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What Is the Relationship between Wages and Employee Theft?

It has been over thirty years since John C. Clark and I published our book, *Theft by Employees* (Lexington Books, 1983). When you finally complete the daunting task of publishing a work of empirical research findings, it is always the hope of the authors that the conclusions drawn from the data will withstand the test of time. As such, it is particularly gratifying when I come across research studies that validate the conclusions that John Clark and I stated in this seminal work published over three decades ago. When this happens it makes you feel confident that your hypotheses and findings were then, and still are, correct.

New Research

Recently, I found an article published in the *Journal of Accounting Research* (50, 2012: 967-1000) entitled, "Can Wages Buy Honesty? The Relationship between Relative Wages and Employee Theft." The article was written by Professors Clara Xiaoling Chen of the University of Illinois-Urbana and Tatiana Sandino of Harvard University.

> **An increase in employee wages, especially in the retail industry, might actually reduce shrinkage losses and thus increase, not decrease, profits.**

Since the *Journal of Accounting Research* is not a periodical that most criminologists regularly read, I was particularly pleased to discover that these two researchers, working in a completely different discipline, had come to many of the same conclusions. In 1983 John Clark and I found that when we examined the self-reported responses of over 9,000 employees in three different industries, employees who felt equitably paid were significantly less likely to steal from their employers. Alternatively, employees who were not satisfied with their wages were more likely to commit employee theft.

Chen and Sandino used two complementary store-level datasets provided by the convenience store industry to test whether relative wage levels were negatively associated with employee theft. Using three different measures of employee theft, including shrinkage and cash shortages, high relative wage levels were found to be consistently negatively related with employee dishonesty. This means that the more people were paid in comparison to others in relatively similar work settings, the lower was the occurrence of employee theft.

Not surprisingly, they documented that "better quality" employees were less likely to steal. They also discovered that higher store manager turnover could result in less monitoring and thus, produce higher employee theft.

You may recall that the link between above-average managerial turnover and high shrinkage is a finding that we have consistently observed over the twenty year history of the National Retail Security Survey. In fact, I have been demonstrating for some time now that the single most consistent factor that can be used to predict shrinkage is employee turnover, especially among managers.

Moreover, Chen and Sandino went on to examine whether or not there is a relationship between high property crime in surrounding neighborhoods and employee theft. They confirmed a negative relationship, meaning that high property crime predicts lower employee theft. A potential explanation for this finding is that firms use better control systems in high property crime areas, which seem to reduce both shoplifting by customers and employee theft.

Cost-Benefit Analysis

The two authors went on to conduct an actual cost-benefit analysis of increasing employee wages. They predicted that increasing employee wages would translate into a benefit of recovering 39 percent of the cost of the wage increase in terms of lower levels of employee theft. While this does not cover all of the cost of the wage increases, Chen and Sandino speculated that higher employee wages will also result in higher employee effort levels as well as produce a reduction in turnover. These indirect benefits would likely cover the remaining 61 percent of the wage increase, clearly recovering the remaining costs. In short, increasing wages can be justified on the bottom line, since the cost of raising employee wages would result in higher profit margins and essentially pay for itself.

The authors also conclude that these results suggest that "overpaid employees do reciprocate to their employers for generous compensation." This means that they work harder, are absent less, and are more productive. In addition, the lower inventory shrinkage relationship with higher wages when more employees are present also "suggests that relatively higher wages in the workplace mitigates against potential collusion among coworkers."

With the real possibility that U.S. minimum wages might be increased in the near future, many have speculated that these higher wages would have a negative effect on the profitability of many retail businesses. If the findings of this research are correct, exactly the opposite might be true. In summary, an increase in employee wages, especially in the retail industry, might actually reduce shrinkage losses and thus increase, not decrease, profits. ■