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CRIMES AGAINST BUSINESS

Preliminary Recommendations for Demonstration, Research and Related Programs Designed to Reduce and Control Non-Violent Crimes Against Business

DRAFI

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PREFACE

The following recommendations constitute the output of some twelve months' study of the "state of the art" in controlling non-violent crimes against business and the need for new initiatives. They are "preliminary" in the sense that further information continues to come in from the many individuals who have been interviewed or have otherwise participated in the project. In fact, we-The American Management Associations (AMA) and the Crimes Against Business Council that AMA established-do not anticipate any substantive changes or additions between the date of submission of this document and the end of the grant period.

The document is organized into two major parts; first an overview of the project's purposes and process and a summary of recommendations, followed by the detail of the recommendations. A separate volume contains appendices which include necessary supporting information.

We would like to thank the various members of the Law Enforcement Assistance Administration, particularly Mr. Irving Slott and Mr. Robert Macy, for their support; the members of the Crimes Against Business Council (listed in the appendices) who gave their time to answering our questions and making this project possible. Special thanks should be given to Mrs. Irene Elber for her role in editing and production of this document.



SECTION I

OVERVIEW OF THE PROJECT

OVERVIEW OF THE PROJECT

Dimensions of the Problem

At the present time, crimes against business cost business something on the order of \$40 billion per year. This is an admittedly wery approximate figure, arrived at from a study of existing estimates. It was conducted by the staff of the Crimes Against Business Project, funded by the Law Enforcement Assistance Administration, in order to plan strategies relevant to controlling non-violent crimes against business. 1/ (Grant No. 0404-99-DF-76, awarded to the American Management Associations; see Appendix 1.)

Despite the wide range of possible error and the fact that all such costs to business are not necessarily a net cost to the public, there is no doubt that crimes against business constitute a major threat to our society and must be brought under control as soon as possible. Small- and medium-sized businesses suffer most, often being driven out of business altogether, and of these, the small retailer is probably the most vulnerable of all. Thus crimes against business often deprive a neighborhood of services and employment, as well as increasing the cost of living by the direct passing on of the cost to the consumer.

In studying the problem, we began to refine its definition. We identified three classes of strategy that can be adopted to control crime, and in so doing, were able to begin to operationalize the problem statement. We have labeled the strategies: Defensive (making it difficult to commit crime); Deterrent (making the perceived cost to the criminal—economic and/or psychic—greater than the perceived gain); and "Demotivating" (reducing the drive or motivation to commit these crimes). They are in no way mutually exclusive; they are, however, mutually supportive. In fact, although, as will be seen, we recommend specific programs under each heading, for particular industries and types of crime, the

We defined these as: "Criminal acts directed against the assets and/or reputation of a business enterprise, or its employees while engaged in or because of, their employer's business, exclusive of criminal acts in which a threat of physical violence or actual violence against the person is an inherent part of the method by which the crime is committed.

treatment of the total problem has to be holistic, or to rephrase the statement, we must consider the three strategies as being components of a system and that the optimum output of the system will be found when all components are working together.

Operationally, we can therefore state the problem as: finding means of reducing the economic and social costs of non-violent crimes against business by designing defensive, deterrent and de-motivating programs that can interface and support each other, and which are cost-effective and usable by small and medium, as well as large, business organizations.

As we proceeded with the planning process (described below in summary under Planning Methodology), it became clear that the total problem could be broken down still further into a set of sub-problems. These are displayed in Figure 1, a matrix which relates the sub-problem to the relevant solution-agents/strategies.

Essentially, it appeared that DEFENSIVE STRATEGIES were the concern of business itself (and its private security arm). Law enforcement officers are not sufficiently numerous to guard the assets of business organizations, would not be welcome on business property if they were, and in any case seldom have the skills to implement the control systems needed to reduce the more sophisticated kinds of employee theft, embezzlement, fraud and the like. Defensive strategies, however, seemed often inadequate and it became clear that at least three subproblems exist here. Firstly, senior management does not, in general, understand the magnitude of the economic impact upon the business of internal theft, embezzlement, commercial bribery, etc., and does not understand that the problem is, in large part, amenable to the application of good management practices, from the top down. Secondly, private security personnel (or individuals who are given the responsiblity for "security" along with other duties) are often inadequately trained themselves in the application of sound management practices in loss prevention/asset protection. The third problem is one that may not be resolvable, namely that there are many and increasing legal restrictions upon

Figure 1: MATRIX OF ELEMENTAL PROBLEMS WHICH TOGETHER CONSTITUTE THE CRIMES AGAINST BUSINESS PROBLEM TO BE SOLVED

PROBLEM AREA BY STRATEGY AND AGENT						
DEFENSIVE STRATEGIES	DETERRENT ST	DETERRENT STRATEGIES		DEMOTIVATION STRATEGIES		
PUBLIC PRIVATE	PUBLIC	PRIVATE	PUBLIC AND SEMI-	PRIVATE		
(Business Orga	niza-		PUBLIÇ			
(Criminal Justice, tions/Priva	ate (Criminal Justice	(Business Organiza-	(Criminal Justice,	(Business Organi-		
System) Security	y) System)	tions)	Schools, Churches)	zations)		
• Inadequate Manpower. • Inadequate	un- le Inadequate manpower	• Lack of confidence	Lack of knowledge	• Lack of know-		
derstanding	g of s	in cost/effective-	of what factors	ledge of what		
• Limited access to top managem	ment Inadequate statutes	ness of using	motivate people	factors motivate		
site of potential of the magn	nitude .	public criminal	to commit	people (em-		
illegal act. and nature	of Limited understand-	justice system.	illegal acts.	ployees,		
the problem	ing of business			customers) to		
• Limited understand-	systems; modus oper-	• Lack of empathy	Lack of models	commit illegal		
ing of business Limited und	der- andi of offenders.	with the criminal	of successful	acts.		
systems, vulnera- standing of		justice system,	demotivating			
bilities and modus sophisticat	ted 🜘 Lack of empathy with	especially the	programs.	• Lack of models		
operandi of approaches	to -business execu-	courts.		of successful		
offender. loss prever	ntion/ tives;			demotivating		
asset prote	ecprivate security	• Legal and union		programs.		
Lack of empathy tion.	personnel.	restrictions upon				
with:		sanctions imposed				
-business execu- • Legal restr		by employer.				
tives; tions upon	systems.					
-private security access to o						
personnel. generation						
data releva		95				
• Lack of public to assessing						
pressure. probability						
employee co						
ting illega						
acts.	on the part of the					
	public or of busi-					
© Concern ove						
, cost of sec		⊋				
and control						
measures.	-poor image of busi					
	ness by public;					
	-lack of knowledge					
	of economic and					
	social impact.					

data which would enable employers to screen out high risk employees or potential employees. The task of loss prevention/asset protection is made more complex as screening becomes less efficient as a consequence of privacy and civil rights concerns. Recognizing this problem does not mean that, at this time, we take a position on the restraints upon disclosing information bout past arrest records, or upon the use of truth verification techniques and so forth. (Some Council members, however, particularly Mr. Harry Connick, District Attorney of New Orleans, personally feel that records of arrest and dismissal for criminal acts should be available to employers. A separate submission will be forthcoming on this issue from Mr. Connick.) We do, however, strongly believe that conviction records should be made available, although even these should be used with discretion.

DETERRENCE is shared by both the criminal justice system and business. Within the criminal justice system, many problems (1) inadequate availability of manpower; an inadequate understanding on the part of law efforcement officers, prosecutors and judges of how business works, how various types of crime against business can be (and are) carried out, how they can be investigated, under what statutes they can be prosecuted and, more generally, a lack of empathy with business executives and with private security personnel; (2) inadequate statues; (3) an overworked court system; (4) seemingly idiosymcratic, non-rational and widely varying sentencing patterns; (5) lack of public support for increased activity against "economic" criminals -- a lack of support which is found in business circles as well, except in the case of retailers' concern with shoplifting. This problem, we have concluded, arises from the public's failure to recognize the economic impact upon itself of crime against business, together with a negative perception of business and business' own tolerance of the burden at least until very lately.

Within the private sector, two problems surfaced. One was the marked lack of confidence that business places in the criminal justice system. While, from the view point of social morality and obligation there seems to be little doubt that buiness should report all detected crime and cooperate in prosecution, most business people do not see this as cost-effective and the "bottom line" is, after all, an important factor in determining the behavior of most business management. Business people count the person-days spent in court and compare it with the sanctions meted out and conclude, over and over again, that they could have achieved the same or better results at much less cost simply by terminating the individual, and/or coming to a private agreement for restitution.

At the same time, employers' hands are tied in many ways when it comes to administering sanctions themselves. Legal and collective bargaining agreement restraints deter or impose procedural delays on management from terminating a suspected dishonest employee, and many individuals are known to have been terminated ostensibly because of "reorganization" or some similarly innocuous reason and gone on to repeat the offense for which they were, in reality, terminated. The problem of controlling crimes against business is undoubtedly made more difficult by the need to preserve individual rights.

