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Gauging Employee Theft and Other Unacceptable Behaviors in Food Service Operations

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Gauging Employee Theft and Other Unacceptable Behaviors in Food Service Operations

Abstract
Unacceptable employee behavior ultimately results in higher prices for consumers. Members of the Indiana Hospitality and Restaurant Association were surveyed about the practices being used to safeguard their assets and control employee deviance in food service. They were also asked to estimate the losses that result from employee theft. This information was used to investigate whether certain policies and procedures were more effective than others in limiting their losses.

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by

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Behavior that deviates from the formal and informal guidelines in the workplace has been characterized as employee deviance or employee unreliability. Depending on the nature of the act, this type of behavior can be categorized as property-related, production-related, and socially-based or altruistic deviance.

Property-related deviance is directed against an organization’s property; this type of behavior includes criminal acts such as theft, embezzlement, and sabotage. Production-related deviance includes acts which indirectly diminish the production standards of an organization; this includes absenteeism, tardiness, and poor performance. Behavior which does not directly enrich the employee can be categorized as altruistic deviance; the most prevalent act in this category appears to be extending one’s employment discount to friends.

In a survey of fast-food employees, 96 percent of respondents admitted to some type of employee deviance. Overall, more than 80 percent of the respondents admitted involvement in some kind of production deviance; close to 60 percent reported involvement in property deviance, and approximately 36 percent reported altruistic deviance. While the most frequent transgression was coming to work late, nearly one-half the employees admitted to eating food without paying for it; close to 30 percent used their discount for friends, and almost one-

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fourth admitted to taking company supplies for personal use. Other common forms of employee deviance included taking merchandise, faking illness, performing slow and sloppy work, arguing with customers and/or co-workers, and selling merchandise at reduced prices.

Regardless of the type, unacceptable employee behavior results in higher prices for consumers. Since it may go undetected, the monetary effects may be difficult to determine precisely. Perhaps as a result, widely disparate amounts have been reported. According to one source, all forms of crime against business — including direct employee crime — cost U.S. companies $128 billion in 1992; other sources indicate that employee theft alone costs business between $40 billion and $500 billion a year. Employee theft has also been associated with 30 percent of all business failures.

The NRA has estimated that food service operators lose four cents of every sales dollar to employee theft. With sales of $227 billion in 1989, this would have amounted to $9.1 billion; in 1991, the industry would have lost close to $10 billion; and in 1993, when sales were $267 billion, employee theft would have cost the industry $10.7 billion.

**Food Service Searches for Solutions**

In an effort to reduce and/or eliminate unacceptable employee behavior in food service, a number of controls have been proposed. Some of these, such as multiple interviews, reference checks, and psychological tests, can be performed prior to the employment relationship. Others can be considered internal efforts to remove or limit the opportunities for employee theft and employee deviance in the workplace. Geller has divided internal controls into two groups: accounting controls and administrative controls. Accounting controls are concerned with safeguarding the assets through the implementation of procedures that trace goods and follow transactions from their “inception to their conclusion.” Administrative controls, on the other hand, include the policies and procedures that promote efficiency within the organization. To some extent good accounting data will be available only if administrative controls are properly implemented.

Some of the preventative measures and administrative controls that have been proposed as a means of reducing employee theft and deviance in food service include the use of prenumbered guest checks, management distribution and control of guest checks, regular and unannounced cash (register) counts, management authorization of voids, division of duties, bonding certain employees, the use of mystery shoppers and closed circuit cameras, unannounced inspections and/or audits of inventories, restricting access to assets, limiting access to and from the premises, checking employee bags and packages, clearly written antitheft/antideviance policies, regular employee performance reviews, encouraging and promoting a positive attitude toward the organization, and fair management. In addition, some remedies have suggested that prosecuting offenders will strongly deter employee theft.
A number of studies have examined the prevalence of employee theft and deviance, but few have examined the extent of employers' efforts to limit or reduce their losses. Also, little mention is made of the turnover that results from these behaviors. The purpose of this study was to examine employee deviance in food service from the operator's point of view particularly, to investigate the prevalence of employee deviance in food service by estimating the turnover that results from inappropriate workplace behaviors, to investigate the extent to which employers have attempted to control or prevent unacceptable employee behavior as it relates to employee theft, and to examine the relationship between managerial controls and managerial estimates of employee theft.

