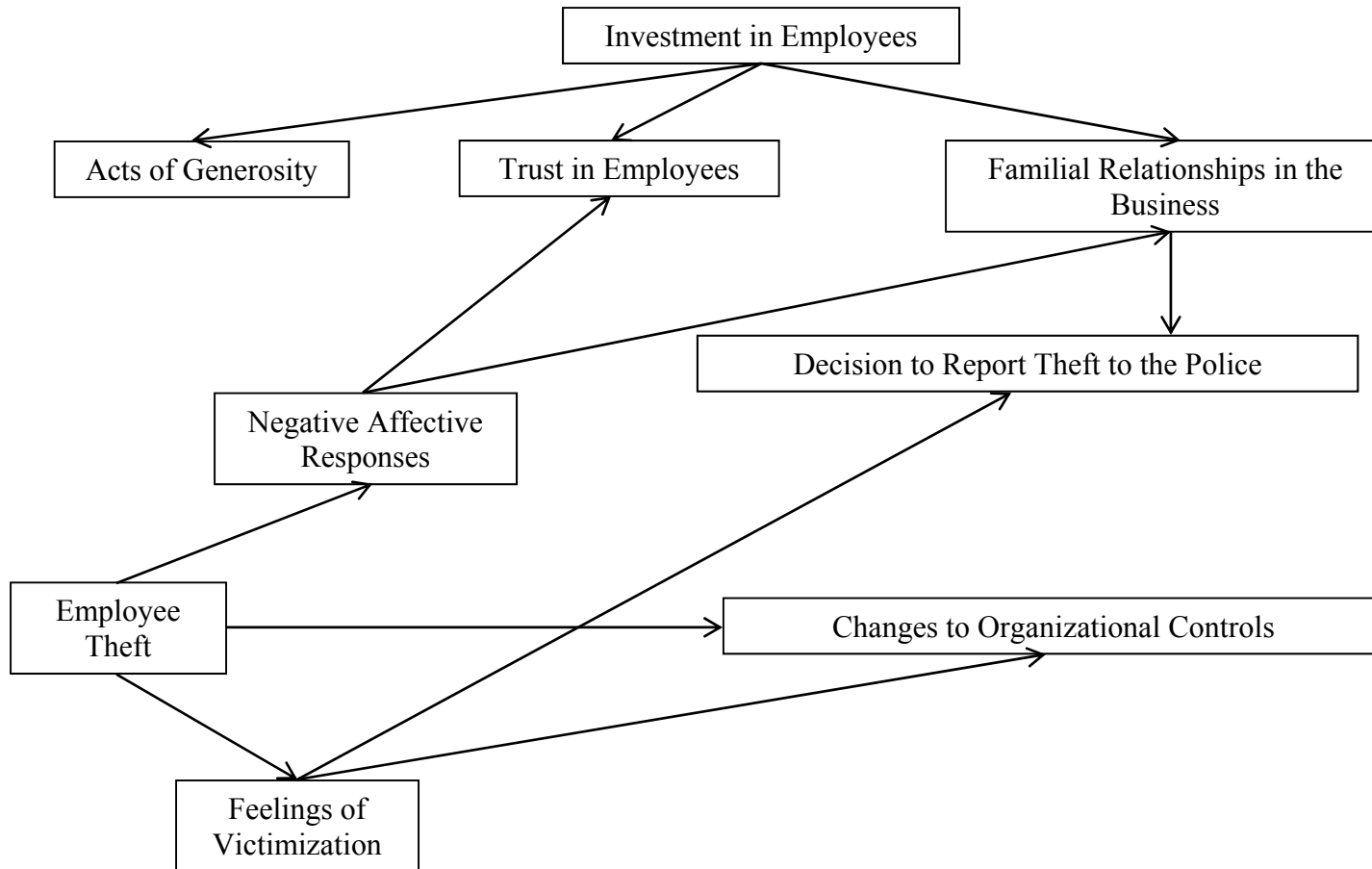
## CHAPTER NINE

### THE IMPACT OF THEFT ON SMALL BUSINESS OWNERS AND MANAGERS

The final goal of this study was to understand how employee theft affects the owners and managers of victimized small businesses. While the qualitative portion of this study followed a grounded theory approach, the data presented in this section are presented from a phenomenological perspective. Phenomenology is “the study of lived experiences,” the purpose of which is “to describe the meaning of a concept or phenomenon” (Marshall & Rossman, 2006). According to Fischer (1984), the term lived “refers to [a] person’s simultaneous experience of and active participation in the situation.” The phenomenon being explored here is the emotional response of small business owners and managers to employee theft. Data from the in-person interviews show that the owners and managers of victimized small businesses experience a range of negative emotional responses to employee theft. In essence, employee theft can entail two separate, yet co-occurring, types of victimization: a victimization of the business (through the loss of business resources), and a victimization of the owner/manager (an emotional loss associated with the theft).

The current discussion of the emotional toll that employee theft can take on a small business owner/manager uses the coded transcripts of in-person interviews to establish patterns among the narratives. While a total of 30 interviews with victimized and non-victimized small business owners and managers were conducted, the information presented here represents the narratives of victimized small business owners and managers. The selection of interview participants progressed according to the process of theoretical sampling (Glaser & Strauss,

Figure 9.1: *Concept Map of Impact of Employee Theft upon Owners and Managers of Small Businesses*



1967), which led to the inclusion of a large number of victimized owners and managers. Once these patterns were established, a concept map (displayed in Figure 9.1) was developed to give a visual presentation of these patterns, while also allowing for a more refined understanding of the impact of employee theft on small business owners and managers (Miles & Huberman, 1994; Miner-Romanoff, 2012). Analyses of the interview data began with a search of the transcripts for passages coded under the parent codes of Personal and Trust, then moved to a review of the surrounding passages in a search for contextual information related to these codes. These codes were selected because they identified instances where respondents discussed the personal impact theft had upon them, both as an owner/manager and as a victim of crime.

While these analyses focused upon the parent codes of Personal and Trust, it must be noted that almost all of the interview participants, those that had experienced employee theft and those that had not, referred to their business as a “family.” These statements were captured under the parent code Organization, and the sub-code Family, which creates a starting point for understanding how small business owners and managers generally view their businesses, as well as the employees who work for them. Small businesses function, in part, because employees, owners and managers use emotional ties to build a sense of belonging within the business (Fletcher, 2002). When employees feel they belong, they are more likely to be committed to the business, and work hard to help the business achieve its goals (Masterson & Stamper, 2003). Furthermore, the relational cues that employees take from owners and managers can influence the quality of interpersonal relationships in the workplace, relationships that are key to increasing organizational and individual effectiveness, as well as co-worker trust (Ferres, Connell & Travaglione, 2004).



The following passages reflect the narratives given by small business owners and managers' regarding their perceptions of the business as a family:

I think that most small businesses have a certain type of family atmosphere. And, it's like you know so much about your employees, it's almost like they are family. So it's almost like you have family that is violating your trust [when employee theft occurs]. [014]

We just feel that it's kind of our duty [providing high-quality health insurance] and it's a benefit we have here to help make the job more attractive to people. And with a small group of employees that have been here a long time, you know, you feel like it's family. And to have theft go on...[respondent ended his sentence] [009]

We hire somebody, we don't ever intend on letting them go. I mean, we're pretty much a family...so we all get along really well here. You know, I think we're, it's like I said we're just family. So you get your little squabbles, you know. [005]

It was very traumatic [the employee theft]. It was very traumatic because we're very close knit. Family. Small business. [020]

The above passages indicate that small businesses take many different approaches to development of a familial atmosphere within their business, with some seeing such a

development stemming from the culture of the business, and others seeing it as a direct result of their overt actions. The source that is responsible for the development of the familial nature of a small business is unimportant; it is important, however, to note that the development of a familial business atmosphere is most likely a reflection, in part, of the investment that owners and managers have made in the business and their employees. As the following passages highlight, sometimes this investment comes out as a showing of generosity toward an employee, and sometimes it is the employee thief who benefits from this generosity:

She was having some financial issues and she had some children who were having some financial issues, and we know that she was helping them with her funds and that was making her short. And, honestly, had she come to me and said “I need this,” I would have given it to her and she wouldn’t have had to pay it back. [017]

I try to help people. I mean, my whole theory is I’m one of those “Pass it on club” kinda guys. You know, I help you, don’t owe me nothin, but you’re gonna pass it on. So we have like older vehicles, you know what I mean, sales people, company vehicles... [the employee thief] had a car that just broke down...and she says “Oh, I can’t make car payments.” So, I says “Okay, here’s what we’ll do” at the time I think the vehicle was worth fifteen grand, so I says “here’s what we’ll do. I’ll sell it to you for ten grand, company will float the bill, you just pay it back. You tell me what you can afford on a monthly basis. No interest charges or anything like that.” So that’s the deal I made with her. And I forget about it cause I’m in this office and you’re in this office, between you and my son, payroll

deduction. Just do your thing....so we're moving on. She's got a nice car, I've got a happy employee. Everybody's happy. [011]

We give everybody real nice discounts who work with us. So if they have something they really want they buy it, if not they have little boxes so that if stuff comes in that they really want we let them put it in a little box. It's very handy for us for birthdays and Christmas because we can just give them things that they want, or they can purchase things as they can afford them. So [we've] made it pretty easy for people to have what they want. [021]

If a guy says to me "a rock fell through my roof and I need some pieces of plywood to fix my roof" I'm gonna say "hey, you know we've got an old sheet of plywood, take it." But I hope that all those things add up to a place where people want to work, where they value. [018]

Consistent with the development of a familial business environment, small business owners and managers took full advantage of opportunities to help employees in need. While displays of generosity toward employees are common in small businesses, feelings of victimization are likely exacerbated when an employee who receives generous treatment is also caught stealing from the business. For example, the small business owner who "sold" his employee a company car experienced strong negative emotions when he found out that she not only had been stealing money from the company payroll, but that she also had never made a payment to the business for the car she was given:

I've always been a pretty trusting person. And it's like, I felt like I really went out on a limb, and other people did here for her, and it's like, she just slammed. It just, it made me feel like crap, you know. It just, you know, cause like I said, it just, we're small but we're not small, but it's a small office, you know. And you like to think you can help people. It's shitty. [011]

Like other victims of crime, small business owners experience a lack of trust when an employee steals from them (Jantzer, Hoover & Narloch, 2006). Research has shown that being a victim of crime can have a negative impact on one's overall levels of trust (Salmi, Smolej & Kivivuo, 2007), yet it is difficult for business owners to reduce trust in all employees as a result of one employee's actions. While some small business owners did describe feeling a general lack of trust in all employees following employee theft, most confined their trust statements to the employee thief. Additionally, many victimized small business owners and managers tended to describe their feelings surrounding their victimization by explicitly identifying the theft as a violation, or discussing the anger they felt after finding out about the theft:

Yeah, we had an incident, and this is going back now, this is '97, but I remember it like it was yesterday because it was such a traumatic event for everyone involved here. [020]

So, you feel violated, you feel pissed, you feel... it just, it goes against all your grain. Especially when you have a trusted employee like my mechanics stealing my parts and then writing it off on a different truck, and then not doing the repairs

on that truck, but repairing somebody else's. See, those become more personal.