Regarding the third strategy, "DEMOTIVATION", both public and private organizations face the problems of inadequate knowledge of what does motivate individuals to commit illegal acts—if indeed, motivation is a meaningful concept. Whether it be juvenile delinquency, vandalism or shoplifting, or adult pilfering or embezzlement or fraud, the problem is that there is no agreed-upon set of motives which can be reduced or eliminated by an agreed-upon process. Even at a pragmatic level, there seem to be few models which can be adapted to local circumstances.

So, the total problem of non-violent crime against business is seen by us as multi-dimensional. No one strategy or agent is likely to achieve much, even when attempting to control one single type of crime. Furthermore, the dimensions are interrelated to some degree. For example, the willingness of business to report crimes and to assist in prosecuting offenders is in large part a function of the perceived effectiveness of the criminal justice system in dealing with economic crimes, and the actual effectiveness of the system will depend in part upon increased public awareness of the social cost of such crimes.

We arrived at our recommendations through a somewhat complex process described briefly below and more fully in Appendix 2. The analysis of the total problem, that has just been discussed, was arrived at fairly early in that process and guided much of our thinking as we moved toward final proposals. We were also, of course, guided by the requirements of the grant, that stipulated that the planners should make recommendations concerning five categories of activity, namely: demonstration, research, a national statistical data base, communication and "maintaining momentum" by some process of institutionalizing the other recommended anti-crime strategies.

As it turned out, this structure was an excellent one within which to draft recommendations for dealing with the problems as we came to understand them. Certainly, the poverty of information, statistical and otherwise, and the poor distribution and understanding of such information as was available, became very evident as did the importance of remedying the situation; a national data base, continuing research and a mechanism for coordinating and distributing information were all seen as highly relevant to the control of crimes against business. And, as will be described, enough substantive ideas for immediate action emerged to justify the recommendation of demonstration projects, to evaluate and develop these ideas in programatic form.

The Planning Methodology

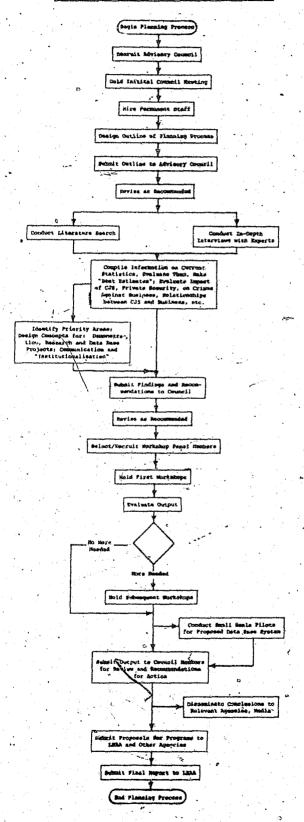
The accompanying figure (Figure 2) displays the major steps in the planning process. At the outset, an Advisory Council was established under the chairmanship of Mr. Joseph Rosetti, Vice President for Security of IBM Corporation. Other members are listed in Appendix 3. This body was created to give the project staff the on-going advice of representatives of the business, private security and criminal justice communities and of private citizens, who, after all, bear the final brunt of crime of any kind. Further input came from a series of in-depth interviews with individuals who were widely recognized as leaders in the fields of private security and criminal justice, including judges, prosecutors and law enforcement officers. Some 35 such persons were generous enough to give anything from two to eight hours of their time answering detailed questions about their work, modus operandi of offenders, their own favored solutions to the problems of crimes against business, their estimates of losses due to these crimes and other germane topics. Appendix 4 lists these contributors and summarizes the findings.

Simultaneously we conducted a literature search, seeking to establish "the state of the art", particularly with respect to statistical data. (A report on this study was submitted to LEAA in March, 1977.)

The data base established by these two activities enabled us to establish priorities and generally focus the project upon crimes with high economic impact likely to be reduced by cost-effective strategies, or amenable to research, in

FIGURE 2

Flow Diagram of Planning Process for Crimes Against Business Project



certain industries that were unquestionably suffering from their effects. (Figures 3 and 4 display the criteria used for selection and the crimes/industries actually selected.) In addition to this, we were then able to analyze the problem in the ways described earlier, which in turn led to tentative solutions, drafted as concept papers (Appendix 5).

Using the problem matrix as a quide, by working through each element and specifying a response to each, we saw the need (1) increase management's awareness of the problem and how it could be tackled; (2) train line managers and other employees in the techniques of loss prevention by application of the classical systems approach; (3) make the criminal. justice system more responsive to the needs of business and the public concerning all kinds of economic crime, by the development of special organizations with specially trained personnel, the use of innovative diversion programs, more consistent sentencing and more effective statutes under which to prosecute; (4) make the public itself more aware of the harmful impact of crimes against business, upon their own lives and the communities in which they live by communicating the economic facts; (5) work with young people to reduce their motivation to commit the acts of shoplifting and vandalism, by increasing their, and their parents, awareness of the cumulative harm that such acts do and by using a diversity of media to present their current culture heroes in various anticrime roles; (6) work within employing organizations to reduce the motivation to commit workplace crime by increasing worker satisfaction.

The concept papers dealing with these approaches were presented to carefully selected groups of experts from many parts of the country in two "workshop panel" conferences, whose mission it was to build upon the concepts and give them substance — or create new concepts and develop these up to the point where programs could be recommended within the five areas specified by the grant. The list of attendees and a summary of the output is contained in Appendix 6.

Figure 3

CRITERIA FOR SELECTION OF TARGET CRIMES

DEMONSTRATION

RESEARCH

Economic Impact of the Crime on Society

Actual or Potential Economic Impact of Application of the Research Findings

Feasibility of Emergency of Valid Research Findings

Recognized High Priority by Business

Recognized High Priority by Business

High Probability of Measurable Achievement

Generalizability to Small as. Well as Large Business and to Several Types of Business Operations

Generalizability to Small as Well as Large Business and to Several Types of Business Operations

Figure 4

SUGGESTED DEMONSTRATION PROJECT TARGETS (CRIME AND INDUSTRY)

Crime	Retail	Industry: Mfg. (Light)	Hotel	Insurance
Employee Pilfering	1**	1**	2**	4
Commercial Bribery	3	2**	3	2.
Securities Theft/Fraud Embezzlement	See NOTE	at foot of I	Figure.	
Burglary	Excluded	Excluded	Excluded	Excluded
Vandalism	4	3**	4	3
Shoplifting/ Guest Theft/	2	NA	1**	NA
Insurance Fraud by Arson	NA	NA	NA	1**
Check Fraud	5**	4	5	NA
Credit Card Fraud	6	NA	6	NA
Fencing	-			

Numbers represent rank order of estimated economic impact.

- * High probability of measurable achievement
- ** Recognized high priority of business

Selected for special attention in demonstration projects

NOTE: The crimes of securities theft/fraud and embezzlement although not ranked, because of insufficient information, will be impacted by several components of the program.

Recommendations

We have consolidated the output from these workshop panels into discrete programs that we recommend should be implemented. In Figure 5 will be seen a schematic outline of a recommended model for the control of crimes against business, which the specific projects we are proposing are designed to test and develop. A national Economic Crime Institute would serve as a clearing house for information, play a major role in the development and use of a national data base, initiate research and so forth. It would disseminate information (e.g., economic statistics, research findings) and programs (e.g., training programs for business and criminal justice system personnel) to a nationwide network of organizations at state, county and municipal levels, and receive feedback from them.

The Economic Crime Institute should be a not-for-profit organization with a Board of Directors widely representative of all concerned parties, consisting of representatives of business, private security, all branches of criminal justice, labor, and consumer interests. It would be concerned with both crimes against business and crimes by business.

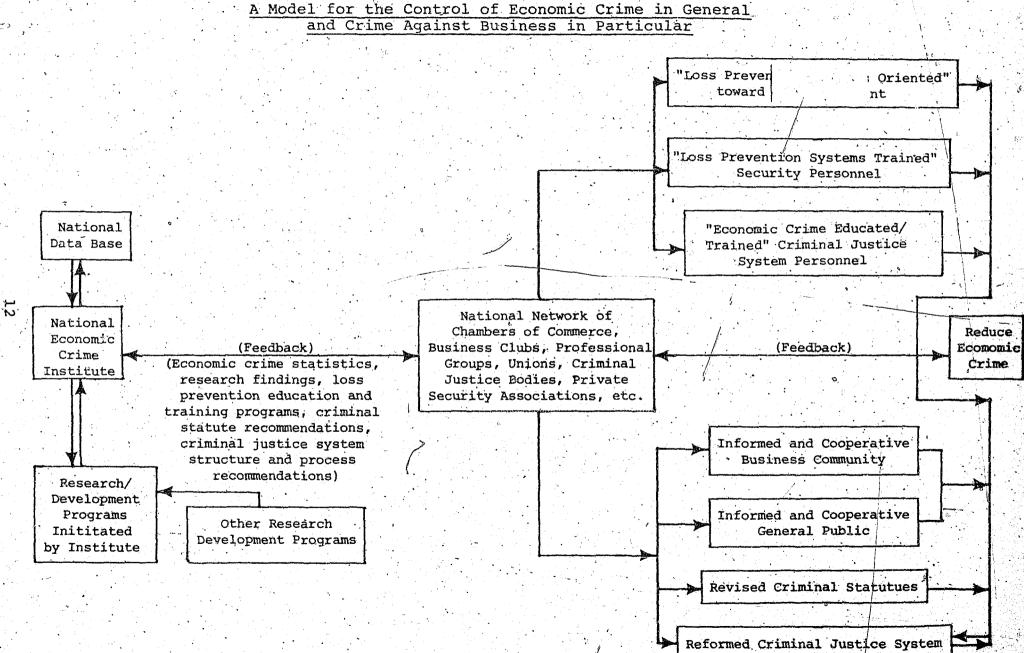
The detailed proposals for testing and developing this model are laid out in a later section, under <u>Detailed Program</u>

<u>Recommendations</u>; they are summarized here under the headings of Demonstration, Research, National Data Base and Communication and Institutionalization. It should be constantly born in mind that, in fact, they are parts of the integrated model just outlined.

