

1947

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Recommended Citation

Virgil W. Peterson, Why Honest People Steal, 38 J. Crim. L. & Criminology 94 (1947-1948)

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WHY HONEST PEOPLE STEAL

Virgil W. Peterson

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It has been estimated that annual losses resulting from the offense of embezzlement will approximate the astronomical sum of \$400,000,000. A large share of this amount is taken by trusted employees who have previously enjoyed excellent reputations.

The embezzler is an anomaly in the field of crime. Previous arrest or prison records are frequently wanting to act as warnings of possible dishonest conduct. Steady work records many times conceal the instability that may be present in the person's make-up. Yet, there is usually an explanation for the embezzler's conduct. And through an understanding by employers of some of the factors that frequently contribute to embezzlement, it is believed that business losses as well as the crime of embezzlement can be materially reduced.

In view of the frequency of embezzlement cases involving losses of large sums of money, an attempt has been made to determine some of the factors that contribute directly or indirectly to the offense of embezzlement. In this connection it was felt that surety companies are the best source of accurate information in view of their long and intimate experience with this problem. Surety companies in every part of the United States were requested to rank in order of their importance those factors that appear to cause employees to embezzle or steal from their employers. Replies were received from over twenty approved surety companies and fidelity bond departments of insurance companies located in various parts of the United States. These companies engage in business in every state of the Union, Canada and foreign nations. An analysis of these replies would indicate that the factors most frequently present in embezzlement cases are: (1) Gambling; (2) Extravagant living standards; (3) Unusual family expense; (4) Undesirable associates; (5) Inadequate income. The need, and thus the motive to commit embezzlement, is created by one or more of these factors as well as others, and the embezzlement is made possible through lax accounting methods and improper or inadequate supervision

over employees having custody of funds. A summary of the information obtained from the various surety companies follows:

Gambling

Based on the experience of over twenty of the largest surety companies, it would appear that the two principal factors contributing to employee dishonesty are gambling and extravagant living standards. Some companies estimated that gambling on the part of employees has been responsible for 30% of the losses of those companies. Other companies blamed gambling for as high as 75% of their total losses. The manager of the bonding department of one company wrote, "Gambling is one of the greatest evils sureties must contend with under their fidelity bonds." Another manager stated that "Gambling appears in more embezzlements than any of the other causes." The secretary of one large company, based on the experience of 100,000 case histories, placed gambling next to extravagant living standards as the most important factor in causing embezzlement of funds by employees in connection with losses of \$5,000 or over. The same company expressed the opinion that with reference to the smaller losses, i.e., under \$5,000, gambling ranked third as the cause of employee dishonesty. Gambling was said to be responsible for about 15% of the smaller losses while it caused approximately 25% of the larger losses. Several other companies likewise differentiated between embezzlements in small amounts and large losses. One surety manager wrote, "Gambling is probably the greatest single contributing factor that we know of and this is particularly true with claims of large size."

Several years ago the United States Fidelity and Guaranty Company, Baltimore, Maryland, published an excellent booklet entitled "1,001 Embezzlers—A Study of Defalcations in Business." In a statistical analysis of mercantile embezzlements committed by 963 men involving losses totaling \$6,127,588.48, "gambling and/or drink" was listed as the most frequent cause of defalcation. Ranking next in importance was "living above their means," followed by "accumulation of debts," "bad business managers," "women," and "speculation." "Gambling and/or drink" and "speculation" were responsible for 26.3% of the embezzlement offenses under study.

One surety company stated that "Gambling losses in large amounts are more frequent now than ten years ago." This is the natural consequence of the growth of gambling in America

during the last decade. The upward surge of gambling since World War II ended undoubtedly adds to the hazard of embezzlement in business today.

Almost every type of gambling has been responsible for employee dishonesty including horse race betting at the tracks and at handbooks, dice, roulette, slot machine, black jack and many other forms of gaming as well as stock market speculation. In recent years, however, wagering on race horses has been the most prevalent type of gambling that has been involved in embezzlements attributed to gambling. One large bank embezzler was referred to as a "super sucker" in connection with gambling on race horses at various handbooks. On some days when as many as 16 race tracks were operating, he would place bets on horses running at each of the 16 tracks and frequently on more than one horse in a race. This case received nationwide publicity.

