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Crime Factors Flourish in Robust Economy

Vigilance Now Can Prevent Downturn Disaster

While the United States sustains one of its longest periods of economic prosperity, the nation is also enjoying a seven-year decline in crime. Businesses, however, should not be lulled into a false sense of security—one of the highest crime rates in American history occurred during the recession that followed the prosperity of the 1980s.

During the economic downturn of 1991, the number of index crimes such as robbery, murder, larceny, motor vehicle theft, aggravated assault, and arson reached an estimated 14.8 million. When the economy recovered, crime fell until the number of index crimes was 13.4 million by 1996.

The 1990-91 recession linked such economic factors as unemployment, threatened lay-offs, resentment over the income disparity between the haves and the have-nots, and economic insecurity to criminal behavior. Certainly the workplace violence of the late 1980s and early 1990s can be attributed in part to the resentment of laid-off employees and their hopelessness in an economy where unemployment reached more than 6.5 percent.

Businesses are not immune to crime—not from the streets and certainly not from within. The rising crime rate that could follow an economic downturn can have a disastrous impact on a firm's profits. Based on a recent study, crime costs an estimated \$450 billion a year in suffering, lost wages and medical bills.

Firms that fail to tighten security measures today to prevent crime from both inside and outside their organizations may find themselves in serious trouble during an economic downturn. Companies may be able to absorb losses from crime in a good economy, but cannot in a more difficult one.

Over the Edge

Across the country the news looks good: the American economy grew six percent the last quarter of 1998, consumer confidence is up, and unemployment hovers at four percent, or approximately 5.7 million people. Crime is declining—the most recent figures show violent crime decreased five percent in 1997, and property crime fell four percent. Even workers who lost their jobs in 1998 found similar or better ones 92 percent of the time.

Underneath these cheery economic and crime statistics, however, are ominous signs. While the root causes of crime are continually debated among experts, the World Bank's most recent research shows that economic downturns, as well as income inequality, are among the most significant causes of violent crime. In the United States, the gap between the rich and the rest of the country continues to grow. Between 1980 and 1998, the average pay of the typical worker increased 68 percent, while chief executives' pay grew 1,596 percent. The average chief executive officer of a major corporation made \$10.6 million in 1998, 419 times the salary of the average blue-collar worker. A study of income inequality showed that the disparity between income groups widened steadily from 1990 to 1998, with income falling for every group except those at the top of the ladder.

Crime and the economy—notably the unemployment rate—seem to go hand in hand, according to an economist for a nationally known firm. In today's full-employment economy, companies are hiring marginal or casual laborers, who would normally be out on the street. When the economy goes down, these surplus jobs will disappear and a certain percentage of the population—primarily marginal employees and casual laborers—will go back on the street and turn to crime.

The good employment picture also affects crime within the workplace. At work, experts say most criminal acts by employees are committed out of resentment, envy, anger, frustration and greed. What is missing from criminal employee actions in today's good economy is the element of desperation and hopelessness that marked the explosive workplace violence of the late 1980s and early 1990s, according to experts.

Future Crimes

A slide from years of prosperity to a soft economy could mean that frustrations boil over on the streets in the form of domestic violence, robbery,

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assault, and even road rage. For example, in the recession of 1990-91, the FBI index crime of arson, which declined in the prosperity of the 1980s, jumped again in states like New York and New Jersey that were hit hard by the weak economy. Arson-related insurance claims in New York City alone went up 20 percent in two years

While there is much debate about the form crime will take in a recession, it is likely to include computer crime. A former high-ranking FBI official said that the crime of the future will be computer intrusion—by insiders as well as outsiders—to steal company funds, trade secrets and intellectual property. To some extent, the future is already here. A 1999 study of corporate information systems showed unauthorized computer intrusions led to the theft of \$42 million in proprietary information from 23 of the companies surveyed, and 27 others reported that financial fraud via computer cost them a total of \$39.7 million.

The significance of computer crime in a period of economic decline lies in the potential magnitude of a single incidents—a disgruntled employee of a company in the South recently attempted to use his computer to send millions of dollars worth of proprietary information to competitors.

In the future, said the former FBI official cited above, employees who hear of rumored lay-offs might well prepare by embezzling. Other experts warn that employees might become more violent. “A lot of people are worried about what will happen when the boom is over,” said a psychologist who specializes in workplace violence.

Action or Consequences

The reality of corporate life is that companies that ignore threats of crime in and outside their walls face an uncertain future at best. The cost of failing to prevent crime is staggering for businesses. For example, losses from such crimes as

embezzlement and fraud alone are estimated at \$400 billion annually. Each incident of serious workplace violence—which can range from a robber shooting a store clerk to an abusive husband tracking his wife to work—costs about \$250,000, according to a research firm. In addition, companies that do not act to protect workers could run afoul of Occupational Safety and Health Administration (OSHA) guidelines and face citations in addition to liabilities for such actions as negligent employment, supervision or retention of unsafe employees,

With the forces propelling crime on the street and in the office poised to strike at the next economic downturn, businesses must act now to protect employees and other assets. Prevention and training are always less expensive than dealing with a crisis, said a legal expert on workplace problems.