[015]

It does have an emotional effect on people for sure, theft...and it's shock. There is shock and trauma there and when you trust somebody, like our maintenance guy, I mean he's all over the place. He had keys to everything, he was here all the time, I mean all hours, you know, in our offices, everywhere. And, just to know that he was, you know, that there was this underlying negative you know, personality disorder or whatever was going on with him, you know you just feel yucky, just violated. So there was that initial thing, there is that initial shock and it sort of takes over your world for a little while, and other stuff just doesn't get done because you're focusing on that. [024]

And when [employee theft] happens you're even more susceptible to opening yourself up to a lot of other things that go on, and then you feel bad. You feel violated sometimes when your friend, your family member does this to you. [013]

So then it started adding up and I was getting more and more angry, and really hurt because he was not a, I mean he was a personal friend and just somebody that I thoroughly trusted. [002]

As these statements suggest, most small business owners discussed their anger from a personal perspective, as they perceived the theft to be a personal victimization. However, as the

first quote above states, some small business owners spoke in terms of the impact to the business in general, further supporting the idea of a familial business environment. In short, employee theft leads small business owners and managers to feel personally victimized despite the fact that the business was the actual target of the theft, and the emotional toll these acts take on the owner/manager, as well as the business, are not soon forgotten. This discovery is important because it places the victimization experiences of small business owners and managers in the same conversation as those who experience personal crimes such as violent criminal victimization or intimate partner violence.

It has been found that having stable work-life routine activities decreases one's risk of personal victimization, particularly repeat personal victimization (Lasley & Rosenbaum, 1988), and that refraining from risky activities decreases one's risk for property, personal and sexual victimization (Franklin, Franklin, Nobles & Kercher, 2012). Yet, the narratives of victimized small business owners and managers indicates that having stability within the workplace, in terms of workplace routines, processes and procedures, actually helps to facilitate property victimization. Similar to other types of property crime, employee theft leads small business owners and managers to worry that theft will occur in the future (Jackson, 2011; Russo & Roccato, 2010), however unlike Kuroki's (2012) findings, victim narratives indicate that the size of the theft (in financial terms) in relation to the financial health of the business has no influence on the amount of emotional pain small business owners and managers feel.

Because of the significant emotional toll victimization takes, the effects of employee theft linger with the business when the owner/manager, because of their feelings of victimization, alters their management style as victims adapt their routine activities according to their victimization experiences (Averdijk, 2011). For example, the passages below describe how one

small business owner let the emotional toll of an employee theft affect his management style, and caused him to lose a valued employee:

All the people that I trusted mentally, I didn't trust them anymore. Not by any of their actions or anything, but I started looking at, looking at everything they were doing because it was just, and it took my eye off the ball in thinking of growth and the future and how to move the company forward. And I was back in the day-to-day, and they were getting frustrated, I'm sure, with me...I realized what I was doing and I did express that to them, "Just so you know, this is not a, this has nothing to do with you, this is just, you know how I was ripped apart. So when I'm questioning you don't think it's that I don't trust you, it's just that I can't trust anybody." And I think they knew my heart so they were fine with it, but I don't know, if I hadn't subconsciously got through that... I think actually it was one of my employees that told me what I was doing, "Okay, you're like micromanaging me, and it's something you've never done"... But we did have one employee leave, that her reason for leaving was she said that "I need a place that has more security." Not physical security, like job security. It was totally eye opening for me because I thought "What are you talking about?" Her perception of the way that I was into the business was that things were wrong with the business. [002]

As with personal victimizations, the emotional toll of employee theft influences the way in which the business handles the employee thief (Taylor & Norma, 2013; Weiss, 2011). When strong emotional ties exist, whether they be familial ties or family-like ties, small business owners and managers seem more likely to choose methods for handling the theft that create the

least amount of problems for the thief. While most small businesses refrain from contacting the police when employee theft occurs, some small business owners and managers struggle with the thought of taking any action against an employee to whom they are emotionally connected. For example, the owner of a marketing services firm still experiences grief over firing an employee several years ago:

I nurtured her with two children, and took care of her, you know what I mean, did things like a mom would do. She has a mom but they had a terrible relationship, she had a mother-in-law, if you want to call her that, and they had their, volatile...there was such a good camaraderie there, and my daughter loved her too. And anytime we would have something extra, or knew she needed something we made sure that to the best of our ability we helped her... so nothing was done. Letting her go knowing she was addicted, knowing she had two children, made a pit in my stomach that I've never, I was so upset, and I can't control it. [010]

Most small business owners and managers took action against employee thieves regardless of the emotional connection they may have had to the individual. However, the emotional toll of being victimized, and the pain of having one's trust violated by a close friend or family member, stuck with many owners and managers. This emotional toll was visible in several of the interviews conducted with victimized small business owners and managers, as the interview served as a way for the manager to release the emotional pain that had built up as a result of the theft. Overall, interviews with the owners and managers of victimized small businesses clearly indicate that when strong emotional ties exist between the owner or manager



and their employees, theft by an employee creates strong negative emotional reactions that can make the owner or manager feel as if they have been the victim of a serious personal crime.

## **CHAPTER TEN**

### **DISCUSSION**

This study sought to understand the problem of employee theft within small businesses from the perspective of owners and managers, which is a perspective that has yet to be fully explored. Data from this study provide insight into the types of employee theft that occur within small businesses in the Cincinnati IN-OH-KY MSA, who commits these thefts, how businesses react to employee theft, and how employee theft affects the owners and managers of victimized small businesses. This chapter summarizes the results of the quantitative and qualitative analyses, and discusses the implications of these results for small businesses, crime prevention scholars, and organizational theorists. The chapter concludes with a discussion of the limitations of this study, as well as several suggestions for future research on employee theft.

#### **A General Overview**

The results of this study suggest that employee theft is not an uncommon crime within the small business in the Cincinnati area, as 64% of respondents indicated they have been victims of employee theft. Previous studies of employee theft have found victimization rates as high as 70% (Jones & Terris, 1985; Krippel et al., 2008; Wimbush & Dalton, 1997), suggesting that Cincinnati is no different than other areas of the country. The modal category of employee theft victimizations reported by survey respondents was one, a finding that is unique in studies of criminal victimization. For most crimes, the modal category for victimization is zero, indicating that most people do not have to worry about becoming a victim of crime (Lauritsen & Quinet, 1995). However, because this study specifically asked about a business's experiences with

employee theft, it is possible that non-victimized businesses chose not to respond – this limitation is discussed in detail below.

NCVS data (Bureau of Justice Statistics, 2013) support the notion that crime is a rare event, as prevalence rates for violent and property crimes indicate that most people will never experience a criminal victimization. However, this study found that most small businesses do experience employee theft, and some experience this victimization multiple times. Businesses have a high risk for victimization because they are exposed to knowledgeable potential offenders on a daily basis. An increased exposure to victimization means that employee theft, unlike other crimes such as robbery, assault or murder, cannot be thought of as a rare event in society.

This study found that most thefts are not one-time incidents, but rather on-going schemes that persist for a median length of six months as employee thieves, like other white-collar criminals, are not likely to stop their behavior on their own (Shover & Hochstetler, 2006). The fact that offenders can get away with their crimes for long periods of time is a distinguishing feature of white-collar crimes, even occupational white-collar crimes like employee theft. While previous research has found that white-collar criminals are arrested at a lower rate than street criminals and are less likely than street criminals to face charges, they have also been found to engage in less “chronic” offending (Lewis, 2002). However, as this study shows, the fact that white-collar thieves, like employee thieves, avoid the criminal justice system means that official records are not an accurate reflection of their offending behavior.

The ability to hide one’s crimes allows employee thieves, and other white-collar offenders, to hide the extent of their offending, which is not known until the crime is discovered and may never be fully disclosed. Close friendships and familial connections between the employee thief and business owners and managers create an incentive to hide criminal acts as the

thief knows their acts would harm the relationship. Unlike other research on deviance in the workplace (Restubog, Zagenczyk, Bordia & Tang, 2013) that suggests familial connections help to sooth feelings of violation, this study found that familial connections exacerbate feelings of violation. Feelings of violation are likely further exacerbated when victimized small business owners and managers discover that theft has been an on-going occurrence, rather than a short-term problem.

While the average scheme lengths reported by respondents varied, the median lengths were consistent across types of theft and industrial classification. This means that small businesses are more likely to be victimized, and when they are victimized, the victimization continues unnoticed for long periods. Unlike other types of crimes where victims realize their victimization in a relatively short period of time, employee theft operates like other types of white-collar crimes in that offenders use their status and relationships to hide their acts (Benson & Simpson, 2009).

