

# The Effect of Pilfering on the Profitability of Small Businesses A Case Study on Shield Agro Chemical Company Ltd in Takoradi

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## Abstract

The study is based on an abstract on the effect of pilfering on the profitability of small businesses on Shield Agro Chemical Company Limited in Takoradi, Ghana. The avoidance of pilfering in small businesses is a standard objective an entrepreneur should achieve. If stocks level keeps falling through pilfering, small businesses suffer financial losses. Although many new businesses are started each year, their failure rate is alarmingly high. It is estimated that over 60% of small businesses fail within two to five years by Marfo and Boakey (2005). Furthermore, eight of every ten businesses end within ten years, mainly due such losses. The wholesale/stores department is blamed sometimes right by other departments since pilfering is believe to occur at their end, as stated by Lawson (2003). To obtain a zero degree of pilferage, it is vital to ensure that all departments know the negative effect of pilfering and all other necessary information. However measures of this kind are not enough as wholesale/stores department has a practical role in undertaking a daily stock taking.

**Keywords:** Pilfering, standard objective, *Shield* Agro Chemical Company Limited, Entrepreneur, stock taking and financial losses.

## 1.0 Introduction

The avoidance of pilfering in small businesses is a standard objective an entrepreneur should achieve. If stocks level keeps falling through pilfering, small businesses suffer financial losses. Although many new businesses are started each year, their failure rate is alarmingly high. It is estimated that over 60% of small businesses fail within two to five years by Marfo and Boakey (2005). Furthermore, eight of every ten businesses end within ten years, mainly due such losses. The wholesale/stores department is blamed sometimes right by other departments since pilfering is believe to occur at their end, as stated by Lawson (2003).

To obtain a zero degree of pilferage, it is vital to ensure that all departments know the negative effect of pilfering and all other necessary information. However measures of this kind are not enough as wholesale/stores department has a practical role in undertaking a daily stock taking.

What has really prompted this research study is that, more often than not there have been shortages in stock levels and entrepreneurs do little in holding stores managers responsible since they are the “Trusted Employees”. This study will bring out the negative effect of pilfering as an important aspect of small businesses which has an incredible contribution on profit maximization.

At Shield Agro chemical company, management of pilferage in the stores/warehouse has not been considered as an important aspect of minimizing cost by not given it the needed prominence. Due to this, the company loss a lot of revenue through pilfering. It should be noted that little bits of stealing here and there can add up to millions of cedis. The effect of improper measures against pilfering by the top management brings adverse effect on most small businesses.

## 2.1. DEFINITION OF PILFERING

The chambers combined dictionary defined pilfering as “to steal especially of small value or in small quantities. It can be deduced from the definition that losses caused by pilfering are especially during transport or storage of goods. With this, the entire employee in a small business must ensure that anyone involved in pilfering is exposed.

As the passage of time goes by, pilfering has now been realized as a deterrent to profitability in small businesses. Pilferage in the warehouse reduces profitability by about two per cent. The global trend of businesses shows a decline of small business. In order for businesses to maximize profit, avoidance of pilfering must be given the necessary consideration in the context as a decision making process.

For a private owned business to increase their profit and competitiveness it depends very much on the ability to make the best use of holding accurate stock levels. This would necessitate the employment of the personnel with the requisite skill and knowledge on store keeping in order to maximize profit.

Since businesses spend huge sums of money on stocks, there is the need to think of saving cost on purchasing inventory and how to manage it by the internal audit department, accounting department and others to reduce cost, and also eliminate losses. This contributes to growth and profitability.

The main aim of small businesses in commerce is to offer products to customers at the optimum price. By achieving this, there should be an effective risk management in holding large stocks at stores.

## 2.2 THE NEED TO AVOID PILFERING

According to Ballatan C. (2010), Small businesses invest a lot of money and effort to keep up with the rat race. Many factors can affect the overall capacity of small businesses to maintain their status in such competition. Small business investors are continuously challenged due to the fickle business climate, along with the vicissitudes of the economic conditions.

Furthermore, they are also plagued with internal factors, like employee theft, which may cost them dearly, even billions of dollars, annually. If you are a small business person longing to protect your business from internal pilfering activities by your employees, there are several cost-effective tips you have to know.

