

Ripped Off!

Hiring the right employee requires a vetting process.

In the 1950s, criminologist Donald R. Cressey introduced the theory of the “fraud triangle.” The fraud triangle suggests that there are three factors that contribute to an employee committing fraud.

The first factor is financial pressure on the employee, such as gambling or credit card debts.

The second factor is opportunity or the employee’s perception that an opportunity to commit fraud exists. This opportunity may arise from the company’s poor internal controls, loose discipline policy, or some other factor.

The third factor is the employee’s ability to rationalize the fraud, suggesting to him or herself that it is somehow justified and/or non-criminal.

A slightly different theory came out in the 1980s with a study conducted by Richard Hollinger and John Clark. The study found that employees were motivated to commit fraud because of dissatisfaction at work. When employees perceived that their jobs or working conditions were unfair, perhaps due to inadequate compensation or unequal treatment, they were more likely to justify and commit fraud.

These two theories, while different, both suggest that employees may be motivated to steal and commit fraud when they are able to rationalize/justify the behaviour. *Source: Theft in the Workplace: Why Employees Bite the Hand that Feeds Them By: Ariana Bianchi*

In the book, *Biting the Hand that Feeds*, Terry Shulman relates that 20% of every company's dollar is spent on employee theft. Employee theft and fraud averages \$9.00 a day per employee! That’s about \$2,000 per employee subtracted from your bottom line every year. While employees have opportunities to steal, an employer’s risk increases as people advance to upper levels of responsibility.

Many businesses seek to hire people who are trustworthy and do so by using a scientifically designed assessment tools that evaluate job applicants for integrity, reliability and work ethic. The results tell you what you need to know about an applicant before you ever conduct an interview removing the gut reaction of hiring. Additionally, it reduces the need to pore over resumes, trying to read between the lines. In many companies, no one is hire for any job or position until after they have completed this type of survey. It makes sense to be able to answer these questions before you hire someone:

“Can this applicant be trusted?”

“Is this applicant dependable?”

“Will this applicant be a long-term hard-working employee?”

The more information you have upon which to make better hiring decisions the more likely you will hire more honest, dependable, hard-working employees. In turn this leads to gains in productivity, improved company morale and increased profits.

Dishonesty is a Workplace Reality. The results of employee surveys reflect the reality of the applicant pool:

- 56% of working people admit they have lied to their supervisors
- 41% say they have falsified records
- 64% admit using the Internet for personal reasons during working hours
- 35% have stolen from their employers, by their own admission

Studies reveal that about 80% of computer crime is committed by “insiders”, at an estimated annual cost of as much as \$1 billion. It is estimated that 36,000 companies are “stolen out of business” every year by their employees. *Source Profiles International*

Profit stealing behaviours included:

- Unexcused absences
- Tardiness
- Unauthorized use of the internet
- Using company e-mail for personal use
- Disclosing private and restricted computer data
- Clocking in or out for other employees
- Revealing confidential information and/or trade secrets to outsiders
- Sub-par job performance
- Carelessness
- Fraud
- Job hopping
- Inventory shrinkage
- Theft of office supplies and other company property
- Save money through better hires avoiding costly hiring mistakes.

Here are ways to reduce employee theft. – *Source Larry Cook*

- 1. Create a positive work environment.** A positive work environment encourages employees to follow established policies and procedures, and act in the best interests of the organization. Have fair employment practices, written job descriptions, clear organizational structure, comprehensive policies and procedures, open lines of communication between management and employees, and positive employee recognition.
- 2. Implement internal controls.** Design measures to ensure the effectiveness and efficiencies of operations, compliance with laws and regulations, safeguarding of assets, and accurate financial reporting.
- 3. Educate your employees.** Provide employees the policies and procedures related to fraud, the internal controls in place to prevent fraud, the organization's code of conduct and ethics policies, and how violations of these policies will be disciplined. Provide the employees updates as necessary and ensure they sign a form acknowledging receipt of all materials and updates.
- 4. Implement an anonymous reporting system.** Provide a confidential reporting system for employees, vendors, and customers to anonymously report any violations of policies and procedures. Promote and encourage the use of the reporting system whenever possible.

5. **Perform regular — and irregular — audits.** Have regular assessments and random, unannounced financial audits and fraud assessments to help identify new vulnerabilities, and measure the effectiveness of existing controls.
6. **Investigate every incident.** A thorough and prompt investigation of policy and procedure violations, allegations of fraud, or warning signs of fraud will give you the facts you need to make informed decisions and reduce losses.
7. **Lead by example.** Senior management and business owners set the example by having a cavalier attitude toward rules and regulations. Every employee — regardless of position — should be held accountable for their actions.

Every organization wants to have honest, reliable and trustworthy employees. Have a solid hiring process that includes assessments, to improve your success in hiring the right individual.

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