Because employee theft is an occupational white-collar crime, offenders are granted access to the targets of theft by virtue of their employment with the business. This leads to increased opportunities to steal from the business, as highlighted by the fact that the average loss reported by victimized small businesses was just over \$19,000.00 per incident. When compared to the average losses of other types of property crime as reported by the FBI's 2012 Uniform Crime Reports, employee theft was more costly, per incident than burglary (\$2,230.00), larceny-theft (\$987.00), motor vehicle theft (\$6,019.00), and arson (\$12,796.00). Furthermore, average losses due to employee theft were higher than the average property losses in all robberies (\$1,167.00), as well as the financial losses experienced by banks that were victims of robbery

(\$3,810.00). Employee theft is more costly, lasts for much longer, and creates many more victims than does any traditional street crime.

### **How Victimized Small Businesses Differ from Non-victimized Small Businesses**

Victimized small businesses in this study were more likely to state that it was easier for employees to steal cash and goods owned by the business, than were non-victimized businesses. This makes sense, as criminal victimization increases one's perception that they can be a victim of crime again in the future, as well as their candidacy for crime prevention training (Davis & Smith, 1994). Furthermore, the interview data from this study related to small business owners and managers heightened sensitivity to potentially untrustworthy individuals and potentially deviant workplace behavior mirrors findings in other areas of victimology. Specifically, work on sexual victimization (Soler-Baillo, Marx & Sloan, 2005; Wilson, Calhoun & Bernat, 1999) and property crimes (Kobayashi & Saito, 1995) has found that crime victims are often times less trustful of suspicious individuals, and more likely to identify questionable situations as deviant than are non-victims.

The result of the victimization experience for small business owners and managers was an increase in their perception of the ease at which the business could become a victim of employee theft, yet they also perceived there to be less general opportunities for employees to misuse business resources. The explanation for such a finding came from the in-person interviews, where respondents identified their sensitivity to revictimization, as well as the emotional toll employee theft has taken, yet they also described how they had become more vigilant within the business. While many of the controls that small businesses instituted were focused upon a specific area of the business, the owners and managers expressed a general

increase in their level of business oversight. In essence, employee theft causes small business owners and managers to address specific occurrences of theft, while also prompting them to become more sensitive to other areas of the business that might also be targeted by motivated employee thieves.

The use of internal audits and CCTV systems can be considered to be business best practices. Within small businesses, internal audits are typically seen as a substitute for external audits (Carey, Simnet & Tanewski, 2000); yet external forensic audits are one of the most effective means of employee theft prevention (Bierstaker, Brody & Pacini, 2006). Furthermore, internal audits act as a control against habitual errors in accounting that may occur within a business (Bragg & Burton, 2006), allowing owners and managers to catch costly mistakes that may have a negative impact on the business. However, many small businesses do not conduct regular internal audits, thereby leaving the door open for the proliferation of minor accounting errors, as well as more nefarious acts of employee theft.

The use of CCTV systems has been found to significantly decrease the occurrence of employee, as well as customer, theft (Beck & Willis, 1999); however, this theft prevention mechanisms can carry significant costs for businesses (Challinger, 1998). The costs to purchase, install, maintain, and monitor CCTV systems may be a deterrent to their use in some small businesses, particularly when their value is difficult to quantify in terms of dollars saved and products protected. CCTV systems allow small business owners and managers to actively engage in oversight of business resources, while remaining out of sight of potential motivated offenders (Wyman, 1999). However, issues of privacy within the workplace may surface for small business owners, as they have for governments that have widely implemented CCTV systems (Hubbard, Magotiaux & Sullivan, 2004).

Despite the advantages that accrue from the use of controls such as internal audits and CCTV systems, a common theme regarding the use of business best practices as controls is that motivated employee thieves have the ability to learn how to circumvent these controls because they are such a routinized element of the business. When these controls are stable for long periods of time, and employees are invested with greater levels of autonomy and responsibility over time, the likelihood that controls will be compromised increases. While this decrease in the preventative nature of the control does not necessarily mean that employee theft will occur, it does mean that motivated employees will likely be more successful in their theft attempts, as well as more successful in hiding their acts.

### **Variety of Behaviors that Constitute Employee Theft**

There were a large variety of behaviors reported by respondents as acts of theft, yet not all of these acts targeted the business. The fact that respondents identified thefts that targeted other employees, customers, and suppliers as theft, this study follows other literature on employee theft in that it captures a wide range of diverse behaviors. Because there is no commonly accepted definition of employee theft, having a broad definition may be useful in understanding the scope of this problem, as viewed by the managers and owners of small businesses. However, an overly broad definition of employee theft makes it difficult to determine what is and is not a crime, as any deviance on the part of employees that carries a financial impact to the business can be categorized as employee theft.

Nevertheless, this study clearly suggests that employee theft should be conceptualized as broad generic category of crime. It is a type of property crime that is distinguished by the nature of the relationship between the offender and the victim and by its location within a legitimate

business. It centers upon the theft of tangible goods or intangible items that have value to the business that employs the offender. In short, the term “employee theft” should serve as an umbrella under which more specific types of theft can be defined, such as embezzlement, theft of finished goods, and intellectual property theft. Using “employee theft” in a general rather than a specific sense would allow for a broad range of behaviors to be categorized as theft, while at the same time allowing for specific types of theft to be defined in greater detail, which will lead to more focused research on the various types of employee theft.

### **Employee Thieves**

One of the reasons that employee theft lasts for so long, and is so costly to small businesses, is that employee thieves have access to knowledge of the most suitable targets for theft, as well as the guardianship mechanisms present within the business. This study found that most employee thefts were committed by employees at the lowest level of the business hierarchy. These are the entry-level and general labor personnel within the business, and they likely have little to no supervisory responsibility or authority. However, their daily interactions with suitable targets within the business allows them ample opportunities to steal from their employers.

Accordingly, one might infer that because of their low status in the workplace they also receive relatively low levels of pay, and have low levels of organizational commitment. Previous research has found that these factors lead low level employees to be the most theft prone (Hollinger & Clark, 1986). Because of this, it should be relatively easy for small businesses to detect employee theft, as a host of methods are available to determine who is most likely to steal (Murphy, 1993), many of which are based upon the characteristics associated with



low-status employees. Yet, while low-level employees may have been the most prevalent category of thieves in this study, the category of thieves that did the most damage to their employers were the highest-level employees. Employees categorized as managers and executives accounted for over 60% of the total losses reported by victimized businesses, yet they made up just about 18% of identified employee thieves.

As opposed to thinking of employee theft being the result of deviant individual motivations or factors associated with one's personality, as much research on employee theft has assumed, it is more likely that opportunity is the driving factor behind the commission of employee theft. Lower level employees may be the most prevalent employee thieves because they outnumber higher level employees, and on the whole they have access to a wider range of business resources. However, higher level employees, individually, have greater access to more valuable business resources as the opportunity to steal particular items (i.e., cash) is tied to their position.

Absent the opportunity to engage in employee theft, the most motivated of employee thieves could not steal from the business. A lower level employee who is disgruntled with his employer may not have the opportunity to steal several hundreds of thousands of dollars from the business. He may be able to steal several hundreds of dollars of tools, parts, finished goods, or raw materials, yet these thefts are not likely to have a significant impact on the ability of the business to remain a viable operation. Higher level employees, the managers and executives and other employees entrusted with handling sensitive parts of the business, do have the ability to create serious harms for their employers. The opportunity to steal valuable business resources comes along with their position in the organization, and is not determined by the level of dissatisfaction or injustice they feel.

When higher-level employees were responsible for theft from the business, the owners and managers interviewed in this study did not mention a breakdown in the relationships they maintained with the employee thief. Theft by higher-level employees occurred despite the presence of a strong relationship between the owner/manager and his/her employee. A strong relationship between owner/manager and employee should be expected to inhibit the occurrence of employee theft, yet it is also the case that employee theft can occur when relationships remain strong. For small business owners, the creation of strong relationships between themselves and their employees is not enough to prevent the occurrence of employee theft; owners and managers must address the opportunities for theft that are attendant to each employee within the business. As the results of this study show, different categories of employees present different employee theft challenges to small businesses.

The concentration of crime events is a common finding in studies of crime prevention (Eck, Clarke & Guerette, 2007), yet this study found that theft occurrences concentrated in one group of employees, while the losses associated with theft concentrated in another group. This suggests that if one's goal is to reduce the number of employee thefts that occur within small businesses, focusing upon the lowest level of employees (e.g., entry-level workers, laborers, and office staff) will produce the greatest benefits. However, if one's goal is to reduce the overall financial impact of employee theft on small businesses, the focus must be placed upon those at the highest-level employees. Both goals can be achieved simultaneously, yet they will require different strategies and different sets of controls, as each group of potential offenders has different opportunities to engage in employee theft, and differing levels of access to the items targeted for theft.

The on-going nature of many types of employee theft is an indication of the advantages employee thieves have over other types of thieves, specifically the ability to learn the guardianship mechanisms that are present within the business. Knowledge of these mechanisms allowed several employee thieves described in this study to avoid detection, as they knew how to steal from the business, as well as how to hide their deviant acts. While not every employee thief used knowledge about the business to avoid detection, many of the employees involved with the thefts described by respondents would not have been able to complete their crimes without the knowledge of guardianship mechanisms they possessed.