Some surety companies expressed the opinion that while a large portion of stolen funds involved in their losses is used in gambling, that gambling itself is not the primary cause of the embezzlement. On the other hand it was suggested that many times the employee may feel the impact of a sudden financial strain such as illness in the family and embezzlement may follow. The employee may then resort to gambling to recoup his losses. He inevitably loses. Additional money is stolen in the hope that luck may enable the embezzler to make one big "killing" on the horses or at the roulette wheel which will enable him to pay back all the money he has surreptitiously "borrowed." As his losses mount, the need to win becomes more and more acute. He becomes reckless to a greater degree than ever and his chances of winning accordingly decrease. His situation eventually becomes hopeless. Disgrace and prison or suicide almost inevitably result.

Regardless of whether gambling is the direct or indirect cause of employee dishonesty, it is one of the most important factors contributing to embezzlement. It is commonly agreed among surety company officials that a person who is addicted to the gambling habit is a poor risk for any position which places in his care the funds of his employer. So well recognized is this risk that no fidelity bond underwriter would knowingly approve a bond for a gambler.

Extravagant Living Standards

Some surety companies attribute more of their losses to extravagant living standards than to any other single cause.

Inquiry into the causes for defalcation on the part of many employees has determined that the embezzler was living beyond his financial means. He stole to supply the necessary income to maintain his mode of living.

The necessity for maintaining living standards that he cannot afford does not always originate with the embezzler himself. His wife may make extravagant demands. Attempting to "keep up with the Joneses" has frequently caused trusted employees to borrow funds entrusted in their care. They may fully intend to pay back the money taken but are never able to do so. Instead, further peculations frequently become necessary until the embezzler is hopelessly involved. Likewise, doting fathers may be subjected to demands from children that are beyond their financial means. The employer himself is sometimes responsible for the extravagant living standards maintained by the defaulter. Occasionally the employer may require some of his employees to associate with a wealthy class of people for the purpose of increasing business and to enhance the reputation of the company. The income of the employee may not be sufficient to enable him to meet the demands of his association with people in the higher income bracket. Yet he must do so if he expects to maintain the approval of his employer. The employee may steal from his employer to furnish him with the necessary funds to meet the social requirements of his job. The employee who lives beyond his means usually incurs obligations he is unable to meet. He may become heavily indebted to finance companies for the purchase of furniture, automobiles, radios or jewelry. When the obligations become due he feels the necessity for "borrowing" from his employer. He intends to return the money he has taken when he receives his next paycheck but he is too heavily indebted to make this possible. Having stolen once it becomes easier to do so again and in time he is unable to extricate himself from the vicious cycle that he has set in motion.

Careless spending habits are very similar to extravagant living standards as a cause of embezzlement. Such habits may result from poor management or through exercising bad judgment in personal or family affairs rather than from attempting to live extravagantly. The results are often the same. Many embezzlements have their origin in careless spending habits of employees.

Unusual Family Expense

Perhaps the most pathetic cases are those of employees who steal to meet some unusual family expense that may have sud-

denly arisen. One surety company reported the case of an employee who had a very sick wife. All of his savings had been exhausted to pay for medical services. She required further medical care. So great was the desire of the employee for his wife to regain her health that he insisted on providing her with the best available medical aid. He could not afford this unusual expense. The strain upset him emotionally and he stole from his employer. Such cases are not unusual. Several companies listed illness of a member of the family as one of the important causes of employee dishonesty.

Undesirable Associates

Frequently the cause of embezzlement may be traced to undesirable associates. It was stated by some surety companies that the two most frequent causes of embezzlement are (1) slow horses, and (2) fast women. Not infrequently the "other woman" figures in embezzlement cases. Employee dishonesty is also many times attributed to association with companions who drink heavily and who run with a fast crowd. The expenditures necessary to maintain himself in this company may be considerably beyond the income of the employee. The bad influence of his association and the development of habits of carousing may result in a general breakdown of moral standards. Stealing from his employer may follow.

A number of embezzlement offenses involving large sums of money are the result of collusion between employees holding positions of trust and persons with criminal backgrounds. In some instances employees who frequent gambling establishments have become quite friendly with the proprietor. Realizing that the employee has access to sizeable funds of his employer, the gambling house proprietor may influence the employee to steal from his employer and to gamble on some "sure thing." The employee may be permitted to win temporarily until the time is ripe for the "kill." He is then so hopelessly involved that it is only a matter of time until he must choose prison, suicide or flight.

