COMPARING RISK REDUCING AND INCENTIVE BASED REPORTING STRATEGIES IN A SMALL BUSINESS

By

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ABSTRACT

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The effects of employee theft can become detrimental when small businesses are their target. Small businesses are prone to employee theft through limitations solely defined by being a small business. The purpose of this research project was to present information that could be valuable in the elimination of employee theft. The research presented a questionnaire to examine the employees’ attitudes of reporting employee theft of the selected small business. The research compared two common strategies used for reporting employee theft. Through analysis of these strategies, the more effective reporting strategy would be determined.
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CHAPTER 1

INTRODUCTION

Snyder and Blair (1989) reported during the early 1980’s, internal theft resulted in nearly one-third of the business failures in the United States. Theft of trade secrets, business procedures, trademark/copyright infringement, financial procedures, and theft of time are types of internal theft. In the interest of this research, internal theft pertains to employee removal of products.

In a response to theft, loss prevention systems (LPS) have been developed to deter and control losses. These LPS can often play a significant role in the business models many larger companies and organizations. LPS monitor product movement in attempt to prevent theft (Traub, 1996). Many small businesses do not have sufficient resources allocated for a LPS; likewise, a business’ prevention expense could surpass or be equal to theft loss (Kuratko, 2000).

One could argue that by mere size alone, larger businesses limit their ability to monitor all areas of the business. Numerous employees, large facilities, and multiple locations are drawbacks larger companies face in watching for theft. Likewise it can be argued, larger businesses might easily cover expenses of LPS, prevention methods, and the profit losses from theft. Limited by resources, small businesses are ill-equipped in the ability to use a costly LPS. Due to limited financial resources, small businesses may rely on the reporting of employee theft as its sole preventative method.

The current research examined two theories in the reporting of employee theft, the removal of products from a place of employment, while controlling for the businesses’ size. The two theories determined employee reporting was significant in employee theft prevention and
could be strengthened through action based variables. While both theories showed significance in reporting employee theft through their individual research, the current research aims to examine if one theory may be better suited for small business applications.

Basic definitions and concepts of employee theft were defined to guide and narrow the readers’ perception. The concepts were operationalized to answer this research question: Does Graham’s (1986) theory on reporting or Ernst & Young’s (1992) finding on reporting increase the levels of reporting employee theft in a small business setting?

The researcher intended to find a preferred reporting strategy in an attempt to ultimately guide employers in the prevention of employee theft. The research intended to find stronger policies and procedures that may motivate the reporting of employee theft at the employee level. The researcher found that employee theft is a predictor in the failure of businesses. The policies of businesses need to reflect procedures that are significant to the business. Policy that is developed with employees’ attitudes as variables may benefit the business differently than policy that does not.
CHAPTER 2

LITERATURE REVIEW

2.1 Significance of Employee Theft

Employee theft is widespread and the numbers of businesses not experiencing some sort of employee theft are extremely low. American business losses were estimated to range from $40 to $200 billion a year (Mustaine, 2002). Greenberg’s (2002) study felt the estimates reached $400 billion a year. Through Mustaine (2002) and Greenberg (2002) theft losses were defined and determined that employee theft cost business owners ten times more money than average street crime.

Initial research on employee theft losses was developed from research in the early 1970’s. Tatham (1974) cited a *U.S. News and World Report* article from May 3rd of 1971 that reported losses from employee theft at $10 million a day. Thirty years separates Tatham’s (1974) and Greenberg’s (2002) studies, and estimated losses from employee theft increased 109 times during this thirty year period.

Gips (2002) examined studies by The Association of Certified Fraud Examiners (ACFE) and Ernst & Young. The ACFE reported the generally accepted figure of employee theft loss was six percent of income every year. Ernst & Young found that employee theft may cost employers twenty percent of annual income.
Zalud (2002) examined a Jack L. Hayes study which concluded that retail companies lost five billion dollars to retail and employee based theft in 2000. He noted that while overall incident of non-employee theft was dramatically greater, the loss per incident was relatively small compared with employee theft loss.

Most companies have a general idea of losses, but tracking employee theft is difficult. Businesses often group together non-employee theft and employee theft. The combination of the total theft figure makes it difficult to determine the source of the theft. The combined theft figure is then grouped into the company’s overall profit losses. This re-grouping of theft losses into profit losses makes it difficult to isolate the scale of employee theft (Mustaine, 2002).

The most important factor that contributes to employee theft is opportunity (Greenberg, 2002; Mustaine, 2002). Theft is not controlled by the occupation, but the opportunity to steal. The greater access an employee has to goods and materials, the greater opportunity they also have to steal. Theft is typically an impulse crime and when opportunity arrives, the employee thief will take advantage of the situation (Mustaine, 2002).

In a study of 700,000 theft apprehensions in 12,833 stores, only 10% were apprehended. Business owners and managers were asked to give information on the nature of theft in their workplace, the average monetary loss from employee theft was nearly eight times greater than non-employee theft. The study concluded that only one in every twenty-seven employees caught stealing was apprehended for theft from their employer (Zalud, 2002).

The Small Business Administration (SBA) also determined that theft by employees was greater than non-employees. The SBA calculated the average loss of non-employee theft was $196 per act, while employee theft amounts averaged $1,350 per act. The SBA figured that thirty percent of employees stole and another forty percent would, given the chance (SBA, 1997).
Snider (2001) noted that criminologists classify employee theft as an occupational crime and discovered that employee theft rarely was reported to police. Lack of police involvement led Snider (2001) to the conclusion that employee theft has become decriminalized, or is addressed without formally seeking criminal charges. Employee theft was handled differently in comparison to the trend of rising incarceration rates for other crimes. Security (2007) reported that the number one concern by Pinkerton Security and Investigation Services was employee theft (Anonymous, 2007).

