

Employee Theft: Views from Two Sides

Retailers generally underestimate the extent of employee theft, this survey showed. The authors suggest that employee stealing can be eliminated to some extent by responsive employers.

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Estimates of retail losses due to various forms of theft range as high as \$5 billion annually. Much of the problem is attributable to customer shoplifting, which lost retailers an estimated \$3.5 billion in 1972.¹ An equally costly problem, however, is theft by employees. The security chief for a large retail drug chain, in an interview with Earnest Dickinson, claims: "About 70% of money lost to crime in business today is lost internally. Employees just wait for the manager to become lax."² Theft by employees amounts to a loss of more than \$10 million a day in cash and merchandise—about \$3 billion a year.³

Most studies of retail theft have focused almost exclusively upon shoplifting, with much of the data derived from police and store records. However, few empirical studies have examined the problem of internal theft

in retailing. Therefore, the authors conducted research with the following purposes in mind: (1) to assess employers' perceptions regarding the nature and extent of retail shrinkage; (2) to determine what employers believe constitutes theft (stealing) by their employees; (3) to determine what antitheft practices and policies are followed by employers when confronted with employees who steal; (4) to get employers' ideas on why employees steal from them; and (5) to compare employer and employee views on internal theft in retailing.

The research was based upon a mail survey of retail merchants in the state of Mississippi. A total of 312 completed questionnaires were received. Of these, 254 were usable; the remaining were eliminated due to incomplete or inaccurate responses (the usable response rate was 36%). The six major categories of store types represented were: department stores (23.5%), clothing stores (15.6%), drugstores (14.7%), discount department stores (10.8%), grocery stores (6.4%), and hardware stores (5.6%). These six categories accounted for 76.6% of the total responding. A large number (66.7%) of the stores reported an annual sales volume under \$500,000; 16.9% were in the \$500,000 to \$1 million category,

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1. "Foil the Shoplifter and Lure the Investors," *Business Week* (December 25, 1972), pp. 22-23.

2. Earnest Dickinson, "Drugstore Security: The Battle to Keep What You Have," *Drug Topics* (September 25, 1972), pp. 48-49.

3. "Why Employees Steal," *U. S. News and World Report* (May 3, 1971), p. 78.

and 16.4% reported a volume over \$1 million annually. Most of the stores were owner-operated (63.5%); the remainder were members of either a chain or franchise system.

RETAILERS' VIEWS OF SHRINKAGE

It has been suggested that stores with shrinkage rates above 3% of sales have the beginning of a potentially serious problem. The likely proportions for total shrinkages suggested by R. L. Adair are one-third from clerical errors, one-third from employee and supplier thefts, and one-third due to customer shoplifting.⁴

The mean shrinkage rate for the retailers in this study was 2.24% of sales, which is above the 1.97% national average. Most retailers surveyed believe that employee theft is not a significant contributor to their shrinkage rates; shoplifting, however, is considered to be a substantially greater problem. In contrast to previous studies, a majority (83%) of the merchants said employee theft accounts for less than 2% of total shrinkage, and only twenty-one merchants said it accounts for at least 5% of total shrinkage.

Forty-five percent of the retailers in the present study said shoplifting accounts for 25% or more of total shrinkage. However, about 44% indicated that shoplifting accounts for less than 10% of total shrinkage. Using Adair's estimates as a standard, about half of the respondents were significantly underestimating the dollar volume of shoplifting.

EXTENT OF EMPLOYEE THEFT

According to an article by Ronald L. Tatham in the *Journal of Retailing*, 50% of retail employees admit stealing from their employers.⁵ In contrast, 80% of the retailers

responding to this survey believe that employee theft accounts for less than 2% of total shrinkage. More important, 83% believe that less than 2% of their employees steal from them. Obviously, there is great disparity in these findings. Tatham's results were based on retail employees' admissions (confidentially reported) of having taken things from their employer. He notes that "If one accepts that admissions of this type might be biased on the low side, this problem has significantly permeated the retail work force."

There is little doubt that many employers responding in the present study are underestimating the degree of employee theft in their stores. However, there are several logical reasons which could account for the differences. One is that the employers may be completely unaware of the thefts. Another is the differences in the geographic areas from which the data were obtained. Tatham's and Dickinson's results were based on large urban areas in the North, whereas the present research was conducted in a relatively rural southern state where the incidence of employee theft may in fact be much lower. Finally, the large proportion (63.5%) of owner-operated stores in the present study may partially explain the differences. Employees may steal because big business has eliminated the personal relationship between employer and employee. Apparently, employees feel little psychological hindrance to stealing from an impersonal corporation. Thus, while employers in the present study probably are underestimating the extent of employee theft, there is little likelihood that it is as prevalent as suggested in the other studies.

