Reduce Restaurant Theft With Better Onboarding and Reporting Practices

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An extensive study of theft among restaurant workers was conducted recently by three researchers from the Olin Business School at Washington University in St. Louis. The results — based on transaction and theft data from 83,153 servers at 1,049 restaurants from 34 chains across 46 states in the U.S. over seven years — are a must-read for restaurant owners, managers and investors regarding theft prevention practices.

Among the findings:

1. Restaurant employees who engage in unethical or illegal behavior influence others to participate in similar misconduct. Interestingly, "theft peer effects on new employees are strongest in the first month of employment and disappear after the fifth month."
2. Although servers are more likely to steal when working with high-theft peers, as their peers steal more on any given day, the servers tend to reduce theft accordingly to avoid the threat of detection by point-of-sale software designed to alert managers to the risk of theft.

The "costs of employing unethical workers is higher than the direct cost of those workers' misconduct because their behavior spills over into coworkers' actions and amplifies through reflection effects. ... An unethical employee may affect many peers simultaneously, who in turn will affect others. It is this contagion or normalization of corruption that can generate astounding levels of misconduct within organizations."

These findings make a compelling case that restaurant executives and investors should take a hard look at their current theft-prevention efforts. This is especially true since the industry's average profit margins range from 3% to 5%.

Restaurants have recently become heavily reliant on technology in their fraud and theft prevention efforts. Indeed, inventory management, POS, scheduling and other software systems have made advances in fraud detection. However, such technology is not enough, because two important factors are not considered when relying solely on software for fraud prevention:

First, employees who engage in unethical activity can be clever, learning how to avoid detection by trial and error and from their peers. As noted in the Olin Business School study, restaurant workers learn to respond to the increased threat of detection of higher daily restaurant losses and software alerts by reducing theft accordingly on a particular day.

Second, restaurant managers have a myriad of responsibilities during their shifts and do not have time for real-time monitoring of suspicious activity. Interviews with managers conducted by the Olin researchers showed that "[restaurant managers'] use of and response to the monitoring system varied, although most indicated that they intervened when theft was repeated or substantial." Intervening when theft is repeated or substantial is too little, too late.

Given this extensive (and expensive) behavior, what are restaurant companies large and small to do to prevent serial theft at their restaurants? Three basic fraud prevention techniques that cost far less than most restaurant software and do not require 24/7 monitoring by managers can be implemented:

1. **Review your onboarding and training materials.** Do you have a Code of Ethics and Conduct that every new employee must sign before working their first shift? Or do they simply follow another server or bartender from day one? We now know that the newest employees are the most susceptible to learning unethical behavior. A strong message about the restaurant's desired culture, including what behaviors will not be tolerated, should be sent by the restaurant company's leadership. A thorough review of this code with all employees — front and back of house — should be conducted by a senior manager or member of the human resources team.

Give each employee a variety of options for reporting witnessed misconduct or theft as part of the onboarding process and at least annually. The Code of Ethics and Conduct should state this information clearly and unequivocally: not "you CAN report theft to your supervisor," but "you MUST report theft using one of the following reporting options if you do not feel comfortable reporting it directly to your supervisor." It should be clear that an employee who witnesses theft or misconduct and doesn't report it can also be subject to disciplinary action. The Association of Certified Fraud Examiners' (ACFE) 2018 Report to the Nation included a section on Occupational Fraud in the Foodservice and Hospitality Industry and noted that one issue specific to the restaurant industry is a lack of a reporting hotline for employees to report their concerns about theft and fraud. An ACFE survey also found that the median loss per case in the industry was $90,000 and lasted 15 months before being detected.

Ensure that no issue reported is allowed to fall through the cracks. This means that every hotline report, every complaint shared with HR, and any other reports of unethical or illegal behavior, regardless of how they are communicated to restaurant management, must be addressed swiftly and appropriately. This approach has several benefits. First, there is an opportunity to address a potential issue that could incur significant loss of revenue and possible reputational damage if left unchecked. Second, a swift response to complaints of unethical or illegal behavior sends a message to every employee that the restaurant's leaders are committed to operating in an ethical environment. And third, this "tone at the top" acts as a deterrent to future unethical behavior by providing a solid foundation for the culture that ethical leaders want to develop, inspire and maintain.

These techniques, if properly and consistently implemented, can be most effective in preventing and detecting employee misconduct. They can also help reduce the risk of other misconduct, such as harassment. Anyone who works or has worked in a restaurant knows that nothing goes unnoticed by coworkers on the floor or in the kitchen, so let your employees be your eyes and ears by providing them with a zero-tolerance culture and a safe way to blow the whistle on the "bad apples."

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