Firstly, though, know the common types of employee theft. It does not only entail unauthorized taking of merchandise, it can also be falsifying or destroying of receipts, pilfering money by taking small amounts from time to time, engaging in fraudulent activities with regards to shipping/billing of items and setting up exaggerated or fabricated expenses.

There are smart ways of preventing the problem even before it starts to take root. A small businessperson can avoid employee theft before it even occurs by smart hiring. You must conduct careful hiring processes.

Strengthening your accounting practices is also a way to make it difficult for your employees to steal from you. This involves rotating the accounting and inventory responsibilities, conducting independent audits of bookkeeping records and inventory, organizing invoices and shipping records, regularizing the bank account records, maintaining very small amounts of cash at your business premises and checking cash deposits against cash receipts every day.

Conceptualizing tough security policies and procedures will also make it hard for employee theft to occur. You can invest wisely on installing safety gadgets to discourage your employees from taking anything at leisure.

As a businessperson, you have to recognize the fact that your employees are your best asset. You have to make your employees know that you consider them important. Do this by paying attention to their problems. Keep your employee management at a level that they will feel comfortable enough to open up their financial troubles.

Enforce a policy regarding employee theft. It may include a warning that those who are caught stealing will be prosecuted. Set up a system that will encourage them to tip you with incriminating information about their fellow employees without having to identify themselves.

These are helpful guide for you to prevent employee theft. However, if such cases have already occurred, you have to confront the employee you suspect by presenting the evidences against him or her. You must hear out the explanation for you to know if there were other people involved, the amount taken and the chances of getting the stolen goods or money back.

Prosecuting employee theft is a recommended move for employers in order to set an example among other employees and warn other small businesspersons like you to be cautious about the possibility of employee theft.

They must report to the police department in charge of the area where the theft occurred. The chronology of evidence must be written down. Names and contact information of witnesses must also be handed over to them. A statement with the detailed facts and the declaration of employee will be asked of you, along with the originals of hard evidences.

Many employees charged with employee theft usually plead guilty and it is not anymore necessary to testify against them during trial. The prosecutor will give you the schedule when you need to appear in court once the case goes on trial. If you found out that your employee has any asses, you can further consider filing a civil suit.

Inventory shrinkage is loss due to theft by customers and employees. Theft is a big source of risk for small businesses either through Shoplifting by customers or Pilfering by employees.

## 2.3 FACTORS LEADING TO PILFERAGE

Christopher D. (2009) says pilferage is overlooked by many small businesses. In other words, pilferage is not rated highly under business strategy and policy, thus the following factors of operation must be considered;

### 2.3.1 Wrong Enters on Tally Card

According to Jessop the very purposes of the Tally card include;

- To inform the stores department on items in stocks
- To specify the actual quantities
- To provide evidence as to what is held in stocks at any point in time

The information entered on the tally card will usually include;

- The title ( Tally card at the head of the form)
- Card number

- Quantity of goods received
- Date received
- Quantity issued
- Date issued
- Remarks
- Signature

### 2.3.2 Entering Process

According to the Jessop the entering process by the stores department involves the physical counting stage to enter the quantity received on the tally card. It should be noted that, this entry is also recorded in a book for reference in the stores department. The records book contains the following information;

- The title, (Stores record book)
- Date received
- Quantity received
- Short descriptions of item received
- Name and signature of person receiving
- Date and time entry was made

### 2.3.3 Receipt, Inspection and Storage.

Similarly, the extent of physical examination, weighing etc of goods received should be undertaken.

### 2.3.4 Issuing Goods on Retail

Jessop state that, the service given by stores department to sales department becomes effective at the point where a store keeper makes issues of goods to sales department.

## 2.4 TECHNIQUES IN AVOIDING PILFERAGE

Christopher D. (2009) in her abstract states that, correct recording of entries and issuing of goods is the best practice.

In fact experience shows that, when stores personnel are aware of any pending unannounced stock checks, then a 0 percent (%) on pilferage is often achieved. The diagram below shows a case whereby internal audit undertakes unannounced stock check, a simple way to assess profitability performance is the percentage of pilferage in each stock check.