Employee theft victims experience the same kind of trauma that might be experienced by traditional crime victims. The victim of employee theft can experience mental anguish stemming from the employee that took advantage of them. The victimization can leave the boss, owner, or manager with a lack of trust towards other employees as well as society (Hemraj, 2001).

Business owners cannot afford to be controlled by the principles of fear or distrust. Employees, managers, and people in positions of responsibility must be trusted by those above them. Guiding or managing by distrust bares a heavy weight in management style. The image of trust of personnel in the business hierarchy must be extended until the decision is required to distrust them (Hemraj, 2001).

Issues facing companies range from the reporting of the act, to the cost of preventing reoccurrence. These issues are compounded by the need to trust a newly hired individual. The honesty employers seek can turn into corruptness or dishonest behavior and losses in product, monies, and services. Employee theft affects all business sectors, and all businesses must deal with the problem (Mustanie, 2002).

### 2.2 Loss Prevention Systems

Snyder and Blair (1989) reported during the early 1980’s internal theft resulted in nearly one-third of the business failures in the United States. Companies developed loss prevention
specialists to maintain low loss levels. Physical and mental obstacles are developed by various organizations to discourage employee corruption. Workplace procedures in hiring, as well as monitoring and investigating instances that create opportunities for theft victimization are areas of focus.

Research shows several steps can be put in place to help prevent employee theft. Pre-employment screens help the employer keep potential corrupt employees from ever getting hired (Holtfreter, 2004; Gross-Schaefer, 2000). The identification of potential employee thieves is a first line of defense to the prevention of internal theft. Methods used to determine the truthfulness of a potential employee are: personal interviews, reference checks, credit checks, honesty tests, and polygraph tests (Synder, 1989).

Other steps of preventative measures like the use of surveillance cameras, information boxes, financial controls, and anonymous phone services are often used. Prevention and detection methods make the employee aware they are being monitored (Gross-Schaefer, 2000).

Smaller businesses usually have fewer employees. Reliance on trusted employees to maintain certain administrative tasks leaves small businesses vulnerable to employee theft. The businesses often become lax in their administrative procedures. This laxness can allow for employee theft to go unnoticed. The most common preventative tool to combat this type of employee theft is separation of overall administrative duties (Chanen, 1999).

The use of prosecution is typically the final deterrent in the prevention of employee theft. In order to form a strong prevention program, businesses must prosecute. The unwillingness and inability of a business to prosecute may send signals to employees that theft is tolerated, employees may feel a greater inclination to steal. Fear of punishment can be the cornerstone of strong theft reduction program and polices (Synder, 1989).
Punishment aids in sending the clear message that misconduct is not tolerated. However, the results of hard tactics involving the police may involve backlash and employee morale may suffer. The punishment must remain consistent with the crime. Small business owners need to use discretion and positive actions. Firing or prosecuting for the theft of a pencil or paperclips has a greater prevention cost than the original crime (Gross-Schaefer, 2000).

Traub (1996) developed a general crime prevention strategy that can be categorized into three different areas. The first area places emphasis on security and restitution. The use of personalized policing of the employees, the legal actions taken in response to theft, restriction of access for employees, and monitoring by means of surveillance fall under this category. The second area places emphasis on education and screening of current and potential employees. Previously mentioned pre-employment screening, polygraph examinations, checking personal references, etc. are the topics addressed in this category. The final area emphasizes “whistle blowing”. Employee reporting of employee theft is gaining momentum. The use of hotlines, websites, and incentives to turn in employees is gaining popularity in the business environment. This information helps to develop new employee theft procedures and programs (Traub, 1996).

Insurance companies define employee theft as losses that are a direct result of employee acts which are dishonest or fraudulent. Companies have recourse to recovering losses by dishonest or fraudulent employees. Insurance companies write policies that compensate losses attributed from employee theft. However four out of five businesses do not understand they are covered for this type of theft (Horkovich, 1999).

In a Kuratko (2000) study, business owners’ concerns about the employee’s honesty in handling material and monies were greater than any other criminal activities. Owners allocated more prevention methods and time to combat this area of theft than any other crime the owners experienced. Tight control over the amount of monies on premises and securing the building were simple prevention methods all business owners had in place.
Kuratko (2000) found business prevention method’s expenses along with business theft loss’s expense. The mean crime prevention cost for these businesses was $7,805 per annum, while the median cost of prevention was significantly lower at $2,500 per annum. The average loss was $9,010 per year and its median figure was $1,325. The research determined prevention’s expense was close to the loss’s expense. In some instances, the owners were spending nearly as much money for prevention as they would stand to lose by theft (Kuratko, 2000).

Alstete (2006) gathered information from managers and workers with current or previous small business experience. Participants who had witnessed theft first hand were allowed to comment on the prevention methods they felt would eliminate the potential for theft. From the hundreds of responses given, seven prevention methods were established. These seven were: the use of cameras, effective control procedures, pre-hiring guidelines, installation of an insider, better owner support, increased payroll, and free promotion gifts.

Of these seven methods, forty-two percent felt the use of cameras was the best way to prevent employee theft. The camera’s benefits were a constant set of eyes and employees’ feelings of being watched. One noted drawback was the expense, which could potentially be offset by using a non-operational camera to fool the employees. The second noticeable drawback was the possibility of employees circumventing the camera’s range and stealing from non-monitored areas, or employees determining that the camera was a decoy and disregarding it entirely (Alstete, 2006).

A second recommendation resulted in more effective control systems. Twenty-four percent felt more accurate record keeping along with inventory control procedures was important to the elimination of employee theft. The use of internal control methods diverted potential theft resulting from nothing more than bad business control systems. Expenses created by control procedure’s shortcomings decreased overall profits just as much as theft. The respondents
mentioned the shortcomings of prevention methods and that prevention needed to come from a combination of the methods not just a single aspect (Alstete, 2006).