Inadequate Income

In many criminal court cases the defense is presented on behalf of the embezzler that his income was inadequate to support his family and consequently he was driven to stealing. It is undoubtedly true that inadequate salaries have frequently contributed to employee dishonesty. The employee, to his partial satisfaction, is able to justify in his own mind his peccation on the ground

that his employer actually owes him the money he is stealing. Once he has started to take the money of his employer it becomes increasingly easy to steal again and to enlarge the individual amounts embezzled. This may account for some of the cases in which the embezzler advances the defense of inadequate income and yet the amount stolen may greatly exceed any salary that he could have reasonably expected.

The official of one surety company advised, "It has been our experience that whenever economic conditions are bad, fidelity losses increase in number and size. This is particularly true among the so-called 'white collar classes' whose income is not normally increased to meet an increase in the cost of living. This does not necessarily mean that embezzlements by this class are attributed to increased living expenses. On the contrary, most of the money embezzled is spent for other purposes, the outstanding one being gambling." Several surety companies listed inadequate income as a major cause of defalcation.

Other Motives

In many instances the employee may have become an embezzler as a result of a combination of several of the factors previously mentioned. Many other factors also contribute to embezzlement. Surety companies have attributed employee thefts to such factors as financial pressure due to losses in other business activities, a past criminal history, mental irresponsibility, low morals, improvident investments and revenge. An official of one surety company stated, "We have seen several cases where resentment was the cause of a dishonest act. A young messenger who had been severely reprimanded, and as he thought unjustly so, tore up a large certified check that had been given to him for delivery. Another employee asked for a raise in pay. He was refused and thereafter he stole \$10 each week from the cash drawer."

In attempting to determine the causes of embezzlement or any other type of crime, it should be borne in mind that human behavior is extremely complex. Some criminologists would vigorously protest that the actual causes of embezzlement lie much deeper than such factors as gambling, extravagant living standards, unusual family expense and undesirable associates. They would assert that these factors merely precipitate the criminal offense while the true cause of the embezzler's activities is to be found in the personality make-up of the offender which is besieged with internal conflicts and maladjustments. It is undoubtedly true that the employee would not become addicted to the gambling habit nor would he try to live beyond his means

or associate with undesirable companies if he did not have a basic weakness in his personality make-up. But it makes little difference whether we refer to such factors as "causes" or "precipitants." They are extremely important in any consideration of embezzlement and methods designed to reduce it.

Lax Accounting Methods and Supervision

Frequently the employee who embezzles funds has advanced himself to a position of trust by faithful application to duty throughout a long period of employment. Over a period of years he has earned a reputation for honesty and trustworthiness. Due to his extravagant mode of living, illness or gambling, he may find himself desperately in need of money. Because of the position he holds he may be in custody of funds of considerable size. But the motive or desire to steal will consciously or unconsciously be weighed against the risk of prompt detection. Proper accounting systems with checks and balances and efficient personnel supervision will serve as a deterrent against employee dishonesty. A manager of the fidelity and surety department of one company stated, "Just as industrial accidents can be reduced through the installation of proper safety appliances, so can fidelity losses be reduced in number and severity by installing internal systems and rules designed to reduce temptation and make embezzlements more difficult." The importance of efficient accounting and supervision methods was further stressed by the experience of another company which reported that "During the war years we have attributed some . . . losses to rapid turnover in help, the replacement of experienced workers with inefficient substitutes and the shortage of auditors which together with the increased volume of business compelled many employers to cut down either on the frequency or extent of audits. This was in effect a deficiency in supervision which increased the chances for stealing and a number of our fidelity losses were attributed to this cause." Incidentally, it is expected that many employee thefts that occurred during the war years will continue to be discovered for some time.

The problem of reducing employee dishonesty to a minimum is an important one. Many employers who have never suffered losses through embezzlement may be inclined to minimize the threat that is always present. They may point to the fact that burglaries and robberies are reported daily in the press whereas newspaper accounts of embezzlements are relatively few. It should be borne in mind, however, that perhaps most of the embezzlement cases are disposed of through the discharge of the

employee without the initiation of prosecutive action. Some companies have a definite policy against prosecuting dishonest employees. In addition, the losses in the exceptional cases that are publicized are frequently minimized in newspaper accounts. The employer may withhold many facts in order to avoid unfavorable publicity. The total amount of money lost annually through embezzlement, if the truth were known, would reach astronomical sums. Available statistics of surety companies reflect annual losses which run into millions of dollars. But such figures do not show the complete picture since many employers do not carry fidelity bond insurance. And the total losses of those employers who do bond their employees are far in excess of the amount of the obligation of surety companies.