From the diagram, it can be seen that the first two spot checks (unannounced stock checks) had a high pilferage percentage rate. But as spot checks (unannounced stock check) continued, performance on profitability began to go upwards, whilst pilferage takes a downwards turn.

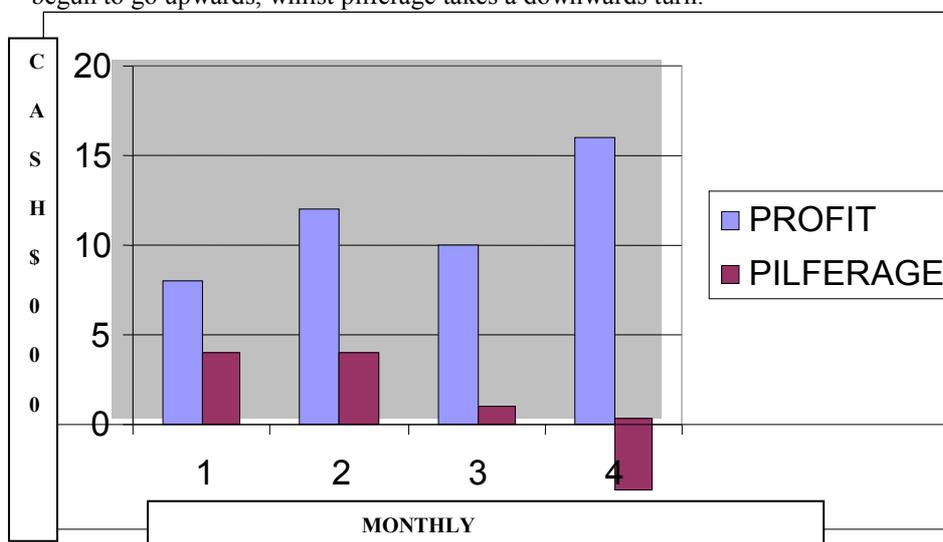


Fig 2.1: Profit –Pilferage Graph

The aim of these schemes is to apply data received to produce figures which can be used to persuade the entrepreneur to concentrate on regular stock check and to motivate the internal audit department for demonstrating their ability to reduce pilferage.

## METHODOLOGY

### 3.1 INTRODUCTION

In order to have reliable information for this study, an effective, efficient techniques and research instrument have been employed.

### 3.2 THE RESEARCH FRAMEWORK

Christopher D. (2009) in her writings she emphasized on the use of qualitative data to achieve objective results. In the case of this study, the researcher made use of both approaches. The researcher feels that in practice, blending the two will produce more valid and reliable conclusion.

Also this research is a case study type which enables some aspect studied in depth within a limited time scale problem to be made. The researcher identified the impact that pilfering has on the profit margins of small businesses as a problem. The problem was investigated at Shield Agro Chemical Limited by collecting data with the use of questionnaires. The data were analyzed and recommendations were made after findings.

### 3.3 POPULATION AND SAMPLE SIZE

The population of the company is about fifteen (15) employees but due to limited time, cost and the topic involved, the researcher focused on the stores department of the company. The targeted population considered in the research is five. It comprises one (1) top management, two (2) middle management and two (2) staffs from the department. The researcher considered the five sample size because of the decentralized nature of the company, limited time and cost which made it impossible for me to cover the total population.

### 3.4 BACKGROUND OF THE ORGANISATION

Shield Agro Chemical Limited was established in the year 2004 as a privately owned Ghanaian enterprise, formed in accordance with the code ACT 179 of 1963 and maintains an office and a warehouse in Kojokrom of Sekondi Takoradi in the Western Region of Ghana. The company's address is P. O. Box AP52 Takoradi. The company is solely devoted to serving its designated market niches and target location in the western and central parts of Ghana to be the best dealer in agro chemical products and other farm tools and implements for farmers. Shield Agro Chemical is also a family start up business and its mission is to be a leader in introducing innovative, quality agro chemical products, quality farm tools and farm machines to the market.