### 2.3 Examining Small Business

The SBA’s guidelines and Murphy’s (1999) study were examined to help determine the parameters of a small business. The SBA has determined several factors that define a small business. Numbers of employees and sales figures are common to both definitions. SBA guidelines for small businesses allow up to 1500 employees and sales into the millions of dollars. Murphy noted the most commonly accepted figure for determining a small business is less than 500 employees. Murphy’s finding of less than 500 employees is the definition of a small business used for the current research.

The size of the company creates differences in the findings when comparing businesses. Small businesses have a more personal face to them and employees normally steal more from larger businesses. The effects of theft in larger companies might not be as dramatic as those in a small, more personal business model (Greenberg, 2002).

A majority of companies are aware of theft and realizes it is an ongoing occurrence. The ability to track down the actual offender can be difficult. For this reason, companies group employee and non-employee thefts together. The combination of the inability to catch the thieves and the lack of information about them places the theft into nothing more than an expense of doing business (Mustaine, 2002).

Two concepts stand out with regard to the small businesses relationship and the employer. The first is the type of occupation of the employee. Service industries are more likely to lead to theft than manufacturing industries. The second is a lack of preventative procedures or intervention before the theft or misconduct (Payne, 2004).
In the Kuratko (2000) study, shoplifting and employee theft were the most frequently occurring crimes against small businesses. The study discussed significant relationships between the types of crime committed and the average loss from that particular criminal event. The notable exclusion was employee monetary theft. The relationship between the cost of prevention and the cost of loss was significantly weak.

The researchers attributed the weak relationship to the lack of monies actually handled by the employee. In the large majority of the businesses, the owner handled the money and employees’ access was limited. These were smaller businesses and the owners had an active role in the collection of money and banking procedures.

The study characterized the efforts of the small businesses to prevent crime as fairly aggressive. In the area of employee money theft, the minimization of all cash on hand was a high priority. Some owners were reluctant to spend money on prevention because the expense would cost more than the loss. This idea was more prevalent in manufacturing type businesses where the flow of cash did not play a major role.

Cash and merchandise played a larger role in the service and retail sectors. Service and retail businesses were more likely to spend the funds on prevention. The manufacturing sectors were not as likely to spend money for prevention of theft of monies on the premises (Kuratko, 2000).

Payne (2004) studied managers, supervisors, owners, and high profile employees of small businesses for differences between victims and non-victims. Theft victims were more likely to show emotional losses, problems with employees, and lack of qualified labor as major problems as compared to the non-victims. More than half of the victims had trouble trusting employees, while only a few non-victims had similar issues. Victims were less likely to be satisfied with performance of employees as compared to non-victims. After a full day of work, physical exhaustion was a greater factor in the lives of victims than non-victims.
Payne (2004) suggested three policies to strengthen LPS. Employee theft was traditionally handled internally with individualized procedures for prevention and punishment. First, researchers suggested that police intervention sends a stronger message about the seriousness of the criminal activity and provides a stronger deterrent. If the owner or manager of the small businesses did not trust the police then the likelihood of the police getting involved decreased tremendously. Therefore, the second recommended policy was for employers to renew their trust in the proper authorities and the effectiveness of the police.

The third policy centered on expanding procedures traditionally set in place to limit economic loss from employee theft. The research showed victimization from theft reaches further than the economic loss and dollar amounts. Victims’ emotional and psychological effects were evident. The broadening of response procedures helped the employer better cope, regained employee trust, and improved satisfaction of employee’s job performance as a result of victimization (Payne, 2004).

Taylor (2002) examined Australian businesses believed to be in high crime sectors of the country. The surveyors asked for a list of crimes committed and attempted at each business. The businesses were also asked if there was any police notification, involvement, or reporting of the crime.

The survey detailed eleven types of attempted or completed crime. Employee theft ranked near the bottom in the number of times attempted and completed in relation to the number of times it was reported to the police. Eight percent of the businesses reported they were victims of employee theft. Employee theft incidents were significantly above the mean in comparison to other types of crime. Employee theft was fourth overall in number of incidents (Taylor, 2002).

Although the cases of employee theft were high, the number of times the theft was reported to the police was low. Only two percent of all employee theft was reported to police. This reporting percentage was the lowest of all the crimes in the survey. The lack of interest in
reporting employee theft was the result of several different motivations. The three most common reasons for not reporting were: 1) reporting the crime would achieve nothing; 2) the crime was not serious enough to report; and 3) police would not do anything to help (Taylor, 2002).

Business owners who were reluctant to report employee theft to police cited their existing attitudes towards police, and were distraught at the perceived lack of recourse and support from the police. Some business owners lack evidence and feel the lack of severity limits police involvement. Many business owners felt theft was part of doing business rather than a criminal activity. This ideology demonstrated that small business owners handle their employee theft problem with in-house resolutions (Taylor, 2002).

A SBA (1997) study on the reporting of employee theft reached the same conclusion. It determined that one in every ten businesses was a victim of a crime, and only two percent of these businesses were victimized by employee theft. None of these employee thefts were reported to the police. The two most common reasons for not reporting were: the importance level of the theft was not great and the owners dealt with the situation directly (SBA, 1997).

2.4 Analysis of the Employee

Employee theft has many roots and surfaces in numerous ways. Employee thieves often feel theft is allowed. They usually have low self-esteem. They feel unequal to other co-workers. Their personal traits or habits are conducive to theft, and they feel that they never will get caught. These are consistent personality characteristics of employees who typically steal at the workplace (Payne, 2004)

There are many different opinions as to why an employee would steal. One opinion is that theft is caused by the pressures of outside economic force on the employee (SBA, 1997; Mustaine, 2002). The lack of resources for the needs or wants of the employee can lead to theft. The inability to control the employee’s external needs triggers alternative means for acquisition of
funds. The stolen goods are often traded for money. This finding is a common occurrence and more common in lower paying jobs.