Demonstration Projects

1. The first of these would entail the development of a series of low-cost education and training packages, to be implemented in three or more municipalities, aimed at differing audiences and with differing objectives and content. The emphasis should be upon small and medium businesses, rather than large, and the packages should be such that, if found to be effective, they could be made generally available across the country on an on-going basis. In such a case, the costs could be borne by state or local criminal justice organizations or by local business people (or their organizations) or by combinations of both. The recommendations for institutionalizing the effort have much relevance to this.

Figure 5



The proposed programs are:

- Seminars for top management in the following industries:
 - retail;
 - hotel/motel;
 - manufacturing;

to educate top executives in the responsibilities of senior management in loss prevention/asset protection, and in the principles of the "systems approach" to the problem. It is intended that not only would "consciousness be raised," but that certain basic principles would be taught, and could be applied directly by participants. In addition to internal defensive measures, the importance of working with the criminal justice systems would be stressed.2/

- Workshops for individuals with responsibility for loss prevention/asset protection. The same industries should be covered as described The two-day intensive course would above. teach the methods of systems analysis and asset protection. With the aid of material left with participants after the workshop, attendees should be able to conduct a loss prevention/asset protection survey, determine vulnerable situations and how to eliminate them. effectively reduce shoplifting, check fraud, employee pilferage, vandalism, embezzlement and commercial bribery. A special workshop should be held for financial executives to deal with financial control systems.
- 2. If a selected municipality has an economic crime unit, we propose that, as part of this same project, specialized training should be provided to personnel, covering the modus operandi of the more sophisticated crimes,

^{2/} As a result of a recommended research project, discussed later, we hope to be able to develop ways of making cooperation "worthwhile", either from the perspective of financial rewards or community status.

appropriate investigative techniques, statutes under which prosecutions can best be brought, and, most importantly, the principles of business operation (commonly used terms, procedures, concepts and attitudes of business people). If no such unit exists, we recommend that one be formed and training provided as just described. This unit should be a department in the prosecutor's office. The formation of the unit and/or training should be postponed — assuming that the local authorities are favorable - until the first results of the training programs for business have been measured. We anticipate an interaction between the economic crime unit and business behavior, since once it is known that such a trained and responsive group exists, it seems likely that business will be increasingly likely to seek its services.

- . In the same municipalities, a task force for the investigation and prosecution of arson, both of insurance fraud and vandalism, should be established, consisting of police and fire department personnel and an assistant (Such a group might be part of the proposed prosecutor. economic crime unit, but if so, should have a large degree of autonomy.) Links should be established between the task force and insurance companies in the area. With the aid of such entities as the National Fire Prevention and Control Administration, the National Fire Academy, the International Association of Arson Investigators, and the American Insurance Association, a set of training programs should be developed varying from a two-hour overview for judges to lengthy and detailed programs for full-time arson investigators. These programs should be made available not only to the task force and the judiciary and prosecutors, but also to every police officer and fireman in the jurisdiction, and to insurance investigators and adjustors (the nature of the program depending upon the degree of specialization and concern of the trainees).
- 4. A program providing an overview of the economic and social impact of economic crime, current sentencing patterns, and the like should be designed for state and federal judges. The goal would be to educate the judiciary as to the seriousness of such crime and the inadequacy of many sentences.

The preceding projects are designed to reduce the impact of crime by improving internal defensive measures and the effectiveness of public deterrents. The fourth and fifth projects we recommend would be in the area of "demotivation".

- 5. Knowing that much criminal, or at least deviant, behavior is learned at an early age, it seems appropriate to propose an attack upon shoplifting and vandalism by juveniles who are believed to commit a major part of these offenses. This should take the following forms:
 - The development of local programs directed toward the family, which would stress the social and economic consequences on the neighborhood of shoplifting and vandalism, the possible consequences to the children of the parent audience, if these children were apprehended for such crimes, the possibilities of a drift to even greater involvement in all kinds of crime, and the moral and legal responsibilities of parents to work with their children to prevent their participation in such offenses. The programs would be offered through local organizations, Chambers of Commerce, churches, schools, parent/teacher associations. They would, we envision, be a mix of film (or filmstrip) and personal presentation by influential local citizens.
 - The development of mass media programs of a similar kind, but using national, rather than local figures, for use by local television stations and which could also be integrated into the local group programs.
 - The development of programs aimed at juveniles (11-16), to be used as part of school social studies courses, which should include: role-playing by juveniles; the use of juveniles who are, in school-work programs to "sell" the business side of the problem; the use of local businessmen to do the same; film(s) featuring culture-heroes and role models appropriate to the sex and age groups, which would de-glamorize shoplifting and vandalism; a description of the relevant parts of the criminal justice system, and the consequences of being apprehended, given, for example, by a community affairs officer from the local police; field trips to prisons.
 - The enrollment of local business to support the above programs.

While it would be perfectly feasible to implement these programs in the same communities in which the preceding defensive and deterrent programs were being implemented, we recommend that they be carried out elsewhere, so that their impact can be measured independently.

Again, we suggest that at least three municipalities be selected for the demonstrations, differeing in size, relevant crime rate and socio-economic characteristics. It would seem desirable that the selected areas should have a high rate of shoplifting and vandalism attributable to juveniles and that there should be variations between the areas respecting the severity with which perpetrators of these offenses are dealt.

- 6. On the hypothesis—supported by some research that some workplace crime is motivated by employee dissatisfaction with the job and/or working "atmosphere, or is motivated by observing undesirable role models among management, we recommend that demonstration projects should be established in several employer organizations. However, since we expect to be engaged in research in this area, in a collaborative effort with the University of Minnesota under a grant from the National Institute of Law Enforcement and Criminal Justice, we further recommend that such demonstration should await the findings of the research.
- 7. Once there is adequate evidence that some or all of the education and training programs (described in Nos. 1-6 above) work to reduce crime, we recommend that they should be turned into standard curricula and packaged for distribution to local organizations across the country, possibly via the proposed Institute and the local network of concerned organizations. A further development at this point could be to turn the seminar and workshop courses into low-cost self-instruction "kits" of the programmed learning type, which could be distributed through the mail.

^{3/} T.W. Magioni and R. P. Quinn, "Job Satisfaction, Counter-Productive Behavior and Drug Use at Work," Journal of Applied Psychology, (1975), p. 60.

Research Projects

- There is an obvious need to know the cost of crime against business to our society as a whole. This is not the same as the cost to business; for example, pilfered goods can, from an economist's viewpoint, be seen as a fringe benefit, and systematically stolen goods - commercially fenced - do end up in the marketplace and sold, sometimes at discount prices. An econometric study is recommended, therefore, which tracks through business losses due to illegal acts and measures their final effects, via tax deductions, insurance pay-outs, increased costs to consumers, reduced earnings of employees, etc., balanced against the "fringe benefits" of employee theft, the increased income in goods or money from shoplifting, the reduction in price of some fenced goods, etc. Such a study is dependent upon the development of a national data base for the cost of crime to business (discussed later) and should be seen as an eventual outcome of it. To begin with, we propose that exploratory and small scale studies should be made to develop a methodology for the full econometric study.
- 2. Computers and crime constitute an area where little is known as to method or magnitude of crime. We recommend:
 - The development of prototypical models of ways in which computers can be used to assist in the perpetration of crime. This would be accomplished by creating a team of computer specialists and letting them simulate ways of beating various systems and then designing counter-moves to defend the systems.
 - Given the models, a sample of businesses should be investigated to estimate the magnitude of computer assisted crime; this should be integrated with the development of the national data base.
- 3. As a complement to the demonstration project on insurance fraud by arson, we recommend that the feasibility of an "educational network" should be explored, intended to provide instruction to elements of the criminal justice

system, financial institutions and insurance companies, in which characteristics of a business serve to predict the likelihood of intent to commit fraud by arson and so increase the likelihood of successful investigation.

