

# Preventing employee theft and fraud:

Best practices for  
manufacturing

*Preventing internal fraud*

within an organization involves implementing **robust security measures**, **ethics training**, and utilizing **security technologies** to deter and identify dishonest workers.

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## Introduction

Without a doubt, employees can be the greatest asset to an organization. Unfortunately, there may be a small percentage of your workers who can become a serious liability for your business. Since every year more than \$50 billion are stolen by employees from businesses, according to the Statistics Brain Research Institute, it is of utmost importance to understand the risk of internal fraud and determine ways in which it can be prevented successfully.

There are effective security measures that should be practiced to deter internal theft at manufacturing premises. Nevertheless, the responsibility to avert this problem must not fall solely on the business owner. In fact, it is recommended that all staff go through ethics training to learn where fraud can occur and its related consequences. Additionally, recognizing possible red flags, indicative of malicious behavior, and the common motivations behind internal theft can help reduce the issue.

Technology also plays a critical role in eliminating internal fraud in the manufacturing sector. Video Surveillance and Video Analytics are highly effective as they can ensure dishonest employees are caught in the act. When security cameras are visible, a key obstacle is created. These solutions can improve the security of the factory, boost employee efficiency, stop shrinkage losses, and positively impact your bottom line.



## Understanding inventory shrinkage

Inventory shrinkage refers to having a certain amount of inventory showing in the accounting records, but not being reflected in reality. Such a discrepancy can happen due to several reasons that include damage, loss of materials, human errors during different stages of the production process, using incorrect units of measure, internal fraud, and even natural processes like evaporation.

One of the most common causes of inventory shrinkage in manufacturing companies is employee theft, which results in devastating financial effects for businesses. For instance, not having materials available can certainly slow or stop the production process. This delay can affect customer satisfaction, future orders, employee wages, and even your brand reputation.



#### **MISSING STOCK VS. THEFT: HOW TO TELL THE DIFFERENCE**

Most business owners do not consider internal theft as a major risk. Yet, employee theft is responsible for more than 30 percent of business bankruptcies. Contrastingly, inventory shrinkage, within certain limits, might be considered normal. Items can often get damaged, lost, or become obsolete. The question is: *how to determine when the reduction in the inventory numbers is due to theft?*

The best way to identify theft in your factory is by conducting regular inspections in order to notice changes in the inventory levels early. Not doing frequent audits can lead to major losses when it is already too late to take remedial steps. Inventory data must be accurate, reliable, and constantly verified with tangible evidence of its existence.

## RED FLAGS

The average dishonest employee steals about seven times more than a shoplifter, according to loss prevention experts. Due to the harmful consequences of not addressing internal fraud, it is important for manufacturers to determine the red flags that indicate dishonesty and the motivation to steal in a worker:

- **Unexplained inventory shortages:** Losses of over 1.5 percent of sales are usually signs of employee theft.
- **Falling profits:** When transactions remain steady, but location, department, or product type margins fall, it might be an indication of theft. Since every item that is stolen must be replaced, it can cause a reduction in revenue.
- **Lack of documentation to justify inventory write-offs.**
- **Unsubstantiated missing receipts and invoices.**

Regarding **suspicious employee behavior**, these are some alarming signs:

- Suddenly becoming a big spender with a modest salary.
- Never taking annual leave.
- Going through a financial crisis.
- First to arrive, last one to leave.
- Complaining about the plant and its management.
- Addiction problems.
- Family issues, e.g., divorce.
- Unusually close association with vendors.



## COMMON MOTIVATIONS BEHIND THEFT

Knowing the reasons why an employee might be willing to steal from your business can help prevent theft in a more effective way. There are three common reasons:

### 1. Poverty

When a worker struggles financially, they are more tempted to steal from work. Their justification is that they need the items more than the company, thinking the missing stock can be replaced by the plant easily.

### 2. Entitlement

Some employees feel as if the company they work for owes them something. They don't see the fraudulent activity as theft, but simply taking what is rightfully theirs to begin with. Interestingly, 34 percent of 18 to 29-year-old employees believe it is justifiable to steal from their employer.