Another factor related to employee theft is the lack of job satisfaction. In order for an employee to feel better about the situation they are working in, they may feel the need to strike back at the employer. Striking back routinely involves theft from the workplace. Negative attitudes about various areas of the employee’s job and the lack of desirable positions in the workplace often result in theft (Mustanie, 2002).

The perception that the employer does not hold the employee in high regard is another rationale behind theft. Once the employee feels they are positively perceived in the workplace, the likelihood of theft diminishes. If the best interest of the employee is being met, then a respectful relationship between the employee and employer will normally occur (Mustanie, 2002).

Differentiations in the pay scale as well as the perception of being underpaid are two more reasons behind employee theft. The employee feels they are not being compensated fairly or another employee is being more highly compensated. This often results in theft to close the perceived compensation deficiency (Mustanie, 2002).

One of the most important observations of employee theft is the rationales behind the act. Some theories identify the causation of employees’ theft as a result of wage disparity, social inequality, manager misconceptions, or basic employee greed. The most common explanation of employee theft is the need to gain material items (Gross-Schaefer, 2000).

Employees’ reasoning can come from the economic pressure placed on the employee away from work. The economic pressures exacerbate shortcomings deriving from lack of job satisfaction to overall dissatisfaction. If the employee is not satisfied with the employer in regard to pay scale, treatment, or other work related issues, theft may ensue. The employee feels they
are getting back at the employer (Mustaine, 2002). Theft occurs when an underpaid employee feels they are treated harshly or in an uncaring manor (Greenberg, 2002).

There are three psychological levels employees can take towards theft. The first is the denial of theft. Employees feel theft is not significant, occurring company wide, and a little bit of theft is not bad. The second level is the perceived simplicity of the action. The theft gets them perceived reimbursement and employers do not miss the property. The third level is retaliation or lack of fear. This level determines the employee is getting even with the employer and the employer will not react towards the theft (Tatham, 1974).

### 2.5 Limitations of Employee Theft Reporting

Employee theft information originates from several different areas. Self-report surveys, arrest records, and organizational releases are the most common. Each has its limitations as to the validity of their findings. The releases from organizations can mislead based on the combination of different types of theft. The arrest records are hindered by the lack of reporting. While the self-report studies have weaknesses as well, they are the most commonly used source of information in relation to employee theft (Mustaine, 2002).

Gathering information about employee theft is not easily executed. The various reporting practices of businesses leave significant room for error. Obtaining accurate information on reporting theft is difficult. Determining the prevalence, frequency, and cost associated with the theft is difficult as well (Mustanie, 2002).

Employees can develop apprehension towards turning in or reporting employee theft. To help eliminate this issue, reporting employee theft can be carried out through several types of anonymous mediums. Toll free numbers, hotlines, and web sites attempt to maintain the confidential integrity of the reporting employee. Thirty percent of reporting was done via anonymous phone calls. Twenty percent of reporting was done via anonymous letters. Sixteen
percent of reporting used anonymous letters directed through a specific Web site source (Gips, 2002). A Holtfreter (2004) study found that only eighteen percent of private companies had some form of anonymous reporting system.

Gips (2002) examined an Ernst & Young survey and extracted information involving employee theft reporting. The first finding was the willingness of the employee to report co-workers that were involved in theft at the workplace. He found that twenty percent of the employees were aware of actions involving theft. Of these twenty percent of employees that knew of the actions, forty-three percent had turned in the employee. Seventeen percent of the employees felt someone else had already turned in the employee and did not report the theft (Gips, 2002).

In a 2005 Department of Labor lawsuit, four allegations of misused funds were anonymously reported. The initial reporting was made to the wrong supervisor and was not investigated until another anonymous complaint was reported. Three of the four allegations were unsubstantiated; however, a verbal threat of retaliation was noted by the reporting employee (DOL, 2005).

In this case, the ignorance in the procedures in anonymous reporting was detrimental to the case. Company procedures were not known and incorrect steps were taken at first. This case also shows how retaliation can take place and is often of greater criminal value than the actual theft (DOL, 2005).

2.6 Examining Reporting Theories

The current research is guided by Near and Miceli’s (1985) definition of whistle-blowing as “the disclosure by organization members… of illegal, immoral, or illegitimate practices under the control of their employers, to persons or organizations that may be able to effect action” (Near & Miceli, 1985, p.4).
Management experts contend that companies confronted with employee theft or fraud need to make the task of the whistleblower less difficult. The research suggests that it is employees’ nature or learned behavior to combat whistleblowers. Culture has determined the population was raised to think of whistleblowers as tattletales (Cuthbert, 1993).

Often the reporting employee feels pressure not to act. The employee fears retaliation if it is discovered they reported a co-worker. Retaliation as severe as being sued for slander can alter the employee’s progression toward informing or reporting a theft (Holtfreter, 2004).

Rothschild and Miethe (1999) noted, however, naivety is often consistent with employees’ actions as whistleblowers. They often assume their employer will be pleased to learn of misconduct and eliminate it quickly. Employees can become distraught when their honest reporting attempts to eliminate wrongdoing result in reprisals or retaliation against them. Upon reporting co-workers relationships may change drastically, management may look at them with disinterest, and in some instances be dislocated in their industries. Financial distress, emotional and physical health problems, and marital and family difficulties for whistleblowers can result in retaliation for whistle blowing. The United States Congress passed the Whistle-Blower Protection Act of 1989 to strengthen safeguards against reprisals (U.S. Congress, 1989).

Graham (1986) believed the degree of severity in the actions witnessed can be measured in different ways. Seriousness is measured by monetary value, possible negative outcomes, threat of harm to employee reporting, and the frequency of the action. The perceived severity may influence the employee to exaggerate or minimize the effect of the unethical action.