Successful security policies and action plans are developed as joint efforts by employees and management—not driven by a disastrous event. Company security managers and other executives need to focus on safe workplaces as part of their corporate cultures. Security managers must be provided resources from the company to carry out security policies and procedures. Companies can benefit from the experience and advice of security managers in various areas of the business. For example, security managers can assist firms in creating an overall plan to promote simple, but effective employee practices. One large corporation, for instance, developed a system of e-mail messages to remind employees of common security measures, such as locking valuables inside desks at lunchtime or at the end of the day.

In addition, companies need to utilize the community resources available to them in preventing, apprehending or deterring criminal behavior. Because reluctance to involve law enforcement agencies encourages future incidents, investigating and prosecuting employee crime must be part

of company policy. Destructive criminal acts often start small and may be attributed to carelessness by company supervisors who are pressed with larger problems and do not want to waste time on an investigation. Today, however, the financial stability of a company can be crippled by a few computer keystrokes. If potentially criminal acts are not investigated and pursued, the incidents can escalate. Increased workplace theft and fraud today are partially attributable to the way companies respond to the problem.

Prevention Elements

Prevention of crime at work begins with a study, a policy and a plan. Security managers should be part of all phases of a comprehensive program. The most effective security programs are begun after a threat assessment which points out the company's potential problem areas and how each risk should be addressed. While a threat assessment is underway, employees, security managers and other executives can be developing a written policy to govern all aspects of company security. A Midwestern business expert estimates that only 60 percent of the companies in America today even have a policy for reporting violence.

Based on a clear, strongly worded policy, security managers and other company executives should create an action that anticipates problems in such corporate areas as inventory control, computer and information security, and physical plant safety.

Provisions for a safe and ethical workplace can fit into an overall business program and may feature such provisions as:

- An awareness program that teaches all employees the most common signs of trouble in fellow workers. Employees who commit crimes at work almost always give warning signals, but often no one recognizes them as serious enough to warrant action. Typically,

these signs include a lavish lifestyle that could not be funded from an employee's salary, threats, domestic problems, attitude shifts, alcohol or drug use, depression, frequent talk of violence, and changes in work habits. Fellow employees and security officers who keep logs of employee arrivals and departures are generally the first to notice dangerous changes in co-workers.

- A system of checks and balances in each department that improves each employee's accountability. Merely knowing someone is checking on them is an excellent deterrent to employees who might be tempted to steal or destroy property. A recent survey shows 41 percent of all fraud is detected through such internal controls.
- A record of suspected sabotage or theft incidents with written documentation of where the incident occurred, what provoked it, who benefited from the event and what the target was. Such information is useful in predicting, isolating and containing future incidents.
- A hotline for employees to report unusual incidents, such as theft or willful destruction of property.
- A provision for integrating technology and conventional security practices. Companies are often tempted to rely on modem technology to solve security problems—especially in the area of information and information systems. Firms need a comprehensive protection program that features such things as a well-trained security staff, a creative and engaging awareness program, and an all-encompassing body of policies and procedures.
- A detailed process for recovery when a serious criminal workplace event occurs, including an after-incident debriefing.

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Special Concerns

While the economy stays healthy, some firms might be tempted to neglect or overlook practices that may become security issues in an economic downturn. However, security managers must urge their companies to be vigilant in such areas as employment, termination and the prosecution of employees who commit crimes. Compliance with established policies now can prevent a catastrophe in a sour economy.

Employment in today's low unemployment economy is a challenge. Workers are more difficult to find. A recent survey shows that six out of 10 job openings remain vacant for one to six months—two years ago, more than half of job openings were filled within a month. Companies may find it convenient to employ workers without a thorough pre-employment screening. However, a comprehensive background check of job candidates, aptitude tests and drug screenings, unless prohibited by law, can minimize potential sources of trouble later.

The other side of employment—termination—requires detailed planning to handle properly. Often employees become obsessed with their jobs, and termination can be painful and threatening. For this reason, security managers should be involved at the first suggestion of lay-offs or terminations. Too often, security officers are the last to know if employees are terminated, so they are not able to prepare. The safe termination of employees provides another example of how involving security managers in key business decisions can reap security benefits. Once an employee is terminated, security managers should make certain that former employee is not allowed free access to the facility again.

In today's prosperous economy, companies might be tempted to de-emphasize security issues. When business is good and employees are at a premium, companies tend to shelve

their security plans or ignore the ones they have. Even with a plan and the intention to implement it, companies will not have effective security unless operational management and security managers carry it out. Too often, companies have policies and plans on the books, but do not want to take the time or risk angering employees by enforcing them. For example, a firm may have a policy permitting random employee car searches, but refuse to use it even in the face of serious product theft. In such a case, not only does the company suffer losses now, but it sets a dangerous precedent for the future when such losses may be devastating.

Crime costs the American business community billions of dollars today during economic prosperity. Companies that wish to protect shareholders' interests in the future cannot wait until a major crisis to focus on prevention. An operational plan must be in place before a troubled economy hits.

Such an action plan must include provisions to keep the company operating in the face of a disastrous event. The plan needs to contain elements of both prevention and recovery. Failure to take appropriate preventive measures could potentially result in legal liability, and the lack of a recovery plan could prove fatal to business operations.

The current period of economic prosperity provides firms the opportunity to spend the time and money necessary to implement security practices. Companies that fail to take advantage of this prosperous time to develop and execute those security procedures could very well find themselves among the casualties of the next economic downturn.



The Lipman Report Editors