Knowledge of guardianship mechanisms, as well as access to the targets of theft, leads to opportunities to engage in theft, which are dependent upon one's position within the business. While having the opportunity to steal does not necessitate that an employee commit theft, the employee thefts described by survey respondents, as well as those detail in the several in-person interviews, involved an employee using some aspect of opportunity associated with their position to steal from the business. The managers/executives that engaged in employee theft were able to steal large amounts of cash from their employers because they had legitimate access to that cash, and they had the trust of owners/managers that allowed them access to sensitive business resources. There were no general labor employees who were able to steal cash from the business by creating phony vendors. Likewise, employee thieves in the manager/executive category were not the one's stealing raw materials, finished goods, or tool and equipment. One's role within the business dictates their access to items that can be stolen, meaning that opportunity, while influenced by a number of factors, is chiefly determined by one's position within the business.

Sutherland (1945) discussed the widespread and costly nature of white-collar crimes that were not actually considered crimes, despite the financial and social harm they caused. The

individuals behind these acts, according to Sutherland, were the highest level corporate managers and executives, meaning that this class of criminal, the white-collar criminal, has the potential to create serious harms within society. Consistent with Sutherland, and other research into white-collar crime (Reichman, 1992; Simon, 2006; Simpson, 1992), small business managers and executive were responsible for the greatest amount of financial harm done to victimized businesses. High-level managers and executives have access to business resources that can be stolen, and business resources that can be used to mask deviant acts (Simpson, 1992).

Within small businesses, the responsibilities given to managers and executives can equal or exceed that of business owners, particularly if the owner is no longer active within the business. Outside of immediate family members, managers and executives are those most likely to be the focus of succession plans within the business (Rothwell, 2010). Having access to business resources, the ability to hide deviant acts within the business, and having the trust of business owners allows managers and executive to commit employee thefts over long periods.

### **The Targets of Theft**

Most research on employee theft discusses the financial impact of the theft of cash on victimized businesses (Collins, 2013), and the economy as a whole (Chen & Sandino, 2012). The theft of cash has received the lion's share of empirical attention because it is available in all businesses, it is difficult to trace, and the ability to use cash to obtain almost anything one desires makes it an attractive target for all thieves, not just employee thieves. Furthermore, when an employee steals products produced by the business, or raw materials used in the production process, the stolen items must either be used by the thief, or sold for cash or some other item the thief wishes to obtain. The theft of cash cuts out the middleman. This study found that within

small businesses cash was stolen the most frequently (40.4% of all thefts involved cash) and cash thefts were the most costly for small businesses.

However, many other products were also targeted by employee thieves, as small businesses reported thefts involving a range of items including scrap metal, software, intellectual property, raw materials, and more. One of the most interesting items reported stolen by small businesses was fuel, an item that has not previously been discussed in research on employee theft. It is very likely the case that 15 years ago, the theft of fuel was a much smaller concern for most businesses as its relatively low cost represented a minor loss for the business. However, as the price of fuel has steadily increased, the attention paid to the financial impact of this type of theft has also increased. This study found that the theft of fuel is one of the most expensive thefts a small business can experience, and it is also one that is difficult to detect and prevent. The theft of fuel highlights two important issues regarding employee theft: first, that a lucrative market can be created to address issues of employee theft; and second, that variations in the cost of items, materials, and supplies used by the business that are stolen by employees can influence attention given to a particular type of theft (for example, research into fraud in the housing market (Anacker, 2014; Baumer, Arnio & Wolff, 2013) and the scrap metal industry (Sidebottom, Belur, Bowers, Thompson & Johnson, 2011). As with other types of white-collar crime, the items targeted by employee thieves have values that are tied to the legitimate economy, and when economic conditions related to targeted items fluctuate the suitability of the items as targets of theft also changes.

**Market-place innovations.** Guardianship over the resources of small business was found in some cases to be tied to marketplace interventions designed to address a particular type

of theft that had become prevalent within a specific industry. The example given of the trucking industry's innovation regarding the fueling of tractor-trailers at truck stops highlights the ability for market-based controls to do what the criminal justice system cannot. This is not to say that the criminal justice system would not be effective in controlling the theft of fuel, but rather it is to suggest that market-based initiatives are more efficient and beneficial to the economy and small businesses.

Market- or industry-based crime prevention techniques have the advantage of providing a much-needed service to businesses, allowing the developer of the technique to earn a profit from their ingenuity, and removing a cost burden from taxpayers as the criminal justice system does not have to expend valuable resources searching for a problem. This means that small businesses do not have to bear the financial burden of crime prevention innovation, making the use of such solutions more cost effective, and therefore more cost effective to prevent than to ignore (Welsh & Farrington, 1999). In effect, market-based crime prevention techniques allow those closest to the problem to develop solutions, at which point competition will force refinements and upgrades as competitors seek to find better, more efficient ways to provide protection services to clients (Farrell, 2005). Industry-based prevention techniques will also address industry-specific opportunities for theft, as certain industries provide opportunities that other industries do not.

These solutions are market driven and market developed, and can be used by fuel companies to create strategic advantages that increase customer retention and profitability. The active involvement of manufactures and key product suppliers in the development of crime prevention solutions is a successful strategy for addressing crime problems that traditional law enforcement agencies have a difficult time preventing (Farrell, Tseloni, Mailley & Tilley, 2011). The variety of items stolen by employees is diverse, and for many of these items it may be

difficult for traditional criminal justice actors to design interventions to prevent their theft. Yet as the above example shows, when theft reaches a broad enough scale and has a large enough impact upon an industry, market players may decide to develop, and market, solutions that address these unique theft opportunities.

However, other thefts may be more difficult to quantify, and therefore more difficult to design interventions around. Such difficulties are best illustrated through an examination of the theft of intellectual property, which is often times difficult to quantify, and is very difficult to identify and prevent. For example, one business described how an employee “entered work on a Sunday for six hours and printed out sales sheets and customer activity and sold it to a competitor,” while another business stated that an employee used weekend hours to bring “a competitor through [the] shop.” The financial toll of these acts is difficult to quantify because there is no concrete value associated with a list of customers or the strategic processes a business considers a proprietary and valuable resource; yet, the theft of the intellectual property, as detailed above, likely represents a serious loss to one business, and a fortuitous gain to another.

**Influence of input price changes.** As the prices of business inputs change, the costs of doing business rise. While a business may be able to raise prices to cover the absolute cost of these increases, it is rare for a business to be able to raise prices enough to cover the loss in margin price increases create. When input prices rise, and these inputs are stolen by employees, the value of the loss associated with the theft is greater than the value of the loss associated with prior thefts of the same inputs when the number of inputs stolen remains constant. Employee thefts that were once considered a minor annoyance at best may at some point in the future be deemed to be a significant threat to the financial health and safety of the business. Recall that

one of the reasons that small business owners gave for not contacting the police when employee theft occurs was their perception that the theft was too small to warrant the intervention of law enforcement. Should the value of those items change, it is likely the case that owners and managers' desire to call the police in cases of employee theft will also change.

Additionally, it is likely that as the value of an input increases, its suitability as a target of theft will also increase, as employees see that there is more to gain from stealing these items than there previously had been. While it is rare for products to see the rapid price changes that have characterized the fuel market in recent years, drastic price fluctuations have changed the perceived value of other items, such as agricultural products (Du, Yu & Hayes, 2011; Nazlioglu & Soytaş, 2012), scrap metal (Bennett, 2008; Medina, 2001; Sidebottom, Belur, Bowers, Thompson & Johnson, 2011), and counterfeit products (Chaudhry & Stumpf, 2011; Norum & Cuno, 2011). When the value of these items increases, the gain realized from stealing them also increases making them more attractive targets, and more costly for the business when they are stolen. The silver lining in this situation is that careful monitoring of the price fluctuations of the commodities the business uses or produces can help the business identify potential targets for theft.

This study also found that many small business owners and managers consider an employee's theft from a customer or supplier an act of employee theft. This is because when an employee steals from a business's customers or suppliers, the business still winds up suffering financial or reputational damage. An employee's knowledge of their employer's guardianship and control mechanisms can be used to steal from customers/supplier that have product at the business. While these thefts do not fit the definition of employee theft proposed earlier in this



section, many small business owners and managers stated that these acts cause enough harm to the business to be considered employee theft.

### **The Effect of Employee Theft on Small Businesses**

Small businesses experience a range of outcomes from employee theft. While the most frequently discussed impact is a financial loss to the business, employee theft also affects the relationships among owners, managers, and employees. Furthermore, employee theft has a definite impact on the types of controls an organization will use in attempts to prevent theft from occurring within the business. While all small businesses utilize some set of controls in order to have efficiency of operations, prevent theft, and control business operations, this study found that following employee theft these controls change.

While the quantitative analyses could only make assertions about changes in controls made after employee theft, data from interviews with small business owners and managers clearly indicated that businesses respond to theft by making specific changes to business controls. When theft occurs, it serves as a spotlight that illuminates weaknesses in the business. These identified weaknesses are what the owners and managers of victimized businesses focus upon after the theft, as they seek to address the failing that led to victimization. Employee theft that does not put a small business into bankruptcy can actually become a long-term benefit, as it helps the business to become stronger. Almost like an immune system, some small businesses must get “sick” for short periods so that they can build up the protections needed to remain healthy in the long-term.

Changes made to control mechanisms were based, in part, on the owner/manager’s perception of the severity of the theft, their perception that something could be done about the

theft, and the emotional reaction they had to the theft. If the theft was perceived to be minor or insignificant, no action was taken to address its occurrence because the owner/manager typically felt that the costs of such actions would outweigh the benefit. For example, a business that is dealing with minor repetitive theft of small office supplies is not likely to install locked storage cages and CCTV systems, as the cost of these control mechanisms would far outweigh the cost of replacing the office supplies. However, the theft of several hundreds of thousands of dollars would likely be enough for a small business to invest in annual external audits, the cost of which could reach up to \$25,000.00, depending upon the size of the business.