- 4. There should be a systematic study of criminal statutes, sentencing guidelines and criminal justice system. processes, in order to make empirically-based recommendations in these areas. The recommendations would be based upon evidence that certain statutes, sentencing policies and system processes were more effective than others in impacting crime rates and/or reducing costs and delays which both add to the taxpayer's burden and deter business from cooperating with the system.
- of separating courts for certain types of economic crime, taking the Chicago, Illinois shoplifting court as one model for examination. Comparisons would be made with other jurisdictions having similar characteristics, to assess the impact of such a court. In both Nos. 4 and 5, a survey of relevant members of the criminal justice system would be made to solicit opinions and experience. Such organizations as the National District Attorneys Association, the National Assocation of Attorneys General, state bar assocations and associations of state legislative leaders should be worked with in carrying out these two projects.
- 6. It is recommended that the effects of differing management policies and practices on workplace crime should be studied, so as to be able to recommend relevant "models." Since we expect to be working with the University of Minnesota in a closely related study (as referred to under No. 5 of the Demonstration Projects), this proposal is likely to be implemented in the near future.
- 7. As pointed out earlier, we have learned that business people tend not to cooperate with the criminal justice system and vice versa. Insofar as this defeats the ends of justice and encourages the growth of a "second criminal justice system" we recommend that a study of the barriers to such cooperation should be carried out. Many of these barriers are, we suspect, subjective, and to determine them, we propose a two-phase attitude survey a small number of in-depth inteviews, followed

by a large sample, structured, telephone survey of business executives, prosecutors, and senior law enforcement officers. (The calls would be preceded by a letter requesting their cooperation in the study.) The output of such a survey should be used as input to later versions of the senior executive seminars, training courses for economic crime unit personnel, special orientation courses for prosecutors and law enforcement officers, and for a diversity of communications to business and the public through the network of concerned local organizations that it is proposed should be created. It is expected, too, that this research will lead to recommendations for ways in which business can be rewarded for cooperation with the criminal justice system.

- 8. The need to learn more about commercial fencing (receiving goods known to be stolen or purchased at less than fair market price) in order to prosecute offenders more effectively is widely recognized, as is the economic significance of this activity. The following research tasks are recommended:
 - e Examine the process of manufacturing or distributing (including point-of-sale) and identify the capability and potential cost impact of establishing unit identification, to provide evidence of ownership, distribution and possession of stolen goods.
 - Identify cost-effective techniques for non-destructible unit identification on manufactured products.
 - Examine the capability and practicability of the National Crime Information Center serving as a repository for identified losses of property (serialized and non-serialized).
 - Examine the legality of government agencies and/or business organizations conducting random sampling of merchandise at point-of-sale and determining the distribution chain, back to the manufacturer, of the sampled goods.
 - Determine the feasibility of using the business intelligence process (e.g., information on prices

charged by competitors in a community) to obtain data that could indicate the existence of criminal receiving practices, and the feasibility of systematically passing the information on to the law enforcement community.

- Conduct legal research to determine the impact
 of changing the "guilty knowledge" presumption to
 a rebuttable presumption in reference to the crime
 of criminal receiving.
- Examine commercial codes throughout the United States to determine bill of sale requirements, in order that performance requirements could be prepared for a model bill of sale, which would identify buyer, seller, date and amount (for all goods over \$100).
- Examine state laws to determine what is needed to institute a civil suit for the suspension of business privileges for corporations convicted of receiving stolen goods.
- Investigate the implications of insurance companies providing theft coverage to business only for property which has identifying characteristics which can contribute to the recovery of stolen property.
- Investigate a requirement for insurance carriers to create an assigned risk pool for business theft which guarantees coverage provided the loss is reported to law enforcement agencies, thus motivating business to report losses.

It is expected that these researches into fencing will provide a basis for the subsequent design of demonstration projects.

National Data Base

The American Management Associations have submitted a concept paper to the National Criminal Justice Information and Statistics Service (NCJISS) which recommends the development of the present Commercial Victimization studies as a means of establishing the cost to business of at least certain "visible" crimes, complemented by self-reporting from

samples of the public (11 years and older). It is our understanding that this approach is seen by the NCJISS as worthy of consideration and we recommend that it be pursued. Certain of our advisors have cautioned that it may be premature to begin working with the present survey even in a developmental mode, because we do not know sufficient about the willingness or ability of business to cooperate. Nor do we know the costs of installing sophisticated data capturing systems (or modifying existing systems) in order to generate valid data. With this caution in mind, we still consider it appropriate to recommend the use of the victimization sample as a basis for a carefully thought out development program. The concept paper is presented as part of this document under Detailed Recommendations.

We also recommend studying the possibility of using data collected by the Bureau of Labor Statistics on labor turn-over to obtain information on the frequency of dismissals due to employee theft. We are currently engaged in some preliminary inquiries in this respect.

Communication and Institutionalization (Maintaining Momentum)

We have combined these two categories because we believe that communication between the business and criminal justice communities, and between both communities and the general public, cannot be achieved without the institutionalizing of Institutionalizing is, in part, the means whereby the effort. information can be gathered and distributed to its appropriate audiences. The information we see being so distributed is (1) economic - the costs to business and to society of crime against business and other economic crime derived from the national data base and the proposed econometric study; and (2) methodological - how to reduce such crime by defensive deterrent and "demotivating" strategies applied by the private and public sectors - derived from the proposed demonstration and research studies and from all other available sources. We would include training packages and information about such packages, research findings, and recommendations for changes in criminal statutes, and the structures and processes of the criminal justice system, as typical of the "methodological" information to be gathered and disseminated.

To this end, we recommend that an Economic Crime Institute (a not-for-profit organization) be established, funded in the ain by private sources but with Federal Government support by means of research grants and dissemination con-The policy-making body for this organization would be a broadly based Board of Directors representing every constituency that is in any way involved in or impacted by economic crime (non-violent crime by or against business). Hence, it would include senior business executives, law enforcement officers, judges, prosecutors, defense attorneys, representatives of the private security community, unions and consumer interest groups. (We concluded that the Institute should be more than a "crimes against business" institute for three reasons. One is that the image of business among the public is so poor that there is little likelihood of the needed public support for the Institute's efforts if it was seen as only concerned with crimes by working people against business. Another is that much crime by "illegitimate" business is, in fact, crime against business, and a third is that in the public eyes a massive embezzlement by a chief executive officer is often seen as a crime siness even though it is in reality a crime agains+ less.)

Essential to the succ. of the effort is the establishment, in parallel with the establishment of the Institute, of a communication network that loosely links the Institute with local (state, county and municipal) organizations that are concerned with the problems of crimes against and by business. We do not recommend establishing new entities, but we do recommend that the existing infrastructures of organizations representing business, labor, criminal justice and consumer interests at non-Federal levels should be drawn together for the dissemination of ideas and the local implementation of programs.

^{4/} Consumerism at the Crossroads, Sentry Insurance

Evaluation

Each of the recommended projects should be evaluated and/or monitored. Particularly important is the evaluation of the demonstration projects, so that we can be confident of the efficacy of the proposed programs. The Project Evaluator, Professor Ezra Krendell of the Wharton School of the University of Pennsylvania, will submit detailed recommendations for evaluation of the recommended projects in a separate report. The following text outlines the general approach we expect to take for the demonstration projects.

Evaluation of Demonstration Projects. A fundamental evaluation problem lies in the difficulty of collecting data on the losses which the programs are supposed to reduce. Firstly, it is notorious that crimes against business are mostly not reported to the police even when known and that in many cases they are not recognized as having occurred even within the business. Public records will therefore be of little assistance. Furthermore, the programs themselves might distort them, because of their insistence upon greater cooperation between business and the criminal justice system, so possibly leading to greater reporting even though the level of crime was actually declining.

A "before and after" design using businesses own records would have to rely upon very poor records in most cases. This would be particularly true of pre-program records, but we cannot expect it to be that much better even when businesses are actively participating in programs. For example, breaking down retail inventory losses between shoplifting, employee theft, legitimate breakage and spoilage, etc., and bookkeeping errors is almost impossible, except as rough estimates, given normal record keeping systems.

We shall have to rely upon gross estimates of inventory loss, monetary "shortages" and managers' perceptions of change due to their participation in the program for before/after data, and attempt to use similar data from non-participants in an area where the programs are being instituted, as a "control". Attitudes and perceptions of local trade associations, community leaders, police and prosecutors will also be sought, concerning apparent changes in crime rate, and degree of cooperation between business and the local criminal justice system.

The Role of the American Management Associations

The American Management Associations continue to have a strong interest in the control of crime against and by business. We wish to be associated with the implementation of the recommended projects and see our role as follows:

- Coordinating the total effort, with responsibility for hiring staff and sub-contractors and providing technical assistance to individual programs.
- Designing the proposed Economic Crime Institute and coordinating the efforts to establish it and the national communications network.
- Obtaining cooperation of business in the programs (with the aid of the Chamber of Commerce of the United States, the National Retail Merchants Association and similar bodies).
- Playing a major part in the dissemination of information and training programs.

Having perceived the solutions to the problems of economic crime as lying, in large measure, in the domain of management techniques, it seems appropriate that the American Management Associations, with their unique abilities and reputation in the field of education and training in these techniques, should take a leading role in the implementation of the recommended solutions.