The true losses, however, cannot be computed in terms of dollars. Most embezzlers were respected and valuable employees prior to their defalcations. They were without criminal propensities and in many instances they would never have turned dishonest had reasonable precautionary methods been exercised. To take steps that will successfully prevent embezzlement is to save many human lives from ruin. The employee, as well as the members of his family, is saved from the stigmatizing effect of a criminal record.

Suggestions for Preventing Embezzlement

In order to prevent employee dishonesty, it is highly essential that the employer possess complete knowledge concerning all persons who are to occupy positions of trust.

Comprehensive application blanks should be executed by all individuals seeking employment. The blank should require detailed information regarding the personal history of the applicant and his family, his educational background, his complete employment record, outstanding financial obligations, and any arrest or conviction record. All pertinent data set forth on the application blank and that obtained through personal interview with the applicant should be checked through a careful pre-employment investigation.

The character, personal habits, credit standing, and reputation of the employee should be determined through inquiry in the neighborhood in which he resides. The nature of his associates and information regarding his family background and reputation should be ascertained. His past employment record should be carefully checked. All pertinent statements made when he applied for the position should be verified. It should be determined whether the applicant has an arrest or prison record. In

recent months there have been several instances of embezzlements involving large sums of money by employees with former criminal records. This information, developed through proper investigation, would have prevented the employment of such individuals in a position of trust. In a recent embezzlement case the employee possessed a substantial criminal record. This fact was known to the employer who was confident the ex-convict intended to live an upright life and it was the opinion of the employer that by keeping him in this position he was assisting in his rehabilitation. Over \$50,000 was stolen before the theft was discovered. In general it is unfair to an employee who has a criminal record that indicates previous dishonesty to place him in custody of funds or property. The temptation may be so great that his chances of rehabilitation are actually diminished. At any rate, the risk to the employer is sufficiently great to warrant the rejection of such employees in positions of trust.

Rigid character investigation alone will not prevent all losses through employee dishonesty. Adequate accounting systems should be set up to make certain that detection of peculations will be prompt and certain. Based on long experience, surety companies have recommended the installation of internal audits and the establishment of checks and controls that are designed to divide responsibility and discover losses. Counter-signature of checks should be required. Cancelled checks should be examined and bank balances reconciled by persons other than those who issue or authorize the issuance of checks. The authority to indorse checks should be limited "for deposit only." In addition, there should be joint access to securities, frequent inventories and verification of accounts receivable. Inactive accounts should receive careful supervision. Many embezzlements have been made possible through the manipulation of inactive accounts which are seldom scrutinized by management. There should be an inviolate rule that employees take vacations at least annually. On many occasions it has been determined that an employee guilty of defalcation has not taken a vacation for several years. The manipulation of records necessary to cover up the embezzlement depended upon the continuous presence of the offender.

Surety companies advised that they have experienced many losses by failure of companies to adopt the above precautionary measures. Likewise the policy of some companies not to prosecute employees who steal money or property has frequently encouraged embezzlement offenses.

Adequate supervision of personnel having control of company funds entails more skill than that required of a plant foreman

whose principal job is to assure the performance of assigned duties in an efficient manner. A sufficiently close relationship between personnel management and employees holding positions of trust would in many instances enable management to become advised of family extravagance, bad associates, sickness in the family and the development of undesirable personal habits. Based on this knowledge intelligent counseling of personnel would probably save many employees from ruin and prevent company losses as well. It would also enable management to make wise shifts of personnel when advisable.

An employer should also realize that illegal gambling establishments located near his place of business will probably be frequented by his employees and present a constant threat to his security. While the employer cannot regulate the habits of his personnel he can exert his influence in the community toward obtaining the cooperation of the law enforcement agencies in eradicating all illegal establishments which actually undermine the security of his business.

Investigation of prospective employees, the installation of internal audits with adequate checks and controls, and proper personnel supervision will not prevent all employee dishonesty. But such steps together with other precautionary measures will go far in reducing financial losses to companies through embezzlement and will materially aid in the reduction of one important phase of the crime problem.