Interview participants were also clear to state that if they perceived that the theft could not be prevented, they were unlikely to make changes to the business. In the case of intellectual property theft, one business owner stated that he would not make changes to controls because these changes would become burdensome to employees, and they were likely to be ineffective. In short, small business owners and managers realize that, at times, there may be no defense against a highly motivated employee who knows their way around guardianship mechanisms. In these cases, employee theft becomes a “cost of doing business,” and small business owners and managers work to minimize their exposure to theft, rather than utilize methods of theft prevention that might be more harmful than helpful.

Finally, the emotional toll the theft takes on the owner/manager was found to have the potential to influence the use of controls within the business, where certain small business owners would refrain from taking action, while others took their responses too far. The data obtained on changes made to the business that were influenced by the emotional state of the owner/manager suggest that a highly emotional individual should refrain from making decisions about changes to be made to the business until they have had time to deal with their emotions.

As was found in the data regarding the emotional impact of theft on small business owners and managers, the data on changes made to the organization highlights the fact that these individuals are highly invested in their business, and their employees.

### **The Effect of Employee Theft on Small Business Owners and Managers**

Victimized small business owners and managers gave multiple reasons as to why they did not call the police to report employee theft within their businesses. However, one reason was mentioned only by non-victimized owners and managers: embarrassment. Employee theft likely leads to strong feelings of embarrassment among business owners. The effect of being victimized within one's own business, by someone who had been given one's trust, is very stressful. While none of the business owners in this study identified embarrassment as an outcome to theft, let alone a reason why they did not call the police, in one particular interview the issue of embarrassment presented itself.

The clearest example of embarrassment noticed by the author occurred when the owners of a manufacturing firm were interviewed, together, about an occurrence of theft within their business (part of this exchange can be found on pages 208 and 209). In this exchange, owner 1 was much more reluctant to discuss the instance of theft than was owner 2. While this dynamic was not discussed during the interview, it became clear in discussions with owner 2 (after owner 1 left for a meeting) that owner 1 was the main person to whom the employee thief was responsible. Owner 1 had supervisory responsibility for the employee thief, and his reluctance to discuss the theft in the interview may have been the result of the fact that his brother, owner 2 was also in the room, and owner 1 felt responsible in part for the theft.

There were two interviews conducted with more than one participant, and in each interview it was clear that the two parties in the interview had different levels of knowledge about the theft. It also became clear to the author that even though small businesses are characterized by close familial relationships, and owners are typically either family or close friends, information is not shared equally among all owners/managers. It is very possible that embarrassment about the occurrence of theft leads some small business owners/managers to be selective about the information they share with other owners and managers, let alone law enforcement or nosey doctoral students. In addition to feelings of embarrassment, employee theft can also lead to significant negative emotional reactions similar to those experienced by victims of violent victimizations. While the financial impact of employee theft is severe enough to warrant increased scholarly attention, the experiences of victimization felt by small business owners and managers in the wake of employee theft make the study of this problem all the more important.

Negative emotional responses to employee theft will influence the way in which owners and managers manage the business and interact with other employees, and they may also influence the quality of the owner or manager's home life. Importantly, the fact that many small business owners stated that the financial losses resulting from the theft was the least important part of the theft suggests that focusing solely upon the financial impact of employee theft is a shortsighted approach. As with other types of personal victimization, focusing solely upon the victimization may leave the victim without the support they need to cope with their experiences (Najdowski & Ullman, 2011; Turner, Finkelhor & Ormrod, 2010). Small business owners and managers form close affective relationships with their employees, going so far as to consider them part of their family. Along with these relationships come a significant amount of

investment in employees, investment that translates into the owner or manager engaging in acts of generosity toward employees, as well as becoming emotionally concerned about them as people.

There is also a high level of trust that develops among small business owners/managers and their employees. Employee theft violates this trust and causes many small business owners and managers serious emotional stress, as they struggle to deal with the employee theft violation, and their image of themselves as a “family member” to the thief, as well as other employees.

The emotional weight of employee theft was found to be one of several reasons why employee theft was not reported to the police by the small businesses in this study. One of the most frequently under-reported types of crime is intimate partner violence (IPV), with most estimates of under-reporting indicating that only about 17% of IPV victims report their victimization (Coker, Derrick, Lumpkin, Aldrich, & Oldendick, 2000). This study found that employee theft is more frequently under-reported than what is considered to be one of the worst types of violent victimizations. The reasons for not contacting the police in cases of employee theft overlap with non-reporting rationalizations associated with violent crimes.

The emotional investment of small business owners and managers in many cases turns employee theft from a traditional type of property crime committed against an inanimate entity, into a type of property-personal victimization committed against an individual. Small business owners consistently referred to their business as a family, and they used language to describe employees as family members; sometime employees were actually members of the owner’s family. The owners made it clear that they invested, emotionally and financially, in their employees as they saw their employees as valuable resources to be protected, preserved, and respected. While this level of investment may not have been ubiquitous across study

participants, it did define a large portion of them. Among victimized business owners, feelings of closeness and investment created great feelings of loss and betrayal when employee theft was discovered. These feelings persisted for long periods, with many victimized owners giving minute details about insignificant facets of a victimization that had occurred ten or more years prior to the interview.

This study has shown that the negative emotional outcomes of employee theft can have a great influence upon the owners and managers themselves, as well as upon the way in which they deal with employees, and make changes within the business. Furthermore, these experiences stick with victimized small business owners and managers for long periods, suggesting that while these individuals may come to grips with their victimization, they never really get over the experience of being a victim of crime (Kilpatrick, Saunders, Veronen, Best & Von, 1987; Riggs, Kilpatrick & Resnick, 1992). These results further support the fact that employee theft creates serious harms for small businesses, as well as for the owners and managers of these businesses, in ways that serious criminal acts create harms for victims. Fortunately, the small business owners and managers in this study have been able to deal with their victimization experiences in pro-social ways; mainly by focusing upon securing the business against future occurrences of employee theft. However, it is likely the case that other victimized small business owners and managers are as eager to tell their stories of victimization, likely as a means of dealing with the emotional weight of the issue, as were the individuals in this study.

## **Limitations**

There are several limitations to this study that must be noted. Specifically, this study's findings are limited by the response rate for the quantitative survey, the unbounded manner in which employee theft was studied, and the inability to study businesses that have closed due to employee theft. The quantitative survey achieved a response rate of about 9%, which for mailed surveys sent to small businesses is average. However, such a small response rate prevents the results of the quantitative analyses from being generalized to a larger population of small businesses. Despite the fact that this study's sample was representative of the population of small businesses in the Cincinnati OH-KY-IN MSA, it would be inappropriate to generalize the quantitative findings to this population, let alone to the population of small businesses in the U.S. The problem of low response rates has plagued, and will continue to plague, research on employee theft generally, and employee theft within small businesses particularly. Yet, while this study's results are not generalizable, they do align with previous research on employee theft, and the author has some confidence that they contribute to overall knowledge on the problem of employee theft, and to knowledge on specific aspects of this problem.

A second limitation of this study was the unbounded manner in which employee theft was studied in the quantitative phase of data collection, given that it was not possible to identify the ordering of initial controls, identified instance of theft, and controls implemented subsequent to the incident of theft. The issues related to this unbounded measure of theft were discussed in the methods chapter, and do not bear repeating at this point. It should be restated, however, that this study's design allowed for an understanding of how small businesses generally respond to employee theft in terms of their use of control mechanisms and changes that are made to the business. This understanding, while not quantitatively driven, emerged from the qualitative data

obtained from the several in-person interviews, which described how initial controls are modified in response to employee theft in a way that can be generalized to other small businesses.

A third limitation to this study is a limitation that most studies of employee theft will face. This study was limited by the fact that it was not possible to survey the owners and managers of businesses that are no longer in operation as a result of employee theft. The sampling frame used in this study came from a database of existing small businesses, which is updated on a yearly basis and removes businesses that are no longer operating. During the process of building this study's sample, several small businesses were identified as no longer in operation. However, there was no way to determine why these businesses closed, nor was there accurate contact information for them; these issues prevented me from gathering data from these businesses. A potential solution to this limitation is a research design that focuses specifically upon identifying the owners and managers of those small businesses that have succumbed to employee theft. Another more plausible solution is to design a panel study that follows small businesses and gathers data on theft occurring within the business, the use of control mechanisms, and other important variables. Businesses that close due to employee theft will be immediately identified, and it will be possible to compare their employee theft experiences, and their reactions to those experiences, to businesses that experienced theft yet survived.

### **Future Research**

This study has contributed to knowledge on employee theft in many ways, yet future research can help to bring a greater depth of understanding of this problem. One avenue of future research is to conduct a longitudinal study of employee theft, particularly within a given



area. Such a study would allow a researcher to study a sample of small businesses over time, allowing them to evaluate effectiveness of pre-theft controls and theft prevention techniques as employee theft occurs. The sample would need to be large enough to capture theft occurring within the sample studied, yet a longitudinal design would yield a large amount of useful data regarding how small businesses attempt to prevent, identify, and subsequently respond to theft.

Another area of future research is the study of the theft of intellectual property, as this type of theft has proven difficult to identify and prevent. The unique nature of intellectual property, given that it is typically not a tangible product that has an easily identified value, means that it presents unique challenges to small businesses seeking to prevent its occurrence, as well as for researchers seeking to understand why and how it occurs. Because of the difficulties in identifying, quantifying losses, and preventing the theft of intellectual property, many small business owners either do not account for its occurrence, or figure there is nothing they can do about this problem. Yet, future research that focuses specifically upon this problem may be able to identify ways to identify when intellectual property theft is occurring, how much it costs victimized businesses, and the best methods to prevent its occurrence.