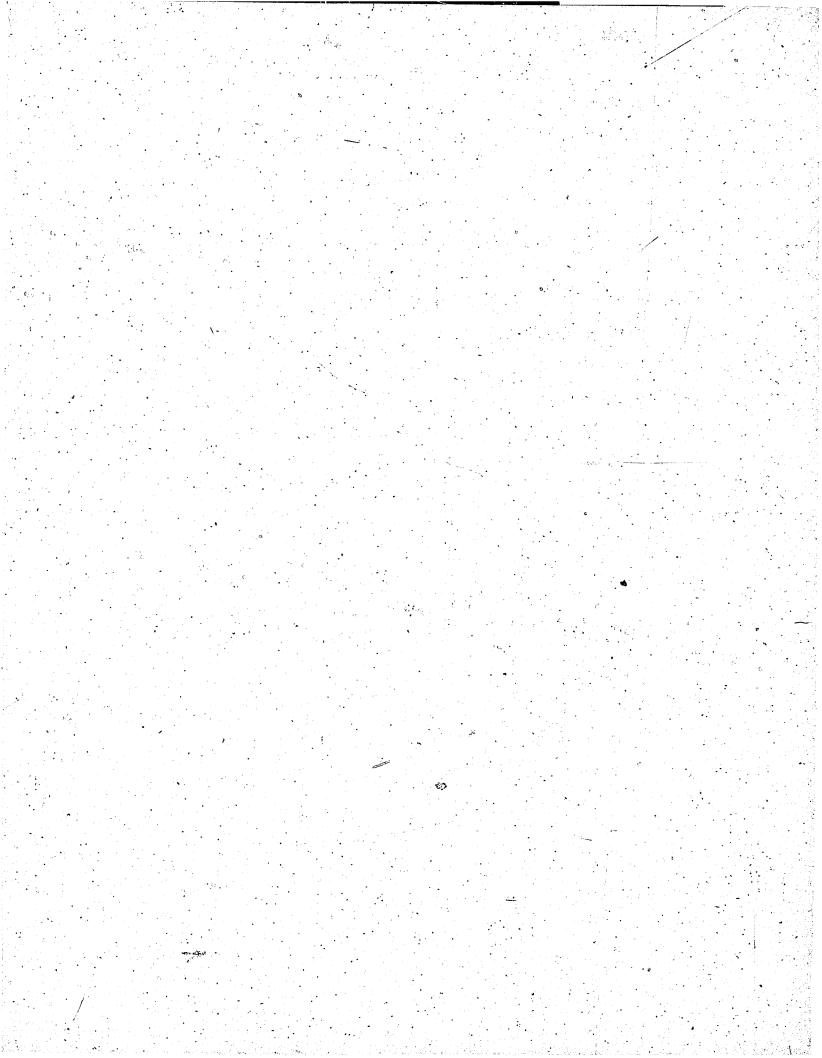
SECTION II

DETAILED PROGRAM RECOMMENDATIONS

DETAILED PROGRAM RECOMMENDATIONS

The following pages contain descriptions, in some detail, of the programs that were outlined in the preceding Overview section. They follow the same sequence, namely Demonstration programs—defensive, deterrent and "demotivating"—Research Projects, the National Data Base and Communications and Institutionalization programs.

The order is not to be interpreted as implying priorities, since we believe that the multi-faceted approach to the problem that we have adopted requires almost equal emphasis upon all the recommended programs.





DEMONSTRATION PROJECTS

DEMONSTRATION PROJECTS

The recommended demonstration projects fall into the following categories:

- Training programs for commercial management, to increase their knowledge of the magnitude and nature of crimes against business and instruct them in the "systems" approach to loss prevention/asset protection.
- e Establishing economic crime units; training programs for investigative and prosecutorial staff in all relevant aspects of economic crime (or staff of already existing units in more advanced aspects of investigation and prosecution of economic crime).
- Establishing arson task forces; training programs for the judiciary, police and fire personnel in the elements of fraud by arson and in-depth training of arson specialists.
- Education of the judiciary in the elements of economic crime.
- "Demotivating" (attitude-changing) programs for juveniles, to reduce shoplifting and vandalism.5/

The format is, generally, to state the objectives of the demonstration; explain any concepts or terms that may be ambiguous or unfamiliar to the reader; then outline the topics in any education or training program that is involved; turn to site selection and program organization.

^{5/} Demonstration of the "demotivating" of employees respecting internal theft should be deferred until the AMA/University of Minnesota research is completed.

Defensive Strategies

Recommendation No. 1: Training Programs for Commercial Management

Objectives

To demonstrate that business people who are responsible for loss prevention and the safeguarding of assets at (a) "a chief executive" and (b) "hands-on" levels can proceed to reduce losses immediately and in a cost-beneficial manner if given a short course of instruction in the systems approach to loss prevention/asset protection.

Many basic techniques of management can be applied at low cost with significant reduction in losses due to external and internal criminal acts, but business people are, in general, unaware of the application of these principles to internal security and tend to think in terms of guards and "hardware." These do have their place, but only when integrated into a total system. The application of well-known principles of good management can save business enormous sums of money and it is these principles, particularly the systems approach to analyzing the problem and correcting the flaws in the organization's current system (or "non-system" as it often is) that we believe must be taught.

The Nature of the "Systems Approach"

It is good management theory and practice to recognize that an organization is a "system," i.e., that there is (1) input and output; that input at one stage is processed to become output at another stage, which, in turn, may become input to another stage, and that the processing in some stages is regulated by output from the same or other stages ("feedback") and (2) that processes take place in and by means of a structure, which is made up not only of physical entities (plant, equipment, etc.) but also such non-physical entities as rules and regulations and "standard operating procedures."

The "systems approach" means: (a) analyzing the existing system or systems (each system is made up of other systems [or sub-systems]) to measure its efficiency and reveal its strengths and weaknesses; (b) modifying existing systems

and/or introducing new ones, as a result of the analysis, to obtain improved efficiency; (c) monitoring the systems to see that they continue to function efficiently.

For the present purposes we are concerned with those subsystems or parts thereof which incorporate or process assets and those which are intended to protect those assets. This means: (1) the physical "structures"; (2) the flow of material, money and information as these are stored and processed at each stage of the total business system; and (3) the security and control system(s) (which should be integrated within the total system and include physical, fiscal and personnel security sub-systems). Efficiency is measured by the risk of loss at each stage of the total system, related to the costs of the security system(s).

The systems analysis which must precede the design and implementation of new systems (not only security and control systems but possibly processing systems as well, in order to reduce vulnerabilities) is carried out by a number of data collection steps, using records and special surveys. These identify vulnerabilities in the total system and enable the analyst to select cost-effective procedures to reduce the risk at the vulnerable points.

Necessarily, anyone designing new or improved systems to reduce risks of loss has to be able to interpret the data from the analysis and know sufficient about feasible ways of reducing risks to be able to select from practicable options. In instructing business management in loss prevention/asset protection, we would make sure that senior management understood these issues at the level of principles and that those with hands-on responsibility understood them at a highly practical level.

Topical Outline of Proposed Education and Training Programs

The following are "topical outlines" for the proposed oneday seminar and two-day workshop programs, directed respectively at senior management and at persons with direct "hands on" responsibility for loss prevention/asset protection in their business.

One-Day Seminar for Senior Executives

Objectives. To instruct senior executives in the principles of loss prevention/asset protection, so

that they understand the magnitude of the problem, their unique responsibilities, and how crimes against business can be dealt with by the application of sound management procedures, particularly the "systems approach"; participants will be able, at a conceptual level, to design some solutions appropriate to their own businesses.

Separate seminars will be conducted for the following industry groups:

- Retail
- Hotel/Motel
- Manufacturing

Crimes covered will include:

- Shoplifting (retail industry seminar only)
- Check fraud (retail industry seminar only)
- "Guest theft" (hotel/motel industry seminar only)
- Employee pilferage
- Vandalism and sabotage
- Commercial bribery
- Computer assisted crime .

Topical Outline. The topics discussed will be as follows, each at an "Overview" level:

- 1. Typical loss statistics for businesses of various types/sizes, attributable to various types of criminal behavior.
- 2. The responsibilities of senior management in reducing losses, safeguarding assets, e.g.;
 - Establishing standards and a code of ethics
 - Reviewing security procedures/controls (including fiscal controls)
 - Screening and recruiting honest employees
 - Necommending changes where called for
 - Communication of problem, and how it should be dealt with, to all levels of organization
 - Setting examples of integrity (the role model)
 - Establishing linkages with local criminal justice system
- 3. The definitions, terminology, concepts of loss prevention/asset protection.

- Areas of concern in loss prevention/asset protection — physical, information, fiscal, personnel.
- 5. The systems approach to loss prevention/ asset protection.
 - 6. The source of Toss data within the organization, its collection and processing.
 - 7. The physical survey the examination of the physical layout of the site, its equipment, merchandise displays and so forth.
 - 8. The policies and procedures survey the examination of the operating and personnel policies and procedures used on the site or in connection with the site.
 - 9. The fiscal survey the examination of the financial controls and auditing methods used on, or in connection with, the site.
- .10. The analysis of data from each of the above sources (Nos. 6-9), in order to determine vulnerabilities, leading to ...
- 11. The design of improved physical environment, operating and personnel policies and procedures, fiscal controls and audits, and coordination with local criminal justice systems, to reduce the opportunities for crime and increase the opportunities for detection, i.e., the design of a loss prevention/asset protection system.
- 12. The implementation of the new system "marketing" it to managers and employees, training, etc.
- 13. Monitoring and operating the system.
- 14. Evaluating the system in cost/effectiveness terms.