Shield Agro Chemical has two product lines for the various markets it serves. These are; Fertilizers, Sulphate of Ammonia, and Urea. Also included are; Maize seeds, Rice seeds, and vegetable seeds. Other products like; Pesticides, Insecticides, Fungicides, Herbicide, weedicides, cutlasses, spraying machines, and knapsack mist-blow

### 3.5 METHODS FOR TESTING RESEARCH QUESTIONS

The model adopted in testing for the research questions was a simple percentage. Mathematically, it can be presented as:

$$\text{Formula: } \frac{\text{Outcome}}{\text{main class}} \times 100$$

Where:

Outcome = number of response

Main class = total number of respondents

#### 3.5.1 Decision Rule

A high percentage of favorable or unfavorable response was used to prove or disprove the research questions. A target of 60 % and above was adopted and used to cast the research questions obtained from the respondents.

#### 3.5.2 EDUCATIONAL STATUS.

The Table 3.1 shows that, out of the five respondents interviewed, none representing 0% was a professional and 1 representing 20% was a tertiary certificate holder. The secondary and basic levels had 2 respondents each, representing 40% each for secondary and basic certificate holders respectively. It can therefore be concluded that, all the respondents had basic education.

**Table 3.1: The Distribution of Educational Status of the Respondents**

Respondents	No. of Responses	Percentages (%)
Professional	1	20.00%
Tertiary	1	20.00%
Secondary	2	40.00%
Basic	1	20.00%
<b>Total</b>	<b>5</b>	<b>100.00%</b>

Source: Author's Field Survey, 2014

#### 3.5.3 SEX DISTRIBUTION

From the Table 3.2 four of the respondents representing 80% were male while one of the respondents representing 20% was a female. It can be concluded that majority of the staff are male.

**Tab 3.2: The Distribution of Sex of the Respondents**

Respondents	No. of Responses	Percentages (%)
Male	4	80.00%
Female	1	20.00%
<b>Total</b>	<b>5</b>	<b>100.00%</b>

Source: Author's Field Survey, 2014

### 3.5.4 MARITAL STATUS

The Table 3.3 seeks to find out whether the staffs are married or not. The responses indicate that three people representing 60% are married and two people representing 40% are not married. None of them have had a divorce.

**Tab 3.3: The Distribution of Marital Status of the Respondents**

Respondents	No. of Responses	Percentages (%)
Married	3	60.00%
Single	2	40.00%
<b>Total</b>	<b>5</b>	<b>100.00%</b>

Source: Author's Field Survey, 2014

### 3.6 PILFERING IMPACT ON COMPANY'S PROFIT MARGIN

The table 3.4 shows that all the five respondents representing 100% admitted that, they were made to pay for any pilfering with their salaries. It can therefore be held that pilferage has an impact on the company's income (profit margin).

**Tab 3.4: The Distribution of Payments for Pilfering with the Staff's Salaries**

Response	No of respondents	Percentage (100)
Yes	5	100
No	0	0
total	5	100

Source: Author's Field Survey, 2014

### 3.7.1 PHYSICAL CHECK AND COUNTING OF NEW PRODUCTS BEFORE RECORDING.

Table 3:5 shows that, all the five respondents representing 100% admitted that, entries are made into their record books after they had physically cross examined new products. It can therefore be concluded that figures recorded are accurate and precise.

**Tab 3.5: The outfit of physically check and counting of new product before recording**

Responses	No of Respondents	Percentages (%)
<b>Yes</b>	<b>5</b>	<b>100</b>
<b>No</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>5</b>	<b>100</b>

Source: Author's Field Survey, 2013

### 3.7.2 ASSESSMENT OF PERFORMANCE

Table 3.6 shows that, all the 5 respondents representing 100% admitted that, management assess the performance of the stores staff. It can therefore be held that, the company's management always assesses the performance of each staff.

**Tab :3.6: The Assessment of the performance of the stores staff by Management**

Responses	No. of Respondents	Percentages (%)
Yes	5	100
No	0	0
<b>Total</b>	<b>5</b>	<b>100</b>

Table 3.8 Source: Author's Field Survey, 2010

### 3.8 RELATED PROBLEMS

From table 3.7, all the respondents representing 100% admitted that pilfering and related problems are to be solved in transparency. The conclusion is that, all pilfering related problems must not be shrouded in secrecy and negotiations, but rather any such hint must be made transparent. None of them said it must either be in secrecy or negotiated.