Future research on employee theft should also focus upon theft that occurs within small businesses with low numbers of employees. This study included business with at least 15 employees, yet a large number of small businesses in this country have less than 15 employees, and opportunities for employee theft may be different in those businesses than it is in business with 15 employees or greater. While smaller businesses will likely have greater levels of oversight by business owners, they are also likely to invest greater levels of responsibility and autonomy in the few employees they have. In addition to understanding how these very small businesses handle the distribution of responsibility and authority, it is important for theoretical

reasons to understand how employee theft develops and persists within these businesses, as it is likely that the size of a business may correlate in some way with the likelihood that it will experience employee theft. Comparisons of employee theft within these very small businesses to small businesses and larger businesses may yield useful data on how employee theft evolves as the size of the business grows.

A final avenue for future research is the verification of the non-reporting rationalizations typology developed by this study. While it was not the goal of the qualitative data collection phase of this study to develop testable measures related to employee theft, the emergence of a typology of non-reporting rationalizations might provide such measures. The validation of the typology of non-reporting rationalizations developed in this study would allow researchers to better understand how employee theft affects the owners and managers of small businesses, as well as to determine how the criminal justice system can better assist small businesses that experience employee theft.

## **Conclusion**

This study has explored the problem of employee theft within small businesses from the perspective of the owners and managers of these businesses. This study has shed light on the types of items targeted by thieves, the individuals involved in employee theft, how businesses attempt to prevent and respond to employee theft, and the role that business owners and managers see the criminal justice system playing in response to theft. Furthermore, data from this study were able to identify a typology of non-reporting rationalizations specific to small business owners and managers, and to address the heavy emotional impact employee theft can

have. Overall, this study makes significant contributions to knowledge on the problem of employee theft generally, and specifically as found within small businesses.

While there are limitations to this study's findings, the methodology of mixing quantitative and qualitative data collection to bring richness and detail to this study's findings has proven successful. Additionally, the mixed-methods approach to data collection used by this study has allowed for the identification of many useful avenues of future research, which will further understanding of employee theft. This study's focus upon the owners and managers of small businesses was unique, and represented the first time that such depth of detail was obtained from these individuals regarding their experiences with employee theft. The results support further inquiry into their perspective on the problem of employee theft, while also giving them a full voice in discussions on the problem.

Like almost all forms of crime, employee theft will never be completely preventable, yet it is a form of crime that can be reduced and if not entirely prevented in many instances. This study has shown that small business owners and managers are interested in protecting their business and preventing the occurrence of employee theft. Despite the fact that several small business owners and managers were comfortable with ignoring minor forms of employee theft, the general tenor of survey and interview participants was an excitement, and at times relief, regarding their participation in the study. This is a problem that small businesses want to talk about, something that they want to address. This study has taken the initial steps necessary to allow them to share their stories and experiences with others so that they can help other small businesses avoid employee theft, while also finding new ways to address the potential for theft within their own businesses.

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## **Appendices**

Appendix A: Managerial survey information sheet

Appendix B: Managerial survey cover letter

Appendix C: Managerial survey

Appendix D: Adult Informed Consent form – managerial interviews

Appendix E: Coding Dictionary

PAGE BREAK



**Information Sheet for Research  
University of Cincinnati  
Department: School of Criminal Justice  
Principal Investigator: Jay P. Kennedy, MS  
Faculty Advisor: Dr. Michael Benson**

**Title of Study: Small Business Employee Theft in Cincinnati**

**Introduction:**

You are being asked to take part in a research study. Please read this paper carefully and ask questions about anything that you do not understand.

This research is being co-sponsored by the Criminal Justice Research Center, and the Goering Center for Family and Private Business at the University of Cincinnati.

**Who is doing this research study?**

The person in charge of this research study is Jay P. Kennedy, a Ph. D. student of the University of Cincinnati (UC) School of Criminal Justice.

He is being guided in this research by Dr. Michael Benson, Professor in the School of Criminal Justice.

**What is the purpose of this research study?**

The purpose of this research study is to understand the prevalence of employee theft within small businesses in Cincinnati; to understand how managers and employees differ in their perceptions of the opportunity for employee theft; and, to understand how small businesses handle identified instances of employee theft.

**Who will be in this research study?**

About 3600 small businesses will be asked to take part in this study. You may be in this study if you are an manager/owner/director of a small business in Cincinnati.

**What will you be asked to do in this research study, and how long will it take?**

You will be asked to complete a survey questionnaire regarding the occurrence of employee theft, your perceptions of the opportunity for theft, and your perceptions of the climate of your business. It will take about 15 minutes to complete this survey.

**Are there any risks to being in this research study?**

It is not expected that you will be exposed to any risk by being in this research study.

**Are there any benefits from being in this research study?**

You will probably not get any benefit from taking part in this study. But, being in this study may help other small businesses throughout Cincinnati, and the U.S. understand how to deal with the problem of employee theft. The results and recommendations that are produced by this study will be shared at no cost, upon request.



**What will you get because of being in this research study?**

You will not be paid (or given anything) to take part in this study.

**Do you have choices about taking part in this research study?**

If you do not want to take part in this research study you may simply not participate by not returning the enclosed survey form.

**How will your research information be kept confidential?**

Information about you will be kept private by using a study ID number instead of your name, or your business's name on the research forms.

Your information will be kept by the Principle Investigator, on his personal computer, for the duration of the research study. After that it will be destroyed by deleting any computer files containing identifying information.

Agents of the University of Cincinnati may inspect study records for audit or quality assurance purposes.

**What are your legal rights in this research study?**

Nothing in this consent form waives any legal rights you may have. This consent form also does not release the investigator, the Criminal Justice Research Center, the University of Cincinnati, or its agents from liability for negligence.

**What if you have questions about this research study?**

If you have any questions or concerns about this research study, you should contact Jay P. Kennedy at (734) 755-4594 or [kennejp@mail.uc.edu](mailto:kennejp@mail.uc.edu). Or, you may contact Dr. Michael Benson at [bensonm@ucmail.uc.edu](mailto:bensonm@ucmail.uc.edu).

The UC Institutional Review Board reviews all research projects that involve human participants to be sure the rights and welfare of participants are protected.

If you have questions about your rights as a participant or complaints about the study, you may contact the UC IRB at (513) 558-5259. Or, you may call the UC Research Compliance Hotline at (800) 889-1547, or write to the IRB, 300 University Hall, ML 0567, 51 Goodman Drive, Cincinnati, OH 45221-0567, or email the IRB office at [irb@ucmail.uc.edu](mailto:irb@ucmail.uc.edu).

**Do you HAVE to take part in this research study?**

No one has to be in this research study. Refusing to take part will NOT cause any penalty or loss of benefits that you would otherwise have. You may start and then change your mind and stop at any time. Also, you may skip any questions that you do not want to answer. To stop being in the study, you should tell Jay P. Kennedy.

BY TURNING IN YOUR COMPLETED SURVEY YOU INDICATE YOUR CONSENT FOR YOUR ANSWERS TO BE USED IN THIS RESEARCH STUDY.  
PLEASE KEEP THIS INFORMATION SHEET FOR YOUR REFERENCE.

## Appendix B: Managerial Survey Cover Letter

Dear Business Manager:

My name is Jay Kennedy, I am currently a doctoral candidate at the University of Cincinnati, and I am conducting a study on the problem of employee theft within small businesses. I am contacting you today because you are the owner of, or a key officer with, a small business located within the Cincinnati area, and your participation in this study is vitally important!

Your responses will allow us to better understand employee theft in general, to understand how employee theft affects small businesses in particular, and to develop and distribute tangible resources to small businesses in the Cincinnati area. These resources will allow small businesses to more effectively combat the problem of employee theft. However, our ability to accomplish these goals rests in your hands, as we need you to share your experiences with employee theft with us, so that we can better understand this problem.

We are asking you to please take a few minutes (approximately 20 – 25 minutes) and complete the enclosed survey form in its entirety. Your participation is important to the success of this study; whether you have been the victim of employee theft or not, your participation helps us to address this very serious problem.

Your participation in this study, as well as any information connecting you or your business to this study, will be kept completely confidential! No one but me and my mentor, Dr. Michael Benson, will be aware of which individuals or businesses participate in this study. Please see the enclosed Survey Information Sheet for additional information related to the confidentiality of your information. In closing, I would like to thank you, in advance, for your time. I greatly appreciate your assistance in this important research study!

Sincerely,

A handwritten signature in black ink, appearing to read 'Jay P. Kennedy', with a stylized flourish at the end.

Jay P. Kennedy, Principal Investigator


A STUDY OF SMALL BUSINESS EMPLOYEE THEFT  
IN CINCINNATI

MANAGER VERSION

A RESEARCH PROJECT SPONSORED JOINTLY BY:  
THE CRIMINAL JUSTICE RESEARCH CENTER, UNIVERSITY OF CINCINNATI  
AND  
THE GOERING CENTER FOR FAMILY AND PRIVATE BUSINESS, LINDNER COLLEGE OF  
BUSINESS – UNIVERSITY OF CINCINNATI



1. This company distributes formal written procedures to employees regarding general workplace standards of conduct.	YES	NO	DON'T KNOW	N/A
2. This company uses sign-out procedures for tools, materials, and other company goods/equipment.	YES	NO	DON'T KNOW	N/A
3. This company has a code of conduct for all employees.	YES	NO	DON'T KNOW	N/A
4. This company uses an electronic clock-in/out system for employees.	YES	NO	DON'T KNOW	N/A
5. This company uses distinct audio or visual cues (such as a bell, whistle, other announcement) to indicate the beginning and ending of work days, as well as appropriate break times, including lunch.	YES	NO	DON'T KNOW	N/A
6. This company screens employees as they enter/exit the building.	YES	NO	DON'T KNOW	N/A
7. This company uses an anonymous reporting system where employees can report acts of theft, or ethical violations.	YES	NO	DON'T KNOW	N/A
8. This company has periodic external audits.	YES	NO	DON'T KNOW	N/A
9. This company has periodic internal audits.	YES	NO	DON'T KNOW	N/A
10. This company provides ethics training for all employees.	YES	NO	DON'T KNOW	N/A
10A. If YES, how often is the ethics training provided?	Yearly	Quarterly	Monthly	Once, when joining the company
11. This company uses closed-circuit television to monitor the business.	YES	NO	DON'T KNOW	N/A
12. This company uses other types of monitoring equipment to prevent the occurrence of theft at the business.	YES	NO	DON'T KNOW	N/A

 12A. Please indicate the type of monitoring you use:  


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13. Has your business ever been the victim of employee theft?