DEFINING EMPLOYEE THEFT

It is commonly known that from time to time many employees take merchandise or items which are the property of their employer. The

4. R. L. Adair, "Shrinkage Control Is Everyone's Job," *Financial Executive* (April 1973), pp. 36-46.

5. Ronald L. Tatham, "Employees' Views on Theft in Retailing," *Journal of Retailing* (Fall 1974), pp. 49-56.

value of this property may range all the way from a few cents (paper clips or pencils) to several thousand dollars (an electronic calculator). Tatham found that almost 70% of the employees who admitted stealing merchandise valued at \$24.99 or less did not believe it was stealing (see Table 1). Even more surprising was that 83% of the employees who stole merchandise valued up to \$74.99 did not believe it was stealing. However, 64% of the employers considered the taking of merchandise valued at less than \$1.00 to be stealing and 90% considered the taking of anything valued at \$1.00 or more to be stealing. Thus, employers' perceptions of what constitutes stealing differ substantially from those of employees (significant beyond .001 level).

TABLE 1

Employer and Employee Views Regarding What Represents Stealing

Value of Item	Present Study		Tatham Study*	
	Employers (Percent)		Employees (Percent)	
	Stealing/Not Stealing	Stealing/Not Stealing	Stealing/Not Stealing	Stealing/Not Stealing
Less than \$1.00	64	36	31	69
\$1.00 to \$24.99	92	8	33	67
\$25.00 to \$74.99	91	9	17	83
\$75.00 or more	90	10	60	40

*Percentages computed for Tatham's study based on 49 employees who admitted having stolen merchandise or cash. See Ronald L. Tatham, "Employees' Views on Theft in Retailing," *Journal of Retailing* (Fall 1974), pp. 49-56.

PUNISHING EMPLOYEES WHO STEAL

Table 2 shows employers' and employees' opinions regarding appropriate punishment for employees who take merchandise without paying. Focusing first on the employees' opinions, it is apparent that the responses are skewed toward leniency. Tatham suggests that these results may be a function either of the employees' perceptions of the importance of the acts (of stealing), or a reflection of management's previous practices. A surprising 18% of the employers also were lenient, indicating that nothing should be done or that

TABLE 2

Employer and Employee Opinions Regarding Appropriate Punishment for Employees Who Steal

What should be done to employees who take merchandise without paying for it?	Present Study	Tatham Study*	
	Employers (Percent)	Employees Admitting Previous Theft (Percent)	Employees Denying Previous Theft (Percent)
Nothing or made to pay for it	18	41	47
Made to pay for it and suspended for a couple of weeks	6	22	18
Fired, but not prosecuted	15	†	†
Fired and prosecuted	43	18	24
Other	9	12	4
No response	9	7	7
Total	100	100	100

*Percentages computed from Tatham's sample of 98 retail employees (49 admitting to previous theft; 49 denying previous theft). See Ronald L. Tatham, "Employees' Views on Theft in Retailing," *Journal of Retailing* (Fall 1974), pp. 49-56.

†Data not reported in Tatham's article.

employees should only be compelled to pay for the merchandise. In general, the employers display a definite tendency toward stricter punishment than the employees, with 43% of them indicating they would fire and prosecute employees caught stealing. Thus, there is a disparity between employers' and employees' viewpoints regarding the severity of the punishment for employee theft (significantly different beyond the .000001 level).

Employee's opinions about reporting a fellow worker whom they see stealing from their employer (see Table 3) were skewed toward leniency, just as were their views regarding appropriate punishment. As would be anticipated, those employees admitting previous theft would be more reluctant to report fellow employees than would employees denying previous theft.

TABLE 3

Reporting Fellow Employees for Stealing

<i>Tatham Study*</i> <i>Employee Responses—Would you report a fellow worker whom you saw stealing from your employer?</i>	<i>Employees Admitting Previous Theft (Percent)</i>	<i>Employees Denying Previous Theft (Percent)</i>
Yes	14	39
No	78	55
No response	8	6
Total	100	100

<i>Present Study</i> <i>Employer Responses—Do you provide any incentive to an employee who reports a fellow employee stealing from your store?</i>	<i>Employers (Percent)</i>
Provide incentive	10
Do not provide incentive	83
No response	7
Total	100

*Percentages computed from Tatham's sample of 98 retail employees (49 admitting to previous theft; 49 denying previous theft). See Ronald L. Tatham, "Employees' Views on Theft in Retailing," *Journal of Retailing* (Fall 1974), pp. 49-56.