The presentation would be by a mix of lecture and film/film strips and instructional material (e.g., a case history, survey forms, etc., would be provided and be retained by participants).

Two-Day Workshop for Managers with Direct Responsibility for Loss Prevention/Asset Protection

Objectives. To instruct managers who have to design and operate internal security systems in the "systems approach" to loss prevention/asset protection, so that they can implement effective systems in their own businesses.

Separate workshops will be conducted for the following industry groups:

- Retail
- Hotel/Motel
- Manufacturing

Crimes covered will include:

- Shoplifting (retail industry workshop only)
- Check fraud (retail industry workshop only)
- "Guest theft" (hotel/motel industry workshop only)
- Employee pilferage
- Vandalism and sabotage
- Commercial bribery

Topical Outline. All topics described for the seminars will be covered, but in more depth. This is particularly the case with topics 3 through 4 of the seminar outline. Cases specific to the industry in question would be worked through in detail and participants would analyze data from the various appropriate company sources and the surveys, and make recommendations for new or improved systems.

The workshop would be designed to maximize "learning by doing" although a multi-media approach is proposed. Materials will include typical loss statistics in computer print-out and manual form, typical survey data, data collection documents, and case studies built around these data. Participants will have a structured sequence of tasks to perform, described in workbooks which they will retain as a resource.

One-Day Financial Executive Workshop. It is suggested that a special program be designed for executives with special responsibility for fiscal controls. These would concentrate upon the crimes of embezzlement and commercial bribery and would emphasize modern financial and stock control procedures, auditing methods and computer-assisted crime. Again, a "learning by doing" approach would be stressed.

It should be noted that in both seminars and workshops examples of data and case histories will reflect the experiences, resources and needs of small and medium-sized businesses.

Sites for Demonstration

We believe that if the recommended programs are to be successful when generalized across the country, they must be actively supported by local organizations—business, law enforcement, civic and so forth. Therefore, one criterion for selection of sites is evidence of strong local support for anti-crime programs or willingness to give such support. Another criterion is that the problems of retail inventory shrinkage, equipment losses in hotels/motels, employee theft in manufacturing, vandalism and sabotage in all industries, etc., must be genuinely troublesome and perceived by the community as high priority problems. Unfortunately, as has been pointed out in the earlier part of this report, statistics of crimes against business are poor and measures of the actual magnitude of the various types of crime by jurisdiction cannot be In the absence of anything better, the larcenyobtained. theft statistics from the Uniform Crime Reports of the FBI will have to be used to provide a rough ranking of magnitude of the type of offense by SMSA's, cities and towns. could easily create our own rate figures from Table 6 of the Report, which gives numbers of offenses known to the police in cities and towns 10,000 [population] and over, in order to pin-point demonstration areas; we do not think it appropriate merely to select SMSA's without further sub-division.) Once we have identified what appear to be high crime areas we recommend that local business and other organizations be contacted in order to gauge their levels of possible support and concern.

Geographic locations would be another important variable in selecting demonstration sites. Many experts in the private security field believe that the type of offender (motivation

and modus operandi) may vary from area to area and it seems desirable to take this possibility into consideration when picking sites. Given the other criteria mentioned, we would want to implement the project in at least three quite different parts of the country — the northeast, the midwest, and south or southeast. Thus, at least three areas should be selected, although we would prefer to extend the scope of the project to increase credibility when the nation-wide effort is made (assuming, of course, that the evaluation of the recommended programs showed them to be effective).

During the course of the present work, many groups in communities across the country have indicated enthusiasm for working with the recommended program if this were possible. While they should not be automatically included, it should be borne in mind when making a final selection that the following organizations have demonstrated interest and have some base for active participation: Albuquerque, Department of Rehabilitation, DWI, Metropolitan Criminal Coordinating Council; Baltimore, Mayor's Advisory Committee on Small Business; Boston, Boston Police Department; Cleveland, Greater Cleveland Growth Association, Criminal Justice Publication Information Center; New Orleans, District Attorney's Office; Philadelphia, Citizens Crime Commission of Philadelphia.

It should be stressed that we are not recommending that demonstration sites be selected solely from among these cities. We propose a far wider geographic spread. We do, however, believe that there are advantages in carrying out some early developmental work in one or other of these localities.

With respect to non-violent crimes against retailers, a recommendation emerged from one of our workshop panels that the unit for demonstration should be a shopping mall. Retailers in one or more malls within a high crime area should, it is proposed, be the recipients of invitations to the programs, rather than retailers as a whole in the selected area. One great advantage of this approach is that mall areas have merchant-coordinating systems, which provide a "built-in" vehicle for the implementation of the effort. While it may be unduly restrictive to focus solely on retailers in shopping malls, we do recommend that they should be given a special program within the broader areas selected, and be the first targets of the education/training program.

Project Organization

The first phase of the work would entail designing and constructing the training programs; although curriculum outlines have been designed, much work remains to be done in turning these into actual seminars and workshops, with audio-visual aids, workbooks, reference material and so on. This first phase would take three to four months to complete. (If AMA has the role described earlier, present AMA staff could carry out this work.) The resources of the Small Business Administration and the Department of Commerce should be considered in developing and implementing the project.

The second phase would fall into three sub-phases, namely:

- Hiring local project staff (primarily director and trainers, the latter probably part time).
- e Establishing a community "crimes against business" council, consisting of representatives of business, criminal justice and local citizens groups, to give credibility to the project and facilitate communication with business and other concerned groups.
- Inviting commercial managers to seminars. Lists would be provided by local organizations.

This phase would overlap the first and would take two to three months.

The third phase would fall into three sub-phases:

- Conducting seminars for senior managers.
- Subsequent to conducting of seminars for a particular industry, inviting commercial managers with hands-on responsibility for security to attend workshops.
- Subsequently conducting workshops.

This phase would probably take twelve months and would begin at the end of Phase I and II.

The fourth phase would run parallel to the third and will consist of monitoring the programs, obtaining participants' reactions and modifying their content and modes of presentation as the feedback is received. This is a most important part of the recommended projects, since it ensures that the program will be developed in a positive way during the demonstration period.

Deterrent Strategies

Recommendation No. 2: Economic Crime Units: Establishing the Unit

Objectives

To demonstrate that a specially staffed and trained unit within the criminal justice system of a jurisdiction, specializing in economic crime, can reduce crimes against business, by a higher rate of successful prosecutions and by obtaining greater cooperation from the business community.

Economic Crime Unit Concept

It is recommended that in selected areas an economic crime unit should be established in the Prosecutor's Office and (or, if such a unit exists) be given specific technical assistance in personnel selection and training and management methods. (It is appreciated that several such units do exist, but our impression is that they tend not to be staffed and trained in a manner that fits them for dealing with, and acceptance by, the business community, a pre-requisite of effective efforts to reduce crimes against business. It should also be noted that we see these units as having a two-fold mission--reducing crime by business and reducing crime against business, especially fraud and embezzlement. Fraud by arson is considered separately (see Insurance Fraud by Arson, below) but with appropriate organization, this area of crime could also be integrated into the proposed unit.)

We recommend that economic crime units should be responsible to the local prosecutor and should be an integral part of the district attorney's office. These units should have a broad investigative function and have effective liaison with the business community. It is essential that business should be (finally) persuaded that the criminal justice system takes crimes against (and by) business very seriously and can be effective in reducing losses due to economic criminal activity.

^{6/} The local "crimes against business council" that we recommend as part of the commercial management training program would be a good forum for representatives of the unit, if one were established in the same area as the commercial management program.

Structurally, the unit should be vertically organized, being capable of accomodating most reported or suspected offenses from investigation through trial and appeal. Hence it must be staffed by experienced trail attorneys, and experienced investigators, preferably with some knowledge of business attitudes and business methods. We recommend that the unit should be staffed in accordance with the National District Attorneys Association guidelines. The staff must be given special training (see below) and kept up to date with regular refresher courses.

Extensive use should be made of former professionals from the IRS, Treasury, FBI, police, the accounting profession and other sources of consultant expertise.

Selection of Sites

The criteria outlined for selection of sides for the commercial management, education and training programs apply equally well for the economic crime unit project (except that fates of larceny-theft offenses are not a sufficient index). We recommend that such a unit be established (or, if already established, technical assitance be given) in the same jurisdictions as are selected for the former programs, if the appropriate criteria are met. There is likely to be an important increase in the level of cooperation between busines and the criminal justice system that we are hoping to achieve by the education and training program, if a trained and well-managed economic crime unit of the kind we envision is formed in an area, and it would be foolish to ignore the fact that in this case the whole may be "greater than the sum of the parts." However, in order to obtain some measure of the effects of the education/training programs alone, we recommend that these should precede any activity in connection with an economic crime unit by at least a year, or that the economic crime unit project should be initiated in a sub-set of the areas in which the education/training programs are conducted.