I DON'T KNOW – Please Continue Directly to SECTION 3

NO – Please Continue Directly to SECTION 3

YES – Please Complete SECTION 2

Occurrence #1:

14.11: Was this occurrence of theft a “one-time event,” or an “ongoing series” of thefts?

One-time

On-going

14.11A: Approximately how long did the series of theft go on? \_\_\_\_\_

14.11B: Can you briefly describe how the scheme was carried out? In other words, how did the employee (or employees) steal from your business?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

14.12: What, specifically, was stolen? \_\_\_\_\_

14.13: What was the approximate total dollar value?:  
\$ \_\_\_\_\_

14.14: Was this theft the act of a single employee, or a group of employees?

Single-employee

Group of employees

14.14A: How many?: \_\_\_\_\_

14.15: What position did the person(s) involved hold with the business?: \_\_\_\_\_

14.16: How was the theft discovered?

Supervisory personnel discovered the theft

Employee(s) admitted to the theft before it was discovered

Another employee(s) informed the business about the theft

The employee(s) was caught in the act

An internal audit discovered the theft

An external audit discovered the theft

Other: \_\_\_\_\_

14.17: What happened to the employee(s) involved?  
\_\_\_\_\_

Occurrence #2:

14.21: Was this occurrence of theft a “one-time event,” or an “ongoing series” of thefts?

One-time

On-going

14.21A: Approximately how long did the series of theft go on? \_\_\_\_\_

14.21B: Can you briefly describe how the scheme was carried out? In other words, how did the employee (or employees) steal from your business?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

14.22: What, specifically, was stolen? \_\_\_\_\_

14.23: What was the approximate total dollar value?:  
\$ \_\_\_\_\_

14.24: Was this theft the act of a single employee, or a group of employees?

Single-employee

Group of employees

14.24A: How many?: \_\_\_\_\_

14.25: What position did the person(s) involved hold with the business?: \_\_\_\_\_

14.26: How was the theft discovered?

Supervisory personnel discovered the theft

Employee(s) admitted to the theft before it was discovered

Another employee(s) informed the business about the theft

The employee(s) was caught in the act

An internal audit discovered the theft

An external audit discovered the theft

Other: \_\_\_\_\_

14.27: What happened to the employee(s) involved?  
\_\_\_\_\_

**Section 2 Continued**

Occurrence #3:

14.31: Was this occurrence of theft a “one-time event,” or an “ongoing series” of thefts?

One-time

On-going

14.31A: Approximately how long did the series of theft go on? \_\_\_\_\_

14.31B: Can you briefly describe how the scheme was carried out? In other words, how did the employee (or employees) steal from your business?

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14.32: What, specifically, was stolen? \_\_\_\_\_

14.33: What was the approximate total dollar value?:  
\$ \_\_\_\_\_

14.34: Was this theft the act of a single employee, or a group of employees?

Single-employee

Group of employees

14.34A: How many?: \_\_\_\_\_

14.35: What position did the person(s) involved hold with the business?: \_\_\_\_\_

14.36: How was the theft discovered?

Supervisory personnel discovered the theft

Employee(s) admitted to the theft before it was discovered

Another employee(s) informed the business about the theft

The employee(s) was caught in the act

An internal audit discovered the theft

An external audit discovered the theft

Other: \_\_\_\_\_

14.37: What happened to the employee(s) involved?

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Occurrence #4:

14.41: Was this occurrence of theft a “one-time event,” or an “ongoing series” of thefts?

One-time

On-going

14.41A: Approximately how long did the series of theft go on? \_\_\_\_\_

14.41B: Can you briefly describe how the scheme was carried out? In other words, how did the employee (or employees) steal from your business?

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14.42: What, specifically, was stolen? \_\_\_\_\_

14.43: What was the approximate total dollar value?:  
\$ \_\_\_\_\_

14.44: Was this theft the act of a single employee, or a group of employees?

Single-employee

Group of employees

14.44A: How many?: \_\_\_\_\_

14.45: What position did the person(s) involved hold with the business?: \_\_\_\_\_

14.46: How was the theft discovered?

Supervisory personnel discovered the theft

Employee(s) admitted to the theft before it was discovered

Another employee(s) informed the business about the theft

The employee(s) was caught in the act

An internal audit discovered the theft

An external audit discovered the theft

Other: \_\_\_\_\_

14.47: What happened to the employee(s) involved?

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**Section 2 Continued**

Occurrence #5:

14.51: Was this occurrence of theft a “one-time event,” or an “ongoing series” of thefts?

One-time

On-going

14.51A: Approximately how long did the series of theft go on? \_\_\_\_\_

14.51B: Can you briefly describe how the scheme was carried out? In other words, how did the employee (or employees) steal from your business?

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14.52: What, specifically, was stolen? \_\_\_\_\_

14.53: What was the approximate total dollar value?:  
\$ \_\_\_\_\_

14.54: Was this theft the act of a single employee, or a group of employees?

Single-employee

Group of employees

14.54A: How many?: \_\_\_\_\_

14.55: What position did the person(s) involved hold with the business?: \_\_\_\_\_

14.56: How was the theft discovered?

Supervisory personnel discovered the theft

Employee(s) admitted to the theft before it was discovered

Another employee(s) informed the business about the theft

The employee(s) was caught in the act

An internal audit discovered the theft

An external audit discovered the theft

Other: \_\_\_\_\_

14.57: What happened to the employee(s) involved?

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	<b>Very Easy</b>	<b>Easy</b>	<b>Difficult</b>	<b>Very Difficult</b>	<b>N/A</b>
15. Use the company's resources in an unauthorized manner while on the company's property:	1	2	3	4	5
16. Use the company's resources in an unauthorized manner while <b>away</b> from company property:	1	2	3	4	5
17. Steal tools or equipment from the company:	1	2	3	4	5
18. Steal materials, parts, of finished goods from the company:	1	2	3	4	5
19. Take money from the company by taking physical cash or misusing credit cards:	1	2	3	4	5
20. Embezzle money from the company <b>without</b> taking physical cash:	1	2	3	4	5

**Section 4:**

**We would now like to ask you a few questions regarding your perception of the ethical climate of your business.**

**Please select the ONE response that most appropriately reflects your opinion.**

Describes my company very well  
Does NOT describe my company well

21. People around here are aware of ethical issues.	1	2	3	4	5
22. People in my company recognize a moral dilemma right away.	1	2	3	4	5
23. People in my company are very sensitive to ethical problems.	1	2	3	4	5
24. People in my company sympathize with someone who is having difficulties in their job.	1	2	3	4	5
25. For the most part, when people around here see that someone is treated unfairly, they feel pity for that person.	1	2	3	4	5
26. People around here feel bad for someone who is being taken advantage of.	1	2	3	4	5
27. In my company people feel sorry for someone who is having problems.	1	2	3	4	5
28. People around here are mostly out for themselves.	1	2	3	4	5
29. People in my company think of their own welfare first when faced with a difficult decision.	1	2	3	4	5
30. In my company people's primary concern is their own personal benefit.	1	2	3	4	5
31. People around here have a strong sense of responsibility to society and humanity.	1	2	3	4	5
32. What is best for everyone in the company is the major consideration.	1	2	3	4	5
33. The most important concern is the good of all the people in the company.	1	2	3	4	5
34. In my company people are willing to break the rules in order to advance in the company.	1	2	3	4	5
35. Around here, power is more important than honesty.	1	2	3	4	5
36. When resources run low, people in my company are willing to compensate by compromising their ethical values.	1	2	3	4	5
37. People I work with would feel they had to help a peer even if that person were not a very helpful person.	1	2	3	4	5
38. People in my company feel it is better to assume responsibility for a mistake.	1	2	3	4	5
39. No matter how much people around here are provoked, they are always responsible for whatever they do.	1	2	3	4	5

**Thank you for taking the time to complete this survey form!**

This survey is one small, yet very important, part of a larger research project. The remainder of our study will be comprised of a series of one-on-one interviews with the managers of small businesses, and a survey of the employees of small businesses. Your participation to this point has been greatly appreciated, and we would like to know if you would be willing to assist us further in this project. Specifically, would you be willing to do either of the following:

- Participate in a one-on-one interview with the researchers:

YES            NO

- Allow the researchers to survey the employees of your business:

YES            NO

**Again, we thank you for your time and we appreciate your contribution to our research!**

**Jay P. Kennedy, MS – Principal Investigator  
Dr. Michael Benson – Faculty Mentor  
University of Cincinnati  
School of Criminal Justice  
660 Dyer Hall  
Cincinnati, Ohio 45221**

**Adult Consent Form for Research**  
**University of Cincinnati**  
**Department: School of Criminal Justice**  
**Principal Investigator: Jay P. Kennedy, MS**  
**Faculty Advisor: Dr. Michael Benson**

**Title of Study: Small Business Employee Theft in Cincinnati**

**Introduction:**

You are being asked to take part in a research study. Please read this paper carefully and ask questions about anything that you do not understand.

This research is being co-sponsored by the Criminal Justice Research Center, and the Goering Center for Family and Private Business at the University of Cincinnati.

**Who is doing this research study?**

The person in charge of this research study is Jay P. Kennedy of the University of Cincinnati (UC) School of Criminal Justice.

He is being guided in this research by Dr. Michael Benson, Professor in the School of Criminal Justice.

**What is the purpose of this research study?**

The purpose of this research study is to understand the prevalence of employee theft within small businesses in Cincinnati; to understand how managers and employees differ in their perceptions of the opportunity for employee theft; and, to understand how small businesses handle identified instances of employee theft.