Food Service Managers Are Contacted

A questionnaire was developed to identify the practices currently being used by food service owners and operators to safeguard their assets and control employee theft. The questions were generated primarily from studies that had examined employee deviance in food service via self-reports. Given the nature of the study and the kinds of questions that were asked, the possibility of bias was inherent; the respondents may have been more likely to over report desirable managerial behaviors, and under report undesirable ones. In order not to increase their sensitivity to potentially threatening questions, the respondents were guaranteed anonymity, and the questions were worded "directly" as recommended by Sudman and Bradburn. In addition, non-threatening questions were intermingled with more sensitive ones. Prior to distributing the questionnaire, a pilot study was conducted; based on the information provided, it was modified.

All members of the Indiana Hospitality and Restaurant Association involved in operations were contacted. This represented 450 members, and more than 90 percent of the membership. Information was requested about dismissals resulting from unacceptable behaviors, company policies regarding these behaviors, the operational practices that were being used to reduce the opportunity for employee deviance, and losses resulting from employee theft. A reminder was sent to those members who had not returned their questionnaire within three weeks of the initial mailing; to those who requested one, another survey was sent. Statistical analyses were made using SAS software (SAS Institute, Inc.).

One-hundred and forty-three questionnaires were returned; of these, one was undeliverable (to the address to which it was sent), and two were not usable. The final response rate was 31.1 percent. In total, the 140 respondents to the survey employed approximately 9,500 employees and served more than 680,000 meals a week.

In most cases the data were analyzed by size and type of ownership. The respondents were divided into four equally-sized groups: operations with 14 or fewer employees; operations with more than 14 and less than or equal to 29 employees; those with more than 29 but
less than or equal to 45; and those with more than 45 employees. The type of ownership categories were independent, franchise-independent, chain-owned, non-commercial, and other. Among those included in the “other” category were private clubs, where the membership owned the facilities, and operations that had contracted with an outside management company. Because of the limited number of respondents in the chain-owned and non-commercial segments, they were combined with the franchise-independent and other categories, respectively. As a result, the respondents were categorized as either independent, chain-affiliated, or other. Even so, the data primarily reflect independent food service operations since 74.2 percent (n=104) of the respondents were in this group; as for the other two groups, 16.4 percent (n= 23) of the respondents were chain-affiliated, and 9.3 percent (n=13) were classified as other.

Poor Performance is the Leading Reason for Dismissal

For the sample as a whole, the respondents indicated that at least 663 employees were released during the previous six months for some type of employee deviance. Poor performance, theft, and insubordination accounted for more than 90 percent of all dismissals. By far the leading reason was poor performance: 71.5 percent of all dismissals were performance-related. The next major reason was theft; in total, 82 employees or 12.4 percent of all dismissals were due to theft. Table 1 shows the number of employees dismissed, and the percent of the total by cause.

Overall, the involuntary separation rate due to inappropriate workplace behavior was 6.9 percent. This percentage represents the total number of employees that were dismissed out of the total number of full- and part-time employees that were regularly employed by all respondents.

When categorized as property-related, production-related, or altruistic, 14 percent of the terminations were due to property-deviant behavior; approximately 84 percent were for production-related reasons, and less than 2 percent were for inappropriate altruistic acts. However, these percentages do not include the employees who were removed for insubordination or assault/battery because these acts had not been included among those in the three previously identified categories.

Larger Operations More Likely to Have Written Policies

As might be expected, larger food service operations were more likely to have written company policies about unacceptable types of employee behavior than were smaller operations; 54.5 percent of the smallest-sized operations indicated they did not have any written policies for theft, providing merchandise to non-employees, insubordination, poor performance, assault/battery, and substance abuse; 27.2 percent of the respondents in the next smallest group indicated likewise; in the second largest group, 33.3 percent did not have any policies; and in the largest group, only 8.8 percent indicated policies were not in
Table 1
Number and Percent of Employees Dismissed by Cause

<table>
<thead>
<tr>
<th></th>
<th>No. of Dismissals</th>
<th>Percent of Total Dismissals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theft</td>
<td>82</td>
<td>12.4</td>
</tr>
<tr>
<td>Providing merchandise to non-employees</td>
<td>10</td>
<td>1.5</td>
</tr>
<tr>
<td>Insubordination</td>
<td>70</td>
<td>10.6</td>
</tr>
<tr>
<td>Poor Performance</td>
<td>474</td>
<td>71.5</td>
</tr>
<tr>
<td>Assault/Battery</td>
<td>1</td>
<td>.1</td>
</tr>
<tr>
<td>Substance Abuse</td>
<td>19</td>
<td>2.9</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>663</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 2
Employers with Written Policies for Unacceptable Employee Behavior

<table>
<thead>
<tr>
<th></th>
<th>No. of Employers</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theft</td>
<td>84</td>
<td>60.9</td>
</tr>
<tr>
<td>Providing merchandise to non-employees</td>
<td>63</td>
<td>45.7</td>
</tr>
<tr>
<td>Insubordination</td>
<td>79</td>
<td>57.2</td>
</tr>
<tr>
<td>Poor Performance</td>
<td>88</td>
<td>63.8</td>
</tr>
<tr>
<td>Assault/Battery</td>
<td>61</td>
<td>44.2</td>
</tr>
<tr>
<td>Substance Abuse</td>
<td>79</td>
<td>57.2</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>8.0</td>
</tr>
</tbody>
</table>

place. Table 2 shows the number and percent of respondents who indicated they had specific company policies for certain types of (inappropriate) behavior.

