# ASK THE SBDC

## Insights for the Entrepreneur


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# The Threat from Within

If you are a business owner and you think shrinkage is what happened to your clothes after a trip to the cleaners, you really should read on.

In business, shrinkage usually describes the financial losses caused by employees. For a business owner, there is nothing more disheartening than learning a trusted employee has stolen from the company. Many small businesses have folded due to internal theft. If your firm has never been victimized by a dishonest employee, either you are a "solo-preneur" with no employees or you're incredibly lucky.

Although all firms with employees are at risk, retail stores and restaurants are particularly vulnerable to internal shrinkage. Even community organizations aren't exempt. A surprisingly high number of clubs, youth groups and churches have had their bank accounts ransacked from within by trusted volunteers.

Why do employees steal? Common reasons include addictions such as drugs, alcohol and gambling. They may have encountered a major life change such as excessive debt, health issues or loss of a spouse's income. If your employees process cash or credit card transactions, your company is especially vulnerable to internal theft. The initial theft often starts when an employee "borrows" cash, but is soon in too deep to pay it back. The media has already reported rising employee theft due to current economic conditions.

So what can you do to neutralize this threat from within? You can start by instituting strong cash handling procedures and strictly enforcing them. Businesses should take a physical count of all resale merchandise no less than monthly. Restaurants should do this daily. Instituting a drug-free workplace program in your company can significantly reduce your exposure to shrinkage.

Finally, small business owners should open their own mail and sign all checks issued by their firm. Delegating these functions will exponentially increase your risk for embezzlement. A lack of controls is like a virtual company billboard which reads "Please Steal From Me."

A strong commitment to loss prevention may inhibit dishonest employees from taking *you* to the cleaners. ■