The employees' attitudes toward reporting fellow employees for stealing is not surprising in view of the employers' practices. When employers were asked if they provide any incentive to an employee who reports a fellow employee stealing from their store, 83% said no. Also, the incentive programs provided by the 10% who indicated they offered them generally were not clearly defined or well structured. For example, many employers (43%) indicated their incentive was praise for employees who reported fellow employees for stealing. The second most frequent incentive (28%) for reporting was fear—telling employees they are being watched closely and if they don't report fellow employees they are considered guilty, too.

The most structured program designed to uncover employee theft was that used by a number of drugstores (usually members of

large, national chains). On a regular basis, usually annually, they require every employee to take a polygraph test and answer questions regarding whether they have stolen merchandise or cash. The fact that some retailers are using the polygraph test indicates the severity of the employee theft problem. Moreover, the use of more stringent controls such as the polygraph could help to reduce employee theft. Stricter controls have reduced shoplifting; these controls could have a comparable effect on employee theft.

REASONS FOR EMPLOYEE THEFT

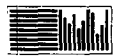
Why do some employees seem compelled to take merchandise from their employers without paying? Previous researchers have identified five major factors thought to be determinants of employee theft. They are:

- (1) Big business has eliminated the personal relationship that once existed between employer and employee. Thus, the employee feels little psychological guilt about stealing from an impersonal corporation.
- (2) The employee has an inadequate income and must steal.
- (3) The employee has extravagant living standards.
- (4) The employee has undesirable or criminal associates.
- (5) The employee steals to recoup gambling losses.

In the present study, employers were asked why employees steal, with a view to comparing their opinions with earlier findings. Several of the reasons were comparable to those indicated in previous studies. For example, employers indicated lack of adequate pay, unexpected expenses, and hard times as reasons. Also, the present study's "other" category included a small number of employers who suggested the impersonal relationship of

big business, and undesirable or criminal associates encouraged theft.

In general, however, employers' reasons as to why employees steal, reported in Table 4, were different from previous findings. For example, 15% said the employee might have a grudge against the employer; 13% noted the relative ease of stealing and access to merchandise; 12% suggested employees do not believe they are stealing; and 12% indicated employees think they can get away with it. Employers made no mention of recouping gambling losses, but this last difference is probably due to the fact that gambling is illegal in Mississippi and probably less prevalent than in the areas where other researchers obtained their information.



The study reported here examined a wide variety of issues regarding retail theft. Many of the retailers surveyed are experiencing shrinkage problems in excess of the national average, but they do not believe employee theft is a significant contributor to their relatively high shrinkage rates. In view of estimates of the extent of employee theft reported in other studies, it is very likely that the employers are underestimating the extent of employee theft.

The value of the item taken has a substantial influence on the employers' perceptions of what constitutes stealing, whereas it has little effect on the employees' admission of the act of stealing. Employers indicate they would be much more stringent in their punishment of employees who steal than would the employees themselves. However, as Tatham suggests, employees' opinions on punishment are probably a reflection of management's previous practices.

Employee theft could probably be reduced by making it more difficult for employees to steal or by creating incentive systems designed to encourage the reporting of fellow employees seen stealing. Some of

TABLE 4

Employers' Opinions Regarding Why Employees Steal

<i>Reasons</i>	<i>Percent</i>
Employee believes he is underpaid	22
Employee has grudge against employer	15
Relative ease and access to merchandise	13
Employee does not really believe he is stealing	12
Employee thinks he can get away with stealing	12
Employee believes he deserves it	8
Unexpected expenses, hard times	8
Other	10
<i>Total</i>	<i>100</i>

the major reasons given for employee theft are ones that could be overcome to some extent by responsive employers. For example, increasing the level of pay (the low level of pay for retail employees is well known), creating a better working relationship with employees to reduce or eliminate grudges, and making it more difficult for employees to steal by developing methods of controlling employee theft, would be positive steps toward reducing the extent of employee theft.

Controlling employee theft is both an area of concern and opportunity for retail management. The concern arises from the fact that employee theft appears to have significantly permeated the retail work force, yet employers appear to be relatively unaware of the extent of the problem. Employers, therefore, have done little to reduce or prevent employee theft. With declining retail margins and increasing pressures on profit levels due to inflation and other economic factors, the development of a successful program to control employee theft would certainly seem like a viable opportunity for retail management to reduce shrinkage and thereby increase profitability.