**Who will be in this research study?**

About 30 managers/owners/directors of small businesses in the Cincinnati area will take part in this research study.

**What if you are an employee where the research study is done?**

Taking part in this research study is not part of your job. Refusing to be in the study will not affect your job. You will not be offered any special work-related benefits if you take part in this study.

**What will you be asked to do in this research study, and how long will it take?**

You will be asked to complete a face-to-face interview with the Principal Investigator regarding your business's handling of a recent occurrence of employee theft. It will take about 45 minutes to complete this interview. It is the Principal Investigator's intention to audio record the interview; however, if you do not wish your interview to be recorded, you have the choice to decline the recording but still be part of the study and answer the interview questions. At the end of this consent form, you will be asked to check a box indicating your preference regarding the recording of the interview.



**Are there any risks to being in this research study?**

It is not expected that you will be exposed to any risk by being in this research study.

**Are there any benefits from being in this research study?**

You will probably not get any benefit from taking part in this study. But, being in this study may help other small businesses throughout Cincinnati, and the U.S. understand how to deal with the problem of employee theft. The results and recommendation produced by this study, which may include the data you give in the interview, will be made available upon request, and at no cost.

**What will you get because of being in this research study?**

You will not be paid (or given anything) to take part in this study.

**Do you have choices about taking part in this research study?**

If you do not want to take part in this research study you may simply not participate by not returning the enclosed survey form.

**How will your research information be kept confidential?**

The interview will be audio recorded so that it may be transcribed at a later date. The Principal Investigator will ask that you not disclose during the interview the specific names of the individuals involved, your name, or your company's name. The audio files collected from this process will be kept by the Principal Investigator, and only the Principal Investigator and his Faculty Mentor will have access to the files. If you wish, you can decline to have your responses recorded and still participate in the interview by answering the interview questions. You may also decline to participate in the study before beginning the interview, or at any point during the interview.

Any identifying information about you, and your participation in this study, will be kept by the Principle Investigator, on his personal computer, for the duration of the research study. After that it will be destroyed by deleting any computer files containing identifying information.

Agents of the University of Cincinnati may inspect study records for audit or quality assurance purposes.

**What are your legal rights in this research study?**

Nothing in this consent form waives any legal rights you may have. This consent form also does not release the investigator, the Criminal Justice Research Center, the University of Cincinnati, or its agents from liability for negligence.

**What if you have questions about this research study?**

If you have any questions or concerns about this research study, you should contact Jay P. Kennedy at (734) 755-4594 or [kennejp@mail.uc.edu](mailto:kennejp@mail.uc.edu). Or, you may contact Dr. Michael Benson at [bensonm@ucmail.uc.edu](mailto:bensonm@ucmail.uc.edu).

The UC Institutional Review Board reviews all research projects that involve human participants to be sure the rights and welfare of participants are protected.

Appendix D: Adult Informed Consent form – managerial interviews

If you have questions about your rights as a participant or complaints about the study, you may contact the UC IRB at (513) 558-5259. Or, you may call the UC Research Compliance Hotline at (800) 889-1547, or write to the IRB, 300 University Hall, ML 0567, 51 Goodman Drive, Cincinnati, OH 45221-0567, or email the IRB office at [irb@ucmail.uc.edu](mailto:irb@ucmail.uc.edu).

**Do you HAVE to take part in this research study?**

No one has to be in this research study. Refusing to take part will NOT cause any penalty or loss of benefits that you would otherwise have. You may start and then change your mind and stop at any time. Also, you may skip any questions that you do not want to answer. To stop being in the study, you should inform the Principal Investigator.

**Agreement:**

I have read this information and have received answers to any questions I asked. I give my consent to participate in this research study. I will receive a copy of this signed and dated consent form to keep.

I Agree to have the interview audio recorded.

I Decline to have the interview audio recorded.

Participant Name (please print) \_\_\_\_\_

Participant Signature \_\_\_\_\_ Date \_\_\_\_\_

Signature of Person Obtaining Consent \_\_\_\_\_ Date \_\_\_\_\_

## Employee Theft Study Coding Dictionary

**Attributes:** [gender, industry, number of employees, theft, position]

**Incident** [respondent's description of employee theft incident]

**Specifics** [specific details about incident of employee theft]

**Reasons** [reasons given as to why employee engaged in theft]

**Addiction** [types of addiction perceived to drive theft]

**Personal** [personal issues perceived to drive theft]

**Money** [need for cash perceived to drive theft]

**Enhancement** [lifestyle enhancement perceived to drive theft]

**Identification** [how theft was identified]

**Admission** [account of employee thief's admission to theft]

**Peer Reporting** [account of co-worker's report of theft to management]

**Impact** [effect of theft incident]

**Personal** [respondent's description of impact of theft on them]

**Organizational** [impact the theft had upon organizational operations]

**Employee** [impact of theft upon other employees]

**Cost** [value of theft]

**Explanation** [respondent's description of how employee took advantage of specific opportunities]

**Relationship** [the relationship between the respondent and the thief]

**Employee Reflection** [respondent's discussion of thoughts about employee's behavior around time of theft]

**Outcomes** [information about the outcomes related to theft]

**Employee** [action business took against employee outside of CJ system]

**Thief** [CJ system action taken against employee]

**Legal** [CJ/legal system actions taken by business]

**Employee Current** [where employee thief is currently employed]

**Address** [how respondent dealt with employee]

**Employee Reaction** [how employee responded to confrontation regarding theft]

**Non-Report** [respondent's assessment of reasons why they did not/would not report theft]

**Trivial** [assessment of theft as too small to report]

**Controls** [controls prevent theft from becoming large]

**Philosophy** [respondent's personal philosophy on reporting theft]

**Religion** [influence of religious convictions on reporting theft]

**Embarrassment** [feelings of embarrassment related to admitting to theft]

**Emotion** [respondent's emotional connection to employee thief]

**Family** [employee thief was family member]

**Police Effectiveness** [respondent's perception of effectiveness of police in dealing with employee theft]

**Police Prior** [prior experiences with police dealing with employee theft]

**Attention** [respondent's assessment of attention given to crimes by police]

## Appendix E: Coding Dictionary

**Prior Experience** [respondent's prior experiences with legal system regarding employee theft]

**Experience Perceptions** [respondent's assessment of working with legal system to address employee theft]

**3<sup>rd</sup> party** [counselor or advisor influences decision to report theft]

**Time** [concerns that reporting theft will cost the respondent more in terms of time and expense than will be recouped]

**Organization** [respondent's statements about theft as related to the organization]

**Prevention** [actions used by the business in the prevention of theft]

**Opportunity** [statements about the opportunity for theft to occur within the business]

**Response** [organizational responses to employee theft]

**Organizational Change** [changes made to business process or procedures]

**Targeting** [actions taken by the business to reduce theft that target specific employees]

**Controls** [statements about organizational controls, processes, or procedures]

**General** [organizational mechanisms aimed at controlling business resources that are not specifically the result of employee theft]

**Cost** [cost controls used by business]

**Financial** [financial controls]

**Personnel** [personnel procedures]

**Controls Prior** [theft controls that are in place prior to the occurrence of theft]

**Controls Post** [theft controls that are in place after an occurrence of theft]

**Culture** [respondent's assessment of the culture of the business]

**Prior** [culture prior to theft]

**Current** [current culture of business]

**Post** [culture post employee theft]

**Employee** [respondent's assessment of employee culture]

**Family** [statements by respondent that their business is like a family]

**Trust** [respondent's statements about the trust they have in employees]

**Violation of Trust** [statements by respondents identifying employee theft as a violation of trust]

**General Trust** [statements about trust extended to employees by respondent/business]

**Prior-All** [trust extended to all employees prior to theft]

**Prior-Thief** [trust extended to employee thief prior to theft]

**Post-All** [trust extended to employees after an incident of theft]

**Post-Thief** [trust extended to employee thief after theft]

**Personal** [personal statements made by respondent about himself or herself]

**Anger** [statements by respondents that theft made them angry]

**Hurt** [statements by respondents that theft caused a negative emotional response]

## Appendix E: Coding Dictionary

**Stockholm** [statements by respondents that place them in shoes of thief; use this perspective when evaluating how to deal with thief]

**MGMT** [statements by respondent about how theft changed their management style]

**Reflection** [respondent's self-reflection driven by theft]

**Style Change** [reflections on changes to management style]

**Personal Change** [reflections on changes to personality/self]

**Regret** [respondent's desire to go back and chose different course of action in dealing with theft]

**Generosity** [examples of acts of generosity to employees]

**Business** [acts taken by the business]

**Self** [acts taken by the respondent]

**Others** [acts taken by others in the business]

**General Theft** [general statements about employee theft – not specific to instance within the business]

**Example** [respondent's examples of theft that could occur within the business or elsewhere]

**General Perceptions** [respondent's perceptions of why theft occurs in small businesses generally]

**General Recovery** [respondent's perception of what businesses can do to recover from employee theft]

**Following** [respondent's perception of what is likely to happen after theft]

**Variety** [respondent's explanation of the types of employee theft that exist]

**IP** [respondent's definition of intellectual property theft]

**Recovery** [tools a business can use to recoup losses]

**Explain** [discussion of theft that has occurred at other businesses]

**Controls** [controls businesses can use to prevent employee theft]

**Business Theft** [information related to theft, in general, occurring at business]

**Addressing** [how respondent generally deals with employee theft]

**Types** [general descriptions of theft that have occurred at the business]

**Legal** [statements about the legal system, in general]

**Police** [respondent's assessment of the police]

**Positive** [positive assessments of the police]

**Negative** [negative assessments of the police]

**System** [respondent's assessment of the legal system, in general]

**Positive** [positive assessments of the system]

**Negative** [negative assessments of the system]

