Beware of the enemy within

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When staff steal from their company it's often jokingly referred to as the five-fingered discount or the "Winona Ryder special". But when they help themselves to company property the whole country pays in higher prices for goods and services.

Fraud expert Mark van Leewarden, of Warden Consulting Ltd, estimates dishonest employees cost the average New Zealand firm around 4c in every dollar. And the findings last year of an Otago University survey, Retail Theft and Security, are that the retail sector alone loses at least $85 million every year because of light-fingered staff.

Van Leewarden says companies with a strong corporate culture which prescribe desirable behaviour are less likely to experience high levels of employee theft.

While most organisations are aware of staff theft - be it small items of office stationery or big-ticket retail items - Van Leewarden says too few take steps to stop it.

What's even more surprising, reveals the Otago University study, is an unwillingness by many firms to act strongly when staff are found out. From the estimated number of (survey reported) incidents of theft by staff, only 18 1/2 per cent of cases ended with staff being reported to the police - and only 18 per cent of those ended in a court conviction.

According to the survey's results, factors discouraging employers from reporting offenders to the police are a perceived low success rate in the courts, a general unwillingness by companies to prosecute the young or very old, and the desire to avoid negative publicity.

However, a handful of firms do go to great lengths to reduce staff theft. Over the past two years Van Leewarden's firm has deployed undercover staff in 30 organisations to recover stolen property and identify those responsible for theft.

To identify dishonest staff, NZ Post launched Operation Hunter and placed 20 people among staff to work undercover. The operation recovered $1.5 million in stolen property.

In NZ Post's case, recalls the company's former security and investigations manager Wayne Kiely, most theft was in goods or fraudulent activity linked to fuel cards.

"What Operation Hunter serves to illustrate," says Kiely. "Is that the enemy from within - dishonest staff - pose a far greater security risk than external forces."

Van Leewarden says an international Ernst & Young study provides a useful insight into occupational fraud trends locally. More than 80 per cent of the 739 organisations surveyed across 15 countries revealed that a third of all known staff theft was committed by management. Half of all staff theft was committed by people who'd been with the company more than five years.

A US-based study by the Association of Certified Fraud Examiners also reminds employers that when senior management steal they hit hard. The study revealed that annual losses caused by people aged 60-plus of

US$346,000 ($548,000) was 28 times that caused by staff aged 25 or under. Married employees committed the greatest number of thefts.

Beyond retail, Van Leewarden says the banking and finance sector is the second single biggest casualty of staff theft. The Ernst & Young survey discovered that of the 43 respondents suffering 50-plus incidents of theft, more than half were from the banking and finance sector.

While larger firms can weather staff theft, Van Leewarden says smaller firms fail to realise that one big hit could wipe them out.

So how does staff theft typically occur? A lot of retail theft, says Kiely, is committed around refunds, damaged goods, when stock is transferred or by not ringing through cash sales - staff hand over the goods to the customer and pocket the cash.

"Many incidents of staff theft are triggered by life-altering events within someone's personal circumstance.

"A giveaway that someone might be on the take," says Kiely, "is an employee who never takes leave. Other clues could include excessive borrowings, changes in personal spending habits, disregard for procedures, erratic behaviour or inaccurate stock levels."

So how can organisations minimise exposure to occupational fraud? As fellow staff are typically relied upon to blow the whistle on internal theft, Van Leewarden says organisations must align their corporate culture to promote desirable behaviour.

He recommends organisations take the necessary legal means - CCTV cameras, border controls and alarms - to deter the dishonest.

Whistle-blowing by fellow staff should be the best deterrent against internal theft. But he says supervisors who take perks or use drugs compromise their ability to report theft further down the ranks.

"Never underestimate how well planned staff can become in co-operating in fraud. For example, the risks are much higher if someone in sales is in cahoots with someone in accounts."

Van Leewarden says companies could minimise their exposure to staff theft by spending more time on pre-employment screening. Because of employer reluctance to prosecute staff dismissed for dishonesty, he says it's important to ask why someone left their last job.

In addition to tightening up on stock controls, Van Leewarden recommends companies run rolling stock takes on high-ticket items, call surprise audits, develop informants or even set dye-traps if they suspect someone is stealing.

"If there are holes within existing systems, dishonest staff will find them. While an employer's gut feeling that someone's on the take is almost always right, the amount is usually 10 times what they expect."