There was a significant difference in the number of employees dismissed depending upon whether or not a respondent had written company policies \( (p < .05, F(85, 41) = 1.95) \). Specifically, more employees were dismissed by operations without written policies. Also significantly, more employees were removed by chain-affiliated operations than by either independents or other food service operations \( (p < .05, F(2, 127) = 3.52) \); there was no significant difference between independent food service operations and others.
As for employee theft, 61 percent of the respondents indicated they had a written company, yet many were not sure how they would respond to certain types of employee theft. For example, if an employee was found removing company supplies or equipment from the premises, close to 20 percent of the employers with a company theft policy indicated they were not sure what their response would be, or — what amounts to the same thing — that their response would depend on the employee's employment record; 50 percent of the employers without a written company policy for theft were in a similar situation. Again, if an employee was found providing merchandise to non-employees, more than one third of all respondents indicated there was no set policy or that management's response would depend on the employee's record. For those employers with a written theft policy, 28 percent were not sure how they would respond; close to 50 percent of the employers without a written company policy were in a similar situation. Eating company food without paying for it (food not provided by the employer) rarely resulted in dismissal; in fact, more than one-third of all respondents indicated they did not have a policy for this transgression.

While 90 percent of the chain-affiliated operations indicated there were performance standards, only 42 percent of the other respondents indicated they had standards.

**Cash Handling Activities Are Questionable**

Cash is the most liquid asset and arguably the easiest for food service employees to filch. Many workers regularly handle cash or have ready access to it. Nonetheless, more than one third of all respondents indicated that they did not balance their cash drawers until the end of the day. Furthermore, 41 percent of respondents who indicated that their cash drawers were "off" more than four times a week did not balance them until the end of the day; of those whose cash drawers were off three or fewer times a week, close to 60 percent balanced each drawer after every meal or balanced the drawer after the shift of the person who had access to its cash.

Approximately 70 percent of respondents allowed more than one employee to access the same cash drawer during a shift. Moreover, this practice was permitted in almost 80 percent of the operations where the cash was off at least four times a week; in situations where only one employee was allowed access to a cash drawer during a shift, 70 percent indicated that their cash was off three or fewer times per week. Some of the other cash-handling activities worth noting include 36 percent of respondents indicated they spot-checked individuals responsible for cash drawers, and 64 percent indicated that the person responsible for counting cash receipts was also responsible for checking guest checks and sales for accuracy.

Stepwise discriminant analysis was used to investigate whether certain policies and procedures were more effective than others in limiting the losses that resulted from employee theft. This procedure methodically selects variables in order to better understand the differ-
ences between groups — that is, variables are selected to produce a good discrimination model. In the backward version of this procedure, a model is examined with all of the variables under consideration initially included. Next, the variable that contributes least to the discriminatory power is removed, and the model reexamined. This process continues until the variables that remain meet the criterion to stay.  

In this case, respondents were classified into two groups based on the amount they estimated to be lost due to employee theft, and the two groups were compared on the extent to which certain policies and procedures were implemented. The groups were operations that indicated they lost less than $150/month due to employee theft (low group), and those where more than $150/month was lost (high group). The policies and procedures were grouped by activity or by the asset they were intended to safeguard, and a composite variable formed to indicate the extent to which management attempted to limit or control their employees' behavior.

For example, company procedures related to cash-handling were grouped together, and a composite variable formed that indicated how restrictive the operation was in this regard. Composite variables were formed for the following activities: cash-handling procedures, guest check procedures, inventory control, pre-employment activities, the extent of written company policies, the forcefulness/manner in which management dealt with undesirable behaviors, and miscellaneous. Miscellaneous policies included those which did not readily fit in the other categories and included requiring employees to enter and exit through one door, subjecting employees' personal belongings to inspection, the use of mystery shoppers to monitor certain activities, and the use of closed circuit cameras. Other variables included in the analysis were size and the extent of credit sales.

