

The Fraud Triangle: Could it Apply in Your Business? - By Ken Burgin

2008-07-16

Ever had a trusted employee rip you off? When I spoke with a bar owner last week, she was still in shock after uncovering a six-figure fraud carried out by a 'trusted' manager for more than 4 years. I hope that doesn't sound familiar.

Most people who commit fraud against their employer are not career criminals. The vast majority are trusted staff who have no criminal history and don't even consider themselves lawbreakers. Donald Cressey, a criminologist, calls it the Fraud Triangle. He says there are three factors that must be present for an ordinary person to commit fraud: Pressure, Opportunity and Rationalisation. Think about how this could apply at your business:



Pressure comes from a 'non-shareable' financial problem that can't be shared or solved in a legitimate way. It might be a drug or gambling addiction, desire to impress friends or problems with a loan that must be repaid urgently. Non-shareable problems involve some sort of embarrassment or shame. They threaten the fraudster's status as a person who is trusted by others. In almost every fraud case, their financial problem relates to gaining or maintaining status.

Opportunity arises when the fraudster sees a way to use their position of trust to solve the financial problem, knowing they are unlikely to be caught. Think of all the opportunities that arise with money handling at your business: balancing the cash against the till readout, counting cash, making up floats, 'correcting' over-rings and errors. Lax stock-control with liquor or expensive food items gives plenty of opportunity to trade these items for cash. Most hospitality businesses offer wonderful opportunities for fraudsters, with little monitoring of warning signs and sloppy cash control systems.

Rationalisation is the third part of the triangle. Cressey says most fraudsters are first-time offenders with no criminal record. They see themselves as ordinary, honest people who are caught in a bad situation. This lets them justify the crime to themselves in a way that makes it acceptable or justifiable. They may say they were 'just borrowing it', felt they were entitled to it, had to look after their family or felt they were being underpaid and therefore deserved it. Sometimes they feel the employer is dishonest and should be 'sharing the spoils'.

Prevention is possible in all three parts of the triangle. Do you have your 'sources' for information about staff problems? Ideally, regular staff reviews will give you an understanding of the 'whole person' and their needs. Drug, alcohol and financial counselling services are widely available, but you need to be bold to suggest them - it's difficult for some people.

Tight checks and balances with cash and stock handling will eliminate most opportunities, with unexpected spot-checks to keep people on their toes. Plus a clear division of labour between those who count and those who check the figures - whether it's cash, wine or stock. Would an external stocktake service really be so expensive if it meant the job was done properly? Is there a good reason why the cost percentages in your Recipe Software are lower than the monthly food cost percentage? Or not.

Your Code of Conduct should also talk clearly about the value of integrity and honest dealings in the business, so rationalisation is harder: 'but nobody said I couldn't borrow!'. This is not about staff needing a sainthood as a condition of employment, but there are too many times that trust is misplaced through naivete or laziness. Wake up!

Profitable Hospitality offers management and cost-control systems (Manuals & CD-ROMs) for restaurants, cafes, hotels, bars and clubs. The systems are based on the extensive consulting and operating experience of CEO Ken Burgin, and enable busy owners and managers to set up complete operating and cost-control systems in minutes, not months. Profitable Hospitality also runs regular management training workshops in the areas of kitchen profit & efficiency, restaurant marketing and functions management. A free monthly e-newsletter keeps you up to date on the latest industry management issues. www.profitablehospitality.com.

This article comes from Hotel News Resource

<http://www.hotelnewsresource.com>

The URL for this story is:

<http://www.hotelnewsresource.com/article33538.html>

© 1998 - 2008 Nevistas and the author.

Brought to you by Hotel News Resource

Distribute your news on our Network

See what all the buzz is about at:

http://www.hotelnewsresource.com/Info-news_account_info.html