It may turn out, of course, that areas that are well suited to the commercial management program are not receptive to an economic crime unit program (possibly because they already have an excellent unit in place). If this were generally to be the case, then other locations would have to be found, meeting the required criteria.

At a minimum, we recommend three jurisdictions, with wide geographic representativeness, with high relative incidence of both reported larceny-theft offenses and Part II crime arrests (a very poor measure of the magnitude of "white collar" types of crime but it will serve to give some guidance), together with community awareness of and concern about the more sophisticated type of crimes against business (fraud and embezzlement). A willingness on the part of the district attorney's office to implement the proposed program is, naturally, a pre-requisite for this type of project.

Project Organization

Phase I would entail the selection of a local project director and staff. The director could, in fact, be the same person as directs the commercial management education and training program in an area, if these were the same. Certainly, there would be economic advantages in this and probably technical advantages, too. Support staff should unquestionably be drawn from this same source if the same areas are used. The director would be responsible, so far as the economic crime unit project is concerned, with establishing liaison with the local criminal justice system and the business community, and designing the unit (and/or the technical assistance program) with the aid of national and local specialists. It would take two months.

Phase II would consist of designing the unit/technical assistance program and ensuring that it was responsive to local needs and realistic in terms of local capabilities. This phase would take four-five months and would commence as soon as the director was hired.

Phase III would be the actual establishing of the unit (or commencing technical assistance to an existing unit). It would include selection of staff, training of staff and provision of technical assistance in management, public relations and other matters of this type. Phase III can be expected to take anything from four to nine months.

The final Phase (IV) is the on-going monitoring of the project, to find ways of improving staffing configuration, management practices and policies, liaison with the business and consumer communities, etc. Phase IV would continue throughout the life of the project.

Recommendation No. 3: Economic Crime Units: Training the Unit

Objectives

The objectives are substantially the same as those set for the establishment of units themselves, although if an existing unit is given special training, the specific effect of that training is predicted to be demonstrable.

Training: Topical Outline

Training would differ according to the experience and role of the individual concerned. The topics that would be covered, in varying degree according to the requirements of the person's job, would include:

- Business practices, policies, nomenclature.
- The psychology and motivation of business people.
- · Accounting and auditing techniques.
- Modus operandi of "economic crime" offenders with special reference to embezzlement, various types of fraud by and against business (including commercial bribery, "scams," "bust outs" and arson) and the use of the computer in economic crime.
- Some theories of motivation.
- Investigative techniques, including the use of audit trails to uncover financial offenses.
- Trial preparation.
- Admissible evidence.

For unit managers, special courses should be given in management techniques, public relations and similar topics.

Materials and assistance for these programs can be obtained from the National District Attorneys Association, the Battelle Law and Justice Study Center and the Enforcement Program Division, Office of Regional Operations, Law Enforcement Assistance Administration. Local colleges and police academies, the Federal Bureau of Investigation and state prosecutorial associations should all be requested for help in the supply of materials and training.

Selection of Sites

The sites would be the same as those discussed in the immediately preceding section.

Project Organization

Phase I would be identical to that described above, since the director and staff would be the same.

Phase IIa would consist of locating appropriate training programs (and modifying where appropriate) and identifying facilities. This could in large measure be carried out by present AMA staff.

Phase IIb would entail matching identified training programs to local needs and would call for a "Needs Analysis" of the community to be served and of any existing economic crimes unit. This work could be carried out by AMA personnel and/or local project staff. Phases II a) and b) would take three to four months.

Phase III would be the implementation of the recommended programs and would be spread over four-six months, although refresher courses should be given at regular intervals thereafter.

Phase IV would be the monitoring component and would aim at providing recommendations for improved training curricula and methods.

Recommendation No. 4: Insurance Fraud by Arson: Establishing Arson Task Force

Objective

The objective is to demonstrate that a special unit, which includes both fire and police personnel, with its own prosecutors, specially trained in detection, investigation and prosecution of arson and fraud by arson, can reduce these crimes in a selected jurisdiction.

Task Force Component

It is recommended that a task force should be established in the demonstration site, consisting of personnel drawn from police and fire departments, a prosecutor and (on a temporary basis) investigators and supervisory personnel from insurance companies and possibly other police and fire personnel on a short-term, rotated basis.

The task force concept has been successful in Wayne County, Michigan; Bronx, New York, and Seattle, Washington. This proposed unit could be a part of the recommended economic crime unit if the same area was used for both projects, but if so, the organizational structure would have to be such as to give the task force a high degree of independence. Arson is a different kind of crime from the typical "white collar" crime which an economic crime unit would be staffed to deal with and for this reason the arson unit must not be submerged into the larger unit; on the other hand, it may be administratively convenient to make it a semi-autonomous unit within the economic crime unit. Local circumstances would contribute greatly to any final decision on this issue.

The staff of the task force would be given special and intensive training in all aspects of arson and fraud by arson.

The personnel of this unit would have responsibility for establishing on-going liaison with other law enforcement agencies, fire departments and insurance companies within their jurisdiction and would serve as a highly sophisticated resource for such entities. (The inclusion of insurance company personnel on a temporary basis, is designed to strengthen ties with insurance companies and at the same

time improve the abilities of their personnel in the detection of fraud by arson. Police and fire department personnel would also rotate through the unit for the same reasons.)

Selection of Sites

The main criteria are: as before, objectively high incidence of the crime in question; perception that there is a high and troublesome incidence by concerned business, criminal justice agencies and the public; and willingness and means to cooperate in the project. Since arson is not a Part I crime for the purposes of the Uniform Crime Report, statistics cannot be obtained from that source. However, statistics on suspected arson fires can be obtained from other sources (the local fire department, for example) and reasonable assessments should be possible. We propose to use the same areas as for other types of crime against business unless it turns out that arson is not a major problem in any one such area or is not perceived as such or there is little interest in cooperating in the project or there is already an effective investigative unit of the type described. any such circumstances we would seek other areas with the required characteristics, including geographic spread.

Project Organization

The first phase of the project would be concerned with securing the formal agreement of the official bodies involved--police and fire departments, and the district attorney's office--that a task force of the type described should be set up, on an experimental basis. Expressions of approval from insurance companies and other business interests, of citizen groups and school boards (whose tax base often declines as a result of arson) would be solicited during this phase. (The area would not be selected for the project unless preliminary, informal, acceptance had been indicated during the site selection work.)

Formal agreement could probably be obtained from the interested parties in three-four months, but the final establishment of the unit could take a further six-eight months. (AMA staff could work on obtaining formal agreement, prior to appointing a local director.)

Phase II would call for the selection of a local project director, who would be responsible for seeing that the unit was established, giving technical assistance in its formation and ensuring that the training programs, discussed in the Training Programs section, below, were administered. Other (support) staff could be drawn from the staff assembled for the commercial management training project, if the same area is used—one of the economies of using the same area where possible. This phase would take two months and would commence as soon as formal agreement for the task force had been received.

Phase III--implementation--would be dependent upon how long the concerned parties wanted the experiment to continue but should not be less than two years.

Phase IV--monitoring and development--would go on during the whole of the second phase, the interest being to improve the concept with respect to such variables as personnel mix, training (see below) and reporting relationships within the unit and between the unit and its parent body.

Recommendation No. 5: Insurance Fraud by Arson: Training , Program

Objective

To demonstrate that training programs can be designed and training implemented, for persons professionally involved in the control of arson and fraud by arson, which will materially impact those crimes in the area of demonstration.

Training: Topical Outline

The following outlines the subjects that must, at a minimum, be given to all individuals at some level of intensity:

- The scope of the arson problem as it affects society as a whole, and particularly as it affects the particular geographic area where the training is being given.
 - the number killed as a result of arson.
 - The number of burn injuries resulting from arson and the terrifying nature of those injuries.
 - The dollar loss to a community from arson, including not merely the hundreds of millions of dollars paid out by insurance companies—with the resultant increased premiums to all property owners, and the direct cost of fire department operation—but also the tremendous loss of tax base to communities which need tax revenues for police services, schools and general welfare programs.
 - The social cost of arson, particularly in urban areas where large segments of communities have been devastated by widespread arson fraud. The loss of housing stock leads to an increase in social pathology associated with overcrowding.
- The motives for arson include not only insurance fraud, but also efforts to hide other crimes: jealousy or revenge; pyromania by the emotionally disturbed; juvenile thrill seekers; and terrorism or extortion.

- The nature of fire itself. The technical elements and chemistry of different kinds of fire; the nature of incendiary fire; burn patterns of incendiary fires; some of the significant signs to look for to identify incendiary fires, including detailed instruction on the examination of fire scenes; evidence of incendiary materials and other significant physical evidence which may be present at a fire scene.
- The use of expert arson investigators, chemists, photographers, and engineers, to examine a fire scene and identify, analyze and preserve tangible evidence.
- Interviewing witnesses, including not only witnesses who may have seen the fire itself, but witnesses who were present before the outbreak of the fire or former residents of a burned structure or employees of a business which has suffered a fire.
- Interviewing the insured himself and, when warranted, detailed investigation of the background, the finances, the debts and assets of an insured individual or business.
- Investigating the possibilities of criminal prosecution for arson; the possibility of arson as a defense under a policy of insurance and the possibility of criminal prosecution for insurance fraud commail fraud, where prosecution for arson proves impractical. (The technique of an owner hiding behind several corporation names in order to avoid the recognition of a pattern of arson fraud and the investigative difficulties this creates will be discussed.)
- The collection and interchange between public authorities and insurance companies of information relating to specific fires, specific-named insured, and possible evidence of incendiary origin of fires, as well as the danger of suits for libel and slander and "freedom of information" problems connected therewith.