**Thoroughness in Hiring Abates Theft**

The backward stepwise elimination procedure indicated that cash-handling activities, pre-employment practices, and the forcefulness/manner in which management dealt with employee theft were significant in discriminating between the low and high groups. In particular, the respondents who were more thorough when hiring new employees, and who were more structured or more determined in their response to employee theft indicated they lost less. Again, managers and owners who checked both personal and employment references prior to hiring applicants tended to be in the low loss group. Likewise, employers who had a set policy for dealing with employee theft were in the low loss group. The various types of theft included eating food not provided by the employer, removing company belongings, and providing merchandise to non-employees. The usual methods of dealing with these behaviors included no set policy, written reprimand, or dismissal; in some cases, employees caught stealing or committing an illegal act were prosecuted.
The model also indicated that operations with more restrictive cash-handling procedures lost more than those with fewer or less stringent controls. While this result seems contrary to what might be expected, the situation may mean that more controls have been required and implemented because of higher losses in this area or that, because of cash’s liquidity, these operations are more aware of the potential problem. Based on the three variables, the discriminant model misclassified 23 percent of the respondents.

**Estimated Loss per Meal is 2.2 Cents**

Overall, the respondents to the questionnaire estimated that $138 per month (average) was lost as a result of employee theft. The average loss was 2 cents per $1 in sales; this was computed by dividing each respondent’s estimated loss by the respondent’s average sales. There were no significant differences because of size or type of ownership.

For comparative purposes, the NRA’s figure of four cents per $1 in sales was combined with each respondent’s average sales figure to compute weekly and monthly estimates of loss. Based on these amounts, $850 was lost each week due to employee theft (average), and on a monthly basis, approximately $3,600. (Even though the NRA figures are considerably larger than the owners’ and operators’ estimates, the two amounts correlate at the p < .05 level (R=.52). The reason for this is that the respondents’ estimates correlate with their sales at this level.)

In a like manner, the average loss per meal served was calculated; for the sample, the loss was 2.2 cents per meal. Again, there were no significant differences because of size or type of ownership. For comparative purposes, the loss per meal was calculated using the NRA’s estimate; in this case, the average loss per meal was 4.8 cents.

Finally, the average loss per employee was calculated. Based on the owners’ and managers’ estimates, the average loss per employee due to employee theft was $6.94 per month. No significant differences were detected because of size or type of ownership. Using the NRA’s figure, the average loss per employee was $97.68 per month.

**Cost May Be More Than Realized**

There is a striking difference between the number of employees who, through self reports, admit to some type of employee deviance and the number of employees who are removed for inappropriate workplace behaviors. Albeit some of the behaviors do not warrant dismissal, the magnitude of the discrepancy suggests that a considerable amount of unacceptable behavior may go undetected or be tolerated, and the cost of employee deviance may be more than presumed and/or realized.

The difference between the amounts the owners and operators who participated in this survey reported as lost on account of employee theft and the quantities based on the NRA’s findings is sizable, both estimates seem extreme. The owners’ estimates appear a little low, but higher estimates should not be expected from members of this group.
since that might imply a lack of control or, what amounts to the same
ting, that there is a considerable amount of employee theft; either
explanation is incompatible with good management. Nonetheless, many
respondents did not hesitate to report poor internal controls. Estimates
obtained from sales data and the NRA's findings, on the other hand,
seem rather high — even incomprehensible; with losses this high, an
enterprise would not last very long. Future investigations could help
resolve these differences by obtaining estimates from both sides of the
same operation, that is, from managers and their employees.

While variances in food cost can be measured and amounts not
accounted for attributed to theft, other types of employee deviance,
such as production-related deviance, are not as readily measured.
Accordingly, good accounting data and standards are difficult to
obtain. Part of the problem is due to the nature of the work — food ser-
vice workers often perform many tasks “at once” — and part is due to
industry-related factors such as low wages and high employee
turnover. Even with policies and procedures in place, (poor) perfor-
ance is — and will remain — one of the larger and more widespread
problems in the industry. Certainly it is one of the most difficult to
gauge. As a result, management must endeavor to schedule produc-
tivity rather than schedule labor. Future studies could identify the cri-
teria that define acceptable/poor employee performance, and examine
ways of measuring individual worker productivity in food service
(other than by way of sales per labor hour).

In order to safeguard an operation's assets, policies and procedures
must be adopted that enable owners and operators to establish their
whereabouts at any point in time. Moreover, written policies and pro-
cedures may help protect operators in an increasingly litigious envi-
nronment. However, merely having policies and procedures is not
enough. Employers must monitor their implementation, regularly
review their effectiveness, confront employee deviance from standard
operating procedures, and be ready to discipline accordingly. Hiring
employees who have demonstrated their worth to previous employers
and have good personal references will minimize unacceptable behav-
iors and any losses that may result.

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