**Tab 3.7: The Transparency in pilfering and it related problems**

Respondents	No. of Respondents	Percentage (%)
Secrecy	0	0
Negotiation	0	0
Transparency	5	100
<b>Total</b>	<b>5</b>	<b>100</b>

*Table 3.9 Source: Author's Field Survey, 2010*

### 3.9 INFLUENCE OF SPOT CHECK

The table 3.8 seeks to find out whether the spot checks made, had influenced the rate of pilfering. Four people which represents 80% said it was very significant, 20% also said it was significant and none of them said it has no effect.

**Tab 3.8: The impact of Spot check on Pilfering**

	No. of Respondents	Percentage (%)
<b>Very significant</b>	<b>4</b>	<b>80%</b>
<b>Significant</b>	<b>1</b>	<b>20%</b>
<b>No effect</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>5</b>	<b>100%</b>

*Source: Author's Field Survey, 2014*

### 3.10 PERIODIC STOCK TAKING

From table 3.9, it can be seen by the response given of all five staff representing 100% in acceptance that periodic stock taking is on quarterly bases. None said it was on monthly or yearly bases

**Tab 3.9: The Period for Stock Taking**

	No. of Responses	Percentage (%)
<b>Monthly</b>	<b>0</b>	<b>0</b>
<b>Quarterly</b>	<b>5</b>	<b>100%</b>
<b>Yearly</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>5</b>	<b>100%</b>

*Source: Author's Field Survey, 2014*

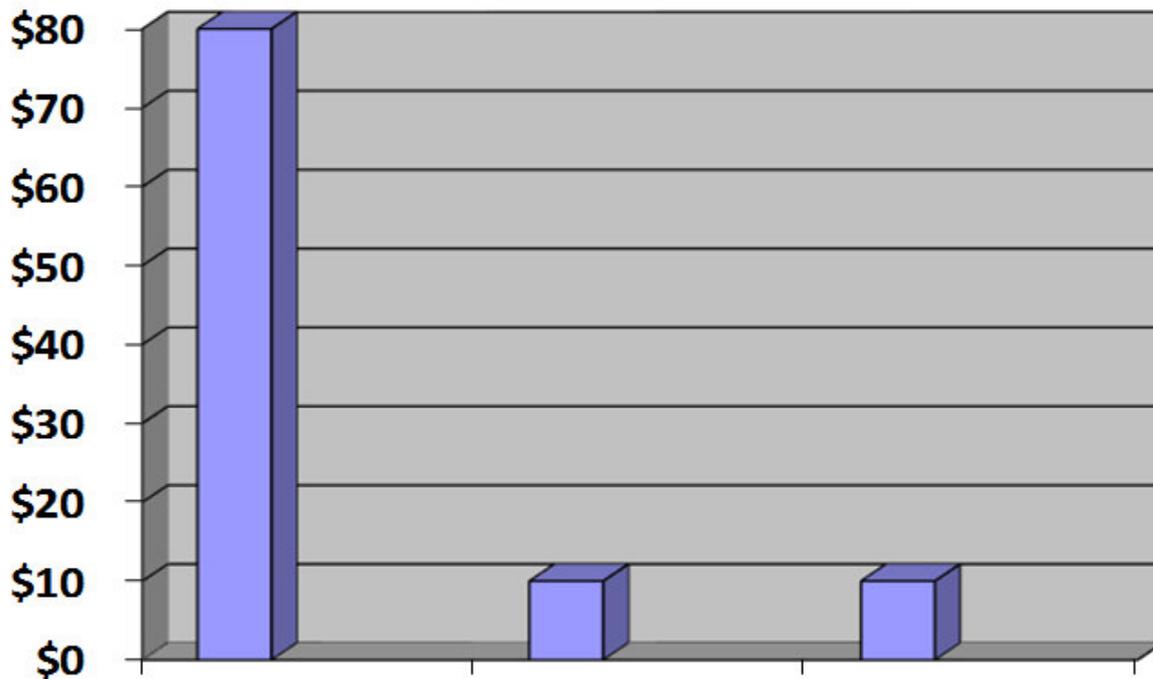
### 3.11 CONSIDERATION OF PILFERAGE

The table 3.10 seeks to find out whether the stores staff considers pilfering in their department. All the respondents representing 100% said that, it is not acceptable. It can be concluded that the stores\warehouse staff really considers pilfering in their department.