A personal cost for reporting unethical actions may result in reprisal from the organization that opposes the actions. The reporting employee may be treated differently by fellow employees after reporting theft. More developed businesses and organizations attempt to lessen the threat of reprisal through the manner their business is conducted. Innovations, independent actions, and
Employee participation are critical to these organizations and these limit the threat of reprisal (Graham, 1986).

Employee’s reporting employee theft to supervisors increases when they achieve organizational self esteem, (Payne, 2007), a high level of subordinate/superior relationship quality (Kassing, 2000), or an increased personal interest in the organization. Most reporting employees feel their organization is receptive to their opinions or reporting, and a sense of job satisfaction or fulfillment is often constructed from the development of these instances (Kassing, 1998, 2000).

Whistle blowing, in its relationship with interpersonal justice, contains aspects consistent with politeness, consideration, respect, and dignity (Greenberg, 1990). Graham’s model determined the workplace’s effort to reposition the status quo based on the rebellion towards policy or practice. The model believes that reporting unethical behavior increases with witness’ belief in the seriousness of the action. Their sense of responsibility to report increases while their personal cost towards the action decreases (Graham, 1986).

The Ernst & Young (1992) finding was examined by Traub (1996). Traub’s research concluded that the Ernst & Young (1992) finding revolved around employee reporting that requires incentives to be productive. The cost of incentives can become a significant factor. The reward must be great enough for the employee to feel it was worthy of reporting. The risk of reporting dishonest employees can often leave employees reluctant to report. The reward for complete reporting must be substantial enough to outweigh the risk or reprisals from the organization (Traub, 1996).

Only when the businesses balance the risks with rewards will most employees be likely to speak about more serious actions of dishonest employees. In order to recognize and reward employee reporting, businesses must attempt to remove the negative stigma attached to whistle blowers (Belbot, 1991). Financial incentives for reporting, such as a percentage recovered or
discovered loss as a result of a theft occurrences, a cash reward, or some other financial reward increases reporting interest (Schachter, 2009).

In comparing these two theories, the current research intends to determine which strategy may greater influence reporting success in the small business environment. Ernst & Young (1992) felt by increasing external rewards or incentives, to outweigh risks, reporting will increase. While Graham felt that as personal cost decreased, employee theft reporting will increase.

The current research intended to determine changes in policy, procedure, and guidance for small businesses. The limitations of practices and research presented in the literature determined a need to develop a simple and cost efficient solution to a multi-billion dollar problem. Small businesses make up approximately 97% of all business in the United States (Murphy, 1999). The researcher intended to open avenues for further research in helping small businesses in the area of employee theft reporting and elimination.
CHAPTER 3
METHODS

The intent of the current research was to collect information that may be useful to owners and/or managers of small businesses. The researcher developed a survey to distribute in accordance with the guidelines set forth by The University of Texas Institutional Review Board. Regulations set forth by the Institutional Review Board (IRB) are required in order to guide the researcher in surveying, monitoring, and testing of research on human subjects. The IRB determines that the research must not be harmful to its participants. In the administration of the researcher’s survey, the respondents were awarded all protections that the IRB required.

After examining prior research into employee theft, the researcher felt an inadequate amount of attention was given to small businesses. The researcher determined that two different findings of employee reporting practices needed closer evaluation in a small business setting. While Graham (1986) and Ernst & Young (1992) findings both contributed to the literature review, the current survey intended to predict which of these two findings may be better suited to guide small businesses in the prevention or elimination of employee theft.

The survey was distributed to a small North Central Texas business that deals in the movement of aftermarket auto parts. The employees have access to merchandise and cash on hand. The survey was distributed only after the sample’s Chief Executive Officer granted permissions.

3.1 Sample

The company consisted of 46 local employees. The numbers of employees fell below the 500 employee mark, which the SBA defines as a small business. The sample business was selected by convenience. The researcher was granted permission to study the employees’
reporting of employee theft, the operational procedures of theft prevention, and the relative employee/employer relationship of this business.

While demographical information was not asked in the survey, a pre-survey investigation was conducted. The investigation determined that of the 46 local employees, 39 were male and 7 were female. The business employed 20 White, 3 African American, and 23 Hispanic employees. The median salary was $26,800 a year.

The employees remained anonymous by using non-identifying reporting procedures. The business’s policy and procedures made available the use of email, telephone, facsimile, and mail to report theft. The business does not implement rewards or incentives for reporting of employee theft.

3.2 Measurement

The collection method for this proposed research question was constructed in the form of a survey. See Appendix A for a copy of the survey instrument. The survey asked employees questions about present opinions and feelings toward the subject of reporting employee theft. The survey was cross-sectional gathering of information on how the respondents feel at the present time. The survey asked questions with responses inherit of a 5 point Likert scale: 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree, and 1 = strongly disagree. This type of study may create a baseline for future studies by owners and managers of small businesses.

The survey was constructed using three major sections. The first section was the nature of the employee’s relationship with the employer. The researcher sought information about personal feelings of the employer by the employee. Greenberg (2002) and Mustaine (2002) felt that better job satisfaction could lead to greater workplace responsibility, like reporting employee theft. Wage disparity, social inequality, and overall job dissatisfaction were all central findings in the studies of Greenberg (2002), Mustaine (2002), and Gross-Schaefer (2000). This section
looked to gain insight to unfavorable working conditions or employees’ feelings about their workplace.

In order to gauge employee job satisfaction with their employment, the following questions were asked: (a) my employer treats me as a valuable employee, (b) my rate of pay is fair for my job duties/responsibilities, (c) I have a good working relationship with my co-workers, (d) overall I am satisfied with my employment, and (e) my employer treats me well in our working relationship. The answers to these questions were collected using the 5-point Likert scale. The responses were summed together and averaged to develop a job satisfaction scale. The researcher ran an analysis of reliability using Cronbach’s $\alpha$. The result of the analysis yielded and $\alpha = .90$, which indicates a reliable scale.