### 3. Opportunistic

These dishonest employees will steal from the premises since they see the opportunity to do so. A weak security system can induce crime by providing criminals with the right circumstances to commit fraud.

## Best practices to protect inventory

The Association of Certified Fraud Examinations (ACFE) recommends the following measures to prevent internal theft in manufacturing facilities.

### Rigorous hiring protocols

Meticulous background checks can help ensure the integrity, fairness, and consistency of the hiring process. In addition, verifying criminal records and previous employment information decreases drastically the chances of internal theft at plants.

### Employee awareness

Personnel must be aware that your organization has a zero-tolerance policy when it comes to internal fraud. Clear consequences of violations (E.g., loss of job, legal action) should be clearly outlined and accepted by each employee by signing a code of conduct.

### Reporting

Fostering a safe environment that supports reporting of suspicious activity is equally necessary. Creating an anonymous channel or hotline where staff can report any questionable behavior will deter thieves due to a higher chance of being discovered.

### Fraud audits

Conduct regular inspections of inventory levels, as well as surprise audits, to fight against internal theft and inventory shrinkage.

### Immediate action

When internal theft is detected, conduct an immediate investigation to identify the responsible workers. If employees are identified, adhere to the plant's policies and processes to apply consequences. Be willing to prosecute perpetrators by following a zerotolerance stand on fraud.

## SUPPORTING TECHNOLOGIES

An effective security and monitoring system is an indispensable prevention method of internal theft. Ensuring you have a robust security level in your manufacturing facility can avert criminal activity and discourage dishonest workers from acting illegally.

**Video surveillance** efficaciously deters criminals. To act as an effective deterrent, the surveillance equipment must be installed in a visible location, in order for employees to realize they are being watched. With this solution, crime is less likely to happen. IP cameras should be strategically located, particularly in high-risk areas of the plant, in combination with security mirrors to prevent blind spots. It is key to cover entrances, exits, and parking lot areas.

Security cameras also provide valuable evidence of theft, which can be of great help for the manufacturing organization and law enforcement. The data provided by an advanced system is useful to identify and catch robbers after the incident. Likewise, this technology can help catch thieves in the act, before they get away.

**Video analytics** can protect manufacturers against theft, by detecting and alerting security teams of unauthorized access into the manufacturing premises. It is also capable of identifying the criminal, when integrated with facial recognition features.

Moreover, with an advanced video analytics platform, alerts are triggered if assets are moved out of place without authorization. This is an outstanding benefit that can mitigate internal theft. When embedded with computer vision, cameras can classify different assets of the manufacturing facility based on distinct parameters, e.g., shape or color. When an asset is stolen, video analytics sends real-time notifications to the appropriate personnel.

This solution, based on computer vision, can transform video data into actionable information to better prevent loss or theft of goods. It has the ability to track moving objects and people across multiple cameras, allowing directors of security to perform asset-based monitoring and monitor individuals across the facility using computer-aided tracking.

## Conclusion

Internal fraud is usually an overlooked issue by manufacturing companies. Nonetheless, it can deeply hurt your business if appropriate measures are not taken to prevent it. But, employers can reduce the risk for their plant by creating a positive culture where employees feel valued, establishing a confidential reporting system of suspicious activity, training supervisors to detect theft on time, and most importantly, by implementing the right security measures.

Using technology to minimize opportunity for theft is fundamental. Furthermore, if these solutions are made visible for personnel, workers are less likely to steal as they know there are tools in place to prevent fraud. Using Video Surveillance, for instance, ensures that your facility is being monitored 24/7 and that theft and criminals can be caught on camera. When smart cameras are complemented with zero-tolerance policies and explicit consequences of wrongdoing, inventory shrinkage is less likely to occur.

Video Analytics software is also key to diminish fraud incidents. This technology enables enhanced security and surveillance options by automatically monitoring video of people and objects, and their associated behaviors, within a camera's view. This provides reliable, accurate, scalable, and continuous monitoring.

Undeniably, with internal controls and sophisticated technologies, it is possible to overcome the aggravated issue of inventory shrinkage and internal theft.

Contact your local office today for an on-site, no-cost security assessment.

For more information call **800.261.2041** or visit **security101.com**