**Tab 3.10: The consideration of pilfering at the work place by the Store's Staff**

	No. of Responses	Percentage (%)
<b>Acceptable</b>	<b>0</b>	<b>0</b>
<b>Fairly acceptable</b>	<b>0</b>	<b>0</b>
<b>Not accepted</b>	<b>5</b>	<b>100%</b>
<b>Total</b>	<b>5</b>	<b>100%</b>

*Source: Author's Field Survey, 2014*



**Fig 3.1 : Bar chart of the percentages usage of company's cash**

The figure 3.1 shows the percentage of cash held in stocks in the stores department of the company. It depicts that 80% out of the 100% of the company's cash is spent on stocking products. 10% out of the 100% is also spent on the acquisition of fixed Assets. Lastly the remaining 10% is kept in bank.

## **SUMMARY, RECOMMENDATIONS AND CONCLUSION**

### **5.1 SUMMARY**

The objective of the study was to find out the effect of pilfering on the profitability of small businesses' operation. Various data concerning pilfering was reviewed during the study at the Shield Agro Chemical Company limited. The data was obtained through questionnaire, personal interview, observation and informal communication. The study found out that, at Shield Agro Chemical Company limited, even though the right calibers of personnel were found, they were not the "trusted employee". From the research work conducted at Shield Agro Chemical Company Limited, the researcher's findings from the stores department of Shield Agro Chemical Limited shows that, the stores unit is performing its functions in an inefficient manner thereby resulting in losses thus a reduction of the company's profit margins.

It was also realized that, some of the staff consider pilfering and were not satisfied with the way and manner pilfering occurred within the department.

Upon personal interview, it was realized that the information management system within the department on stores recording systems was also not flowing. Thus, resulting in discrepancies of figures within the stores\warehouse management. As indicated at the various stages of chapter two, of this research work.

### **5.2 CONCLUSION**

The purpose of this research is to find out the effect of pilfering in small business with particular reference Shield Agro Chemical Company Limited.

The research work conducted, revealed and reached the following conclusions, after careful analysis of the data obtained;

1. Shield Agro Chemical Company limited does not practice an effective and efficient stores system against pilfering.
2. The lack of computers in the stores\warehouse department it had also made the work of the department very difficult. Thus, it contributes towards the achievement of the company's goal.
3. Management must consider fixing close circuit television (cctv), within the stores/warehouse and certain vantage points in the organization as a whole.
4. Internal audit department must put measures such as continuous and spot checking, to ensure accurate quantities of product in the stores.

Subsequently, various recommendations have been made, which when implemented will help arrest

pilfering or other challenges found.

### 5.3 RECOMMENDATIONS

After analyzing the responses from management and staff of the stores department, several findings were made. In order for the company to avoid the effect of pilfering, the researcher wish to outline recommendation that will help to improve the company's stores operation.

1. The stores departments should have serious measures against pilfering to ensure efficiency.
2. Secondly, the company should ensure they achieve zero percentage of pilfering.
3. Again, the management of the company should computerize the stores department to enhance accuracy of information processing. This will really help to avoid discrepancies in figures.
4. The management must institute an award for "**the most trusted employees**"
  - Keep all non-entry or exit doors locked and alarmed when not in use.
  - Control who has access to keys to the business, and change the locks if theft is suspected.
  - Periodically check the trash bins, as they are a typical hiding place for stolen items.
  - Watch for a large number of voided or no-sale transactions.
  - Don't let one person control a transaction from beginning to end.
  - Be careful about hiring, and check references.

It is based on the analyzed data and information provided in this research work that the above recommendations have been made or suggested.

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