The second section consisted of questions regarding the workplace environment. The physical setting and business procedures in relation to preventative measures in place were of great interest to this section. Holtfreter (2004), Gross-Schaefer (2000), and Traub (1996) concluded pre-employment screens were significant for prevention of employee theft. Gross-Schaefer (2000), Traub (1996), and Alstete (2006), concluded that the use of security and surveillance cameras helped to deter employee theft. Snyder (1989), Gross-Schaefer (2000), Traub (1996), and Payne (2004) determined that punishment was critical to the prevention of employee theft. Chanen (1999), Kuratko (2000), and Alstete (2006) found that separation of job functions and tighter control of cash was significant to theft prevention.

In a pre-survey investigation, the sample’s workplace environment was examined. The sample was determined to have multiple loss prevention methods in place. The researcher found the sample business used pre-screening hiring procedures, security cameras, maintained separation of job functions, cash flow restrictions, as well as punishment up to and including termination and prosecution.
In order to gauge the employee knowledge of preventative methods in place, these questions were asked: (a) my place of employment has surveillance cameras, (b) employees must be responsible for the handling of cash payments from customers, (c) I think my employer pre-screened my background before hiring me (d) I am responsible for all job functions in my workplace, and (e) my employer would punish an employee engaged in theft. The answers to these questions were collected using the 5-point Likert scale. The responses were summed together and averaged to develop a preventative methods scale. The researcher ran an analysis of reliability using Cronbach’s $\alpha$. The result of the analysis yielded and $\alpha = .63$, which indicates a near reliable scale.

The third section examined the employee's feelings towards reporting employee theft controlled by the Graham (1986) and Ernst & Young (1992) findings. While Graham (1986) and Ernst & Young (1992) findings were significant, the application of the theories to small business environments was the primary purpose of the current research. By examining the decreasing risk and increased rewards theories, the researcher hoped to determine which theft reporting method that would suit the need of small businesses.

In section three, the researcher asked a series of questions to gather information specific to the reporting of employee theft. To measure employees’ feelings on increased reward theory, the employees were asked if they would report employee theft if there was a reward. To measure the employees’ feelings on decreased personal risk, the employees were asked if they would report employee theft if they felt no personal risk in reporting. The respondent indicated their response by using the same 5-point Likert scale.

### 3.3 Procedure

The survey was hand delivered along with a self addressed stamped envelope for return. The anonymity of the subjects was of great significance to the researcher. Respondents were asked to fill out as much of the survey as possible and were asked to not create any identifiable
markings. The researcher felt complete anonymity would result in more reliable answers. Upon return of the surveys, the information was coded into the Statistical Package for The Social Sciences (SPSS). The researcher used a repeated measures analysis of covariance (ANCOVA) to determine statistical significance between variables.
CHAPTER 4

RESULTS

The research analyzed data gathered from a questionnaire. The questionnaire was constructed to obtain personal attitudes of employees in a small business. The business selected in this research employed 46 people. The sample contained all employees, 39 males and 7 females. The sample contained 20 white, 23 Hispanic, and 3 black subjects. The average yearly income of the sample was $26,800. The business was an aftermarket automotive parts distributorship located in north central Texas. Forty three of the possible 46 questionnaires were returned completed to the researcher. They were hand delivered over the course of three days and were mailed back within the next four days via the United States Postal Service to the supervising professor’s campus mailing address.

The sample was asked a series of 13 questions all using a 5 point Likert scale for response. The first 5 questions were averaged together to gauge the employee’s overall job satisfaction. The next five questions were averaged together to gauge the sample business’s preventive methods in place to deter employee theft. The last two questions were used to gauge personal attitudes towards reporting employee theft, by asking attitudes towards two separate reporting strategies. This left the researcher analyzing responses that determined a result to the research question: Does Graham’s (1986) theory on reporting or Ernst & Young’s (1992) finding on reporting increase the levels of reporting employee theft in a small business setting?

Before analysis of the data from the respondent’s questionnaire, the data was first pre-screened to gauge effectiveness of the data before statistical test were run. From the 43 questionnaires, all were found to be complete and responses were not outside the range of known available responses. The responses contained zero cases of missing data. The values of
the responses were coded into SPSS for descriptive statistics calculations. The Q-Plot responses were found to be constant. Z-scores for skewness and kurtosis were less than 1.96 for responses signifying no significant departures from normality. By pre-screening, the data was found to be within limitations for accuracy, missing data, outliers, and normality. The data was then subjected to assumptions and limitations of conditions of an ANCOVA. These covariates z-scores were examined to determine their level of normality for use in an ANCOVA.

Table 1 illustrates mean, standard deviation, skewness, and kurtosis of job satisfaction (CV1) and prevention method (CV2). CV1 and CV2 both have means that reflected responses that fell closer to a higher level of available responses. The standard deviation in both CV1 and CV2 were low and represent responses values in less than 1 deviation from their means. CV1 showed normal skewness and kurtosis projecting an even distribution of scores from the mean. Skewness and kurtosis of CV2 showed a build-up of responses that contained high values thus moving the distribution of the scores to the upper end of the distribution. The z-scores for CV1 for skewness and kurtosis were within limits of normality or less than 1.96. CV2’s z-scores determined skewness and kurtosis was greater than 1.96 and was found significant at the \( p < .05 \) level. Attempts were made to correct by transforming the variable with square root, logarithms, and inversing. The results of these transformations created greater deviations from normality in skewness and kurtosis. The variable was not transformed. The distribution of values for CV1 and CV2 showed the same linear relationship with in a Q-Plot and P-Plot. The covariates data was determined to be reliable and measured without error.
Question #12 on the questionnaire, reporting by reward was one independent variable (IV1). Question #13, reporting without risk was the second independent variable (IV2). Table 2 illustrates reward reporting’s (IV1) and decreased risk reporting’s (IV2) mean, standard deviation, skewness, and kurtosis. IV1 and IV2 both contain means that the reflected responses that fell closer to the right. The standard deviation of both IV1 and IV2 reflected a wider distribution of responses. IV1 and IV2 both show a high level negative skewness reflecting a build-up of higher scores from respondents. While IV1 high kurtosis produces a pointed and heavy tailed distribution, IV2’s kurtosis indicated a normal distribution. The research attempted to correct the skewness and kurtosis by transforming the scores. The researcher used square root, logarithm, and inverse manipulation to adjust the variable to normal ranges. The transformation resulted in

