Keeping the Fox Out of the Henhouse

by Douglas E. Wicklander and David E. Zulawski

In the last two editions of ***Loss**Prevention* as well as in this current issue (see page 13), Dr. Richard Hollinger released many of the findings of his most recent National Retail Security Survey. In that survey, companies are asked to estimate the amount of shrinkage due to internal theft, shoplifting, vendors, and paperwork errors. In the most recent survey, LP executives attributed about 48 percent of their shrinkage to internal theft.

In early May, we had the opportunity to attend ThinkTank 21.1 (see page 73), a meeting on the future direction of the loss prevention industry, which sparked many interesting discussions, including the topic of this and other surveys. It was interesting to hear how some of the participants had arrived at the percentages for their organizations. It was evident that the percentages offered in the survey were arrived at in decidedly different manners. However, while the percentages were different, it was clear that each executive felt that internal theft accounted for the highest percentage of the shrinkage in the organization.

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As the focus of the conversation ranged from shrinkage numbers to investigative efforts, Dan Faketty, vice president of loss prevention for Harris Teeter, asked the group a key question: "How are we going to define ourselves? Are we going to be loss prevention or apprehension?" This question effectively underscores the problem facing loss prevention today. Are we in the prevention or the apprehension business?

Prevention vs. Apprehension

Unfortunately, it is unlikely that loss prevention will ever entirely prevent the need for investigation and apprehension. Studies by the paper-and-pencil honesty testing industry have indicated that about one-third of applicants would potentially steal if given the opportunity to do so at their new employer. Their research also indicates about 10 percent of the applicants will steal no matter what the organization did to prevent them. If these numbers prove accurate, there will always be a need for a loss prevention program to include investigative capabilities. However, these numbers also indicate that there are a large number of associates who can be influenced not to steal.

The private sector primarily deals with the rational criminal. This individual weighs the rewards of his act against the possibility of getting caught. If the potential reward outweighs his fear of detection, a theft will result. This is a rational decision to steal made only after evaluating the risks of apprehension. This is as true for the shoplifter, as it is for the dishonest associate. It is not the final outcome of prosecution or termination which reduces the individual's desire to steal, but rather, it is his belief in the certainty of apprehension that deters his counterproductive behavior. Hardware, cameras, awareness programs, and ongoing training can therefore have an impact on some people's behavior.

To this point, we have discussed the high-risk third of the applicant population and their decision-making. Identifying and removing the high-risk third from the applicant pool leaves the organization with two-thirds of the applicants who are likely to respond favorably to loss prevention strategies and the internal controls of the company. This reduces the necessity for the expensive time-consuming investigation of an associate. Locks are more effective when the fox is outside the henhouse.

Pre-employment Screening

The first line of defense is an adequate pre-employment selection process that balances the needs of the organization against the costs associated with screening the applicant. It is not unusual for retailers to have high turnover rates, sometimes in excess of 100 percent per year. The pre-employment selection process is a partnership between loss prevention, human resources, and operations designed to reduce turnover and limit losses within the company.

The benefits of selecting an honest individual are far-reaching and can have a profound effect on the organization's culture. Psychologically, honest individuals are healthier, which has an effect on many aspects of their personality and work performance. Honest individuals not only tend not

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to steal, but are also less likely to be absent, use drugs, and be involved in accidents, to name but a few of the positive attributes.

In general, the pre-employment screening process tends to fall into one of three possible categories of predictors: (1) history, (2) attitude, and (3) knowledge and general skills to do the job.

History. Historical indicators are used to predict future behavior by assuming that the past patterns of behavior will be continued in the future. Simply stated, if a person has stolen in the past, he is likely to continue that behavior. Common historical indicators are reference checks, listings in databases containing counterproductive behavior, criminal-history checks, drug testing, and reviewing job stability.

Attitude. Honesty tests generally predict future behavior by assessing the job applicant's attitude towards honesty and comparing the individual against the behavior of a control group whose performance is known. If the applicant thinks like an honest individual, he is less likely to steal than if he thinks similarly to a dishonest person. This type of an assessment is valuable in situations where the individual never had an opportunity to steal. For example, the applicant worked as a laborer shoveling stone. There was nothing for him to steal even though he had an attitude consistent with those individuals who do steal. Thus, an investigation of his background might indicate no theft activity from his previous employers primarily because there was no opportunity for him to have done so.

Knowledge and Skills. The third category, knowledge and general skills, is generally assessed by the human resources department or manager, to determine if the individual has the personality, intellect, experience, and temperament to be effective in the position. It is here that loss prevention often misses an opportunity to place another filter to remove the high-risk individual.

Ask the "Why" Question

The modus operandi of any crime evolves because of the specific needs or desires of the perpetrator. For example, an organized shoplifting ring steals a particular brand of merchandise from company ABC, sometimes traveling hundreds of miles to visit another ABC store a day later. Why does that happen?

First, they must have an outlet for that particular brand of clothing, pharmaceutical, or whatever they have targeted.

Second, ABC company likely protects its merchandise in such a way that it is easier for the shoplifter to steal from them rather than from a competitor located in the same geographic area. Asking the "why" question reveals the answer. Perhaps in this example, it is because of the type of EAS tag used on the merchandise.

In the same way, loss prevention should ask why a particular location or store has a higher shrink level or greater instances of theft activity by employees. The answer often lies in the screening process and management style of the location.

When an employee is apprehended for theft, the "why" question should be asked. What was not done that could have been done to prevent the theft or the hiring of this individual? In many cases, at least a portion of the blame can be attributed to the fact that the applicant himself was not asked about participating in counterproductive behavior.

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The Loss Prevention Interview

The pre-employment loss prevention interview is designed to do just that, ask the applicant himself about being involved in counterproductive behavior, both at work and in his personal life. One has only to look at the number of people who are not charged criminally to recognize that a simple database search is unlikely to uncover the truth about most applicants.

The loss prevention interview is not designed to consider whether or not the individual has the intellect and skills necessary to do the job, but rather to assess the individual's past integrity. It can take place early in the selection process before more expensive screening tools are used.

In the past, when pre-employment polygraph screening of applicants was widely used, it was not the polygraph, but applicant admissions that eliminated most individuals from consideration. While numbers varied by client, there was between a 30 and 60 percent rejection rate for applicants who would have been hired without the loss prevention interview. An astounding 95 percent of the applicants supplied their own reason for rejection.

The loss prevention interview can help select honest applicants, while rejecting those who would likely fail other, more expensive selection methods, or who would slip through the system.

In the September/October column, we will continue to address this subject, and its implications for reducing shrinkage without adding costs. ■