

Surprising survey: Most small businesses remain silent rather than report employee theft

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In a recent survey of small businesses, a University of Cincinnati criminal justice researcher has found that only 16 percent of those that have experienced theft by employees actually reported that theft to the police.

That's even though 64 percent of the small businesses surveyed reported experiencing employee theft.

These are some of the findings in a survey of small businesses that examined the incidence of employee theft, how often it was reported, the types of goods taken by [employees](#), the types of employees most likely to commit theft, and the reasons the [business owners](#) did or did not report the theft.

The research, by Jay Kennedy, a doctoral student in UC's top-ranked criminal justice program, will be presented during the Feb. 18-22 annual meeting of the Academy of Criminal Justice Sciences in Philadelphia. Kennedy's presentation is titled "From Apathy to Disdain: Why Small Businesses Refuse to Call the Police When Employee Theft Occurs."

Kennedy, also a recent MBA graduate of UC's Carl H. Lindner College of Business, surveyed 314 [small business](#) owners in Cincinnati, in addition to conducting 30 in-person interviews with some of those surveyed. He conducted his interviews and surveys over the last year, and his findings mirror available national statistics.

He said, "It's important to look at this topic because such theft represents a loss to the tax base and would also seem to put such businesses at risk, and so, put our overall economy at risk. After all, small businesses with 100 or fewer employees comprise 97 percent of all businesses in the United States." (In Kennedy's survey, some small businesses had as many as 350 employees; however, most of them – more than 90 percent – had fewer than 100 employees.)

According to the United States Chamber of Commerce, one third of small business bankruptcies are the result of employee theft, at a time when long-term trends show that small businesses have been responsible for more than 65 percent of new jobs over the last 17 years, according to the U.S. Small Business Administration.

MAJOR FINDINGS OF THE SURVEY

Kennedy surveyed and interviewed small business owners regarding whether they had ever experienced theft by employees, and as stated, found that 64 percent of small businesses had experienced [employee theft](#), while only 16 percent of small business owners had reported that theft to the police.

Other findings:

THEFT IS A CASH BUSINESS

Not surprisingly, the most common item stolen was cash. In fact, 40 percent of thefts in small businesses were of money. Kennedy said that the cash thefts reported in his survey ranged from \$5 to \$2 million; however the average amount stolen (over time) was \$20,000. About 18 percent of thefts were of products sold by the business; about 12 percent were of materials (items that go into the production of a firm's product offerings); about 8 percent were of tools; about 6 percent were equipment; with the rest comprised of office supplies (anything from staples to paper towels); labor/wages (e.g., time-card manipulation); fuel and other items.

Kennedy hypothesized that the higher the dollar amount in a theft, the more trusted the employee conducting the theft. And, he added, that "most people believe that employees who steal are doing so because they are poor, in desperate need of money for, say, medical treatment or other dire circumstances. Anecdotally, I've founded in my research that these crimes actually tend to be a matter of lifestyle enhancement. Those convicted of fraud cannot account for how they spent the money."

EMPLOYEES STEAL OVER TIME

Most of these thefts did not happen in a one-time incident, but represent

an employee who steals over time, what is classified as an "ongoing scheme." Say, for instance, a bookkeeper who steals small amounts over years.

According to the UC research, about 61 percent of reported thefts were ongoing schemes and ranged in duration from a low of about two weeks to a high of 20 years. The average duration of a theft scheme was 16 months before the employee was caught.

According to Kennedy, "Generally, the theft is found out by sheer luck. Say the employee who is stealing goes on vacation, and someone else steps in to take over duties. The person stepping in notices something funny and begins asking questions."

EMPLOYEES MOST LIKELY TO STEAL

About 60 percent of employees most likely to steal were categorized as general or first-line employees, those at the lowest hierarchical level without supervisory responsibility. Next, about 20 percent were managers/executives; and the rest consisted of small percentages of accountant/bookkeeper/finance professional; receptionist/secretary; and billing/purchasing. Perhaps, somewhat surprisingly, only about 2 percent of cashiers – those handling cold, hard cash at a cash register – were likely to steal.

WHY DON'T SMALL BUSINESSES REPORT THESE CRIMES TO THE POLICE

Finally, Kennedy asked why so few small businesses go to the police. (Remember only 16 percent of small business that experience theft actually report it.) Most of the answers fall into four general categories, though the categories tend to overlap:

- The business owner does not see the victimization as serious enough to warrant his or her time and trouble beyond firing the employee.
- The business owner seeks counsel from a third party, usually his or her attorney. The attorney may often advise that the employer's costs in terms of time and effort for a successful prosecution outweigh any likely benefits to the employer. Explained Kennedy, "For instance, one company went through all the time and steps for a successful prosecution of an employee who stole \$200,000. The employee was convicted, put on probation and ordered to make restitution at the rate of \$50 per month. In essence, the small business will never recoup the stolen funds."
- Emotional obstacles were another factor, since many of those employees caught in theft have worked alongside business owners for many years, and may even be family. (About 40 of Kennedy's surveyed businesses were family-run operations.) States Kennedy, "You have a combination of factors where prosecution won't likely recoup assets plus the added emotional burden of knowing this person very well, and who may even be a relation. In the intimate environments that are small businesses, you may know this person's spouse and children, or may see him or her in family settings at the holidays. All in all, you just want to put the betrayal behind you as much and as quickly as you can."
- Business owners see the police/criminal justice system as ineffective or incompetent. Since thefts by employees may involve complex finances that are not the specialty of a beat cop, small businesses often assume that a responding officer won't have the business background to appreciate or even, initially, do much about a reported crime other than write up a report. Most small businesses don't realize that the police have a financial crimes unit. Kennedy found that some small businesses worked

through their own attorneys to directly approach prosecutors to build a case, if any level of financial complexity was involved. Or, [small business owners](#) assume the police are busy with more traditional, street-level law enforcement duties.

Provided by University of Cincinnati

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