<table>
<thead>
<tr>
<th></th>
<th>job satisfaction</th>
<th>prevent methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>N Valid</td>
<td>43</td>
<td>43</td>
</tr>
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<td>Missing</td>
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<td>0</td>
</tr>
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<td>Std. Deviation</td>
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<td>.50381</td>
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<tr>
<td>Mean</td>
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<td>4.637</td>
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<tr>
<td>Skewness</td>
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<td>Std. Error of Skewness</td>
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<td>.361</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>.151</td>
<td>2.024</td>
</tr>
<tr>
<td>Std. Error of Kurtosis</td>
<td>.709</td>
<td>.709</td>
</tr>
</tbody>
</table>
even greater departures from normality. Acknowledging the transformation deficiency the researcher left the variables unchanged.

Table 2 Independent Descriptives

<table>
<thead>
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<th></th>
<th>Reward</th>
<th>Risk</th>
</tr>
</thead>
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<tr>
<td>N Valid</td>
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<td>43</td>
</tr>
<tr>
<td>Missing</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>1.283</td>
<td>1.254</td>
</tr>
<tr>
<td>Mean</td>
<td>4.14</td>
<td>4.06</td>
</tr>
<tr>
<td>Skewness</td>
<td>-1.407</td>
<td>-0.913</td>
</tr>
<tr>
<td>Std. Error</td>
<td>.361</td>
<td>.361</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>.991</td>
<td>-0.357</td>
</tr>
<tr>
<td>Std. Error</td>
<td>.709</td>
<td>.709</td>
</tr>
</tbody>
</table>

After the descriptive statistical data was developed, the values of IV1 and IV2 were then placed in a repeated measures ANCOVA, along with CV1 and CV2. All the assumptions and limitations of running an ANCOVA were met, less one. The ANCOVA model seeks a random sample and this research did not obtain one. Noting this limitation, all other the statistical tolerances and assumptions with respect to an ANCOVA procedure were met. The values for the covariates CV1, CV2, IV1, and IV2 were entered into an ANCOVA in SPSS.
The results of the ANCOVA yielded a significant main effect between the risk and reward variables tested, while controlling for preventive methods and job satisfaction. The ANCOVA reported main effect significant at the \( p < .05 \) level. The effects between IV1 and IV2 were significant with \( F(1, 11.031) = 22.372, p < .001, \) and \( r = .599. \) Even with a mean difference .14 the findings showed a preference for the reward reporting strategy. The \( r \) value of this relationship suggests a moderate effect size, meaning the use of reward reporting would be much more beneficial than the decreased risk strategy.

There were also two interaction effects with the two covariates. The effects with relationship of CV1 with IV1 and IV2 also showed significance with \( F(1, 2.635) = 5.343, p = .026, \) and \( r = .343. \) To explore this interaction, a median split on the variable job satisfaction was performed, such that there were two groups consisting of those high and low in job satisfaction. A repeated measures t-test was performed for each group. There was a significant preference for the reward reporting strategy when employees were low in job satisfaction, \( t(19) = 2.483, p < .05. \) Among those high in job satisfaction there was no significant difference, \( t(22) = -1.699, p > .05. \) The \( r \) value for the interaction showed a moderate effect but less than the main effect. The interaction of job satisfaction on reporting is significant in the fact that, employees with low job satisfaction would report for reward more than if they were satisfied. The research found even though employees have low job satisfaction, they would be inclined to report employee theft for reward and in effect help the business for which they are not satisfied.

The effects of CV2 with IV1 and IV2 also showed significance with \( F(1, 3.972) = 8.055, p = .007, \) and \( r = .409. \) To explore this interaction, a median split on the variable prevention methods was performed, such that there were two groups, high and low in prevention methods. A repeated measures t-test was performed for each group. There was a near significant difference such that those low in perceived prevention methods preferred reward over risk in reporting strategies, \( t(17) = 1.944, p = .069. \) Among those high in perceived prevention methods there was no significant difference in preferred reporting strategies, \( t(24) = -1.365, p > .05. \) The \( r \) value for the interaction showed a moderate effect but less than the main effect.
CHAPTER 5
CONCLUSIONS

The purpose of the research was to determine a preferred employee theft reporting strategy. Graham’s (1986) theory on decreased risk and Ernst & Young (1992) finding on reward based reporting were both found to increase reporting. In comparing the two this research found that the preferred method among employees was reporting by reward. Job satisfaction (Kassing, 1998, 2000) and preventive methods (Mustanie, 2002) have been determined to predict an increase in employee theft reporting, thus they were controlled statistically by an ANCOVA. However, job satisfaction and preventive methods interacted with reporting strategies, such that those low in job satisfaction and low in perceived preventative methods preferred a reward based reporting strategy. While those high in job satisfaction and high in perceived preventative methods showed no preference in reporting strategy.

Employee theft cost American business owners up to $400 billion a year (Greenberg, 2002). Research has shown that management needs to make the reporting of employee theft easier for the employee (Cuthbert, 1993). Numerous low risk measures like phone hotlines, email submittal, anonymous letters, and phone calls are typically the ways employees report employee theft (Gips, 2002). However, only eighteen percent of all companies have some form of anonymous reporting system in place (Holtfreter, 2004). The current research concluded rewards for reporting were preferable.

The research intended to give small businesses a strategy that was practical for their specific needs and limitations. Smaller businesses have fewer employees and rely on fewer
employees to maintain wide administrative tasks (Chanen, 1999). Research shows several steps help prevent employee theft. Pre-employment screens help the employer keep potential corrupt employees from ever getting hired (Holtfreter, 2004; Gross-Schaefer, 2000). Preventive methods used before hiring potential employees are: personal interviews, reference checks, credit checks, honesty tests, and polygraph tests (Synder, 1989). The current research concluded that when perceived preventative methods were low, a rewards based reporting strategy was preferred. But when they were high, there was no significant preference.

The researcher identified limitations to the current research. The research could have been helped by additional businesses, rather than selecting only one. The researcher could have used a random sample instead of one of convenience. The researcher could have used multiple businesses containing larger and smaller employee bases, prevention methods in place, and different job sectors. The researcher could have included a question that made the respondent choose between the two reporting strategies, could yield significant results when analyzed among the variables. The researcher could have used businesses from different geographic regions could be significant to the findings. The researcher could have examined the business for any known employee theft problem.

The researcher believes the current research can be carried into the future. The research found a preferred strategy of reporting employee theft. Future research might look at various individual or future strategies and compare them to current research. The research may be carried out over a period of time to look for different conclusions. Research can be carried into the future by monitoring the turnover of employees and re-testing to find if conclusions would support the same business with a different set of employees. Future research could develop a cost analysis of the reward given for reporting, and actual employee theft losses. Future research could assign a value to reward and its effectiveness. Future research could determine if low or high level monetary compensation is required, if incentive needed to be monetary or could alternatives replace monetary rewards, or rewards by the way of positional compensation. Future
research may include feasibility comparisons, such that determining if spending more on prevent than theft loss is in the best interest of business owners.

The current research has applications that could be beneficial to business. Businesses can apply findings of high job satisfaction and high perceived preventative methods having no significance on preferred reporting methods, and apply potential reward money to other obligations. Businesses can apply findings to target certain employees. The businesses can apply findings to install reporting practices not in place. Businesses can also apply findings to improve job satisfaction, to allow for greater diversity in the use reporting strategies, since the findings showed low job satisfaction only preferred rewards base reporting.

The current research concluded that employees of a small business preferred to receive rewards rather than reduced personal risk as compensation for reporting employee theft.
QUESTIONNAIRE

This questionnaire will ask for responses you, an employee of American Glass Distributors. The questions ask about your potential reporting of employee theft in your place of employment. The questionnaire is looking for your attitudes towards reporting employee theft and is in no way searching for incriminating evidence of theft. The questionnaire is absolutely voluntary and you will not be punished nor rewarded for your participation. Your responses and identity will remain entirely confidential and your responses held in the highest of regard.

If you chose to participate, answer the questions by circling the appropriate response. Place the finished questionnaire in the self addressed stamped envelope provided and place in the mail. Once you have mailed the questionnaire, the responses will be recorded and the questionnaire will be submitted to The University of Texas in Arlington. Your signed informed consent form will be delivered to Dr. Shannon Fowler for secure safe keeping for a three year period at his office, University Hall Room #307, at the University of Texas at Arlington.

I, William Howell, the primary investigator, am completing this research to fulfill my degree requirements at The University of Texas at Arlington. Should you have any questions, please feel free to contact me at billhowell747@aol.com or 214-325-3407.

The questions contain answers that range from 1 to 5. Please circle the appropriate response. By responding with 5, the respondent is strongly agreeing with question. If the response is strongly disagreeing then the respondent should circle 1. There are three different sections of questions for your responses.

### Section 1

The questions in this section are examining the respondent’s relationship with employer

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. My employer treats me as a valuable employee.</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>2. My rate of pay is fair for my job duties/responsibilities.</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>3. I have a good working relationship with my co-workers.</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>4. Overall, I am satisfied with my employment.</td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>
5. My employer treats me fair in our working relationship
   Strongly Disagree       Strongly Agree
   1  2  3  4  5

Section 2

This section will examine the physical workplace environment or procedures

6. My place of employment has surveillance cameras
   Strongly Disagree       Strongly Agree
   1  2  3  4  5

7. Employees must be responsible in the handling of cash payment from customers
   Strongly Disagree       Strongly Agree
   1  2  3  4  5

8. I think my employer pre-screened my background before hiring me
   Strongly Disagree       Strongly Agree
   1  2  3  4  5

9. I am responsible for all job functions in my workplace
   Strongly Disagree       Strongly Agree
   1  2  3  4  5

10. My employer would punish an employee engaged in theft
    Strongly Disagree       Strongly Agree
     1  2  3  4  5

Section 3

This section will ask questions regarding to the reporting of employee theft

11. I would report an employee theft
    Strongly Disagree       Strongly Agree
     1  2  3  4  5

12. I would report employee theft if there was a reward for reporting theft
    Strongly Disagree       Strongly Agree
     1  2  3  4  5
13. I would report employee theft if there was no personal risk to me at all

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Strongly Agree</th>
</tr>
</thead>
</table>

REFERENCES


BIOGRAPHICAL INFORMATION

William Johnson Howell began his employment in small business in 1994. He obtained his B.A. in Criminology and Criminal Justice in 2001 at the University of Texas at Arlington. He obtained his M.A. in Criminology and Criminal Justice in 2011 at the University of Texas at Arlington.