. The following specific programs should be available:

- 1. a. Two-hour seminar for state judges.
 - b. Two-hour seminar for prosecutors.

- 2. One/two-day seminar for all police/fire department personnel who are not specialists in arson investigation (incorporated into police/fire academy curricula).
- 3. Two/three-day seminars for insurance adjusters.
- 4. Two/three-day seminars for prosecutors with special responsibility for (or interest in) arson prosecution, e.g., prosecutor in the proposed task force.
- 5. Six/seven-week courses for arson investigators (who we would recommend should be incorporated into the arson task force), preferably at the National Fire Academy. This would be supplemented by extensive on-the-job training.

Selection of Sites

The training of professionals would take place in the same areas as the establishment of the arson task forces which would, as stated, be the same areas as those selected for the training of commercial managers and the establishment/training of economic crime units if the criteria is justified.

Project Organization

Phase I would entail: 1) establishing liaison with the National Fire Prevention and Control Administration, the National Fire Academy, the International Association of Fire Investigators and the American Insurance Association; 2) obtaining agreement of appropriate local authorities for the conduct of training programs among their personnel. Liaison with the major national organizations would permit their extensive resources to be drawn on-both in developing curricula appropriate to different groups (see Topical Outline, above) and for actual instruction. Locally, it would be necessary to have formal commitment to allow specified numbers of officers to attend courses of a specified duration on the employing organization's time. (Some broad agreement in principle to this effect would have to be obtained before selecting the site for demonstration purposes.) This phase would take 2-3 months.

Phase II would overlap Phase I, beginning as shortly after Phase I commenced as possible, and would consist of a) designing or identifying curricula; and b) identifying training facilities for such groups as:

• the judiciary;

- police and fire officers not specifically involved in arson investigations;
- police/fire officers who form part of the recommended arson task force.

These curricula would be derived from, and in some case would be the same as, those already developed by such organizations as the National Fire Academy. An outline of key elements to be covered in various degrees of depth will be found under "Topical Outline," above.

Phase III--implementation of the training programs--would commence as soon as appropriate training "packages" have been put together. Separate staff would not be needed for this work, since it is integrated with the formation of the task force. (However, it would be possible to carry out the proposed training programs even if there were resistance to the task force concept, and this option should not be dismissed.) We expect this active demonstration phase to be carried on for at least two years.

Phase IV would be on-going monitoring of the project, as usual with the intent of improving the training content and methods.

Recommendation No. 6: Judicial Education Program on Economic Crime

Objective

To demonstrate that an education program which informs judges of the effects and characteristics of economic crime, the diversity of sentencing practices, and the apparent discrepancy between sentences for crimes which are non-violent in nature and crimes which involve at least the threat of violence, can lead to greater uniformity and smaller discrepancies in sentences.

Program Characteristics

The recommended program would be available for state judges. It would be of 2-3 hours duration and suitable for inclusion in the programs of annual meetings, conferences, etc. It is appreciated that it could in no way be imposed upon the judiciary, but would be made available for meetings if requested.

Education Program: Topical Outline

The objectives would; be to increase awareness of the economic and social harm done by economic crime and the seemingly low level of sanctions imposed compared to those imposed for violent crime, with an expectation of changing sentencing practices in some cases, by focusing on:

- The economic and social costs of various types of economic crime, from shoplifting to major frauds, with emphasis upon local statistics if any estimates could be made. These would be compared with the costs of various violent crimes.
- Typical methods used to commit economic crime, especially the more sophisticated crimes, including those using computers.
- Recent sentencing patterns for various economic crimes compared with those for burglary and robbery involving similar levels of loss.

- Profiles of typical offenders--age, sex, race,
 education and income levels, recidivism rates, etc.
- Some theories of motivation of perpetrators of various non-violent crimes against and by business.

Up-dated versions of the programs should be run at yearly intervals, and regular and fairly frequent mailings of pertinent information should be used to provide reinforcement of the major theme.

Selection of Sites

Judges from the locations used in the other projects will probably be exposed to the program, but it would be at least statewide since the most likely occasions for its presentation would be at statewide annual meetings of state judges. The states would be those in which the other demonstration projects are located.

Project Organization

It would be necessary, initially, to liase with the appropriate components of a state's executive and judicial branches in order to establish whether the program would be acceptable and, if so, how best-it could be delivered. This could be Phase I and would take 2-3 months. Phase II would entail obtaining appropriate local data and incorporating this into an appropriate script. Three months should be adequate for this phase. Production of an appropriately sophisticated presentation--Phase III--would take another two-three months.

It is assumed that the director and staff of the other demonstration programs in the state would be responsible for all local level work. Coordination of data and production of the presentation would be centralized (for example, in AMA, if AMA were to be the coordinator).

Demotivation Strategies

Recommendation No. 7: Programs to "Demotivate" Young
People from Committing Crimes of
Shoplifting and Vandalism

Objectives

To demonstrate that it is possible to reduce the frequency with which shoplifting and vandalism are committed by juveniles, by means of education and general communication techniques which aim at changing juvenile attitudes toward these offenses.

Juvenile Motivation

The proposed programs are based on the belief that much juvenile shoplifting and vandalism is a consequence of impulse, peer pressure and a failure to feel any sense of guilt--or fear of apprehension--about committing such offenses. The programs would attempt to deal with peer pressure and the understanding of "right and wrong," by working through the family, the school and local business.

Program Characteristics

The approach is multi-faceted:

- Develop a sense of the social responsibility of the family, using mass media and "canned" programs which can be used by churches, parent-teacher associations, local civic groups, etc.
- Develop positive psychological pressures to "demotivate" and deter potential juvenile offenders, by a mix of canned programs, live appearances and events (such as field trips to prisons), etc. used by schools as part of social studies programs.
- Develop similar pressures by use of organizations such as youth clubs, community centers, etc., addressing in particular the juvenile without a family and who is also likely to be a school drop-out.

Develop business sensitivity to the issues and willingness to give time to "demotivation" programs in schools, opening their operations to field trips and other activities that will enable juveniles to identify a person with the abstract corporation that is being vandalized or "ripped off."

Some suggested content of these programs will be found under "Program Content and Media," below.

Program Content and Media

The following are the basic constituents of the suggested programs and their methods of presentation.

Family Responsibility Program, Targeted to Parents

- 1. The cost to families in increased cost of goods.
- 2. The cost to the community in reducing shopping facilities and employment when retailers go out of business as a result of shoplifting, and the aesthetic as well as financial costs of vandalism.
- 3. The legal and social consequences to juveniles, if apprehended, and the encouragement of antisocial attitudes (and their consequences) when shoplifting and vandalism are approved by peers and tolerated as "pranks" by parents.
- 4. The motivations and temptations of young people toward committing the crimes of shoplifting and vandalism.
- 5. The role and responsibility of parents in shaping moral and social attitudes by supervision and by example.

This would be a "canned" film program, which could serve as a core for discussion groups, with augmentation by local law enforcement officers, juvenile court judges, business people, etc. The film could be used in this way for PTA, church and civic group meetings, and could also be used alone on local TV. It should be possible to use short segments as 15 second spots as well. A sound-only series for radio spots should be considered.

School Program

- 1. 2. and 3. would parallel the themes described above, but would carefully avoid any moralistic or preaching style.
- 4. The attitudes and behavior concerning shoplifting and vandalism of juvenile culture heroes-- appropriate to different age groups.
- 5. The attitudes and behavior of respected local peers--for example school athletic "stars," members of amateur rock groups and so forth.

Although 4. would be on film, augmented by live appearances for 5. and presentations by local law enforcement, juvenile judges, business people, etc., it would be integrated into the social studies programs in local schools. The film would also be used on local TV at times appropriate to juvenile audiences. Sound radio spots should be considered; juveniles listen to radio a great deal.

Community Organization Program

The constitution of the program would be similar to those of the school program but directed toward youth clubs, community centers, etc., to focus on juveniles without families.

Business Responsibility Program

- 1. The motivations and temptations of young people to commit shoplifting and vandalism and how modern merchandizing can be an invitation to the juvenile.
- 2. Ways in which business can help itself and the community at the same time by working with community groups and the schools to develop "demotivating" programs, for example by:
 - opening the business to field trips;
 - participating in school-work programs and helping to initiate them if they do not exist;

- participating in social study programs in schools, speaking to parent-teacher association meetings, and generally being available to present factual, non-moralistic material to juveniles, parents, teachers, and community leaders, respecting business and the effects on business of shoplifting and vandalism. The misperceptions of retail profitability should be corrected in these sessions.

This program, too, should be essentially a canned film presentation with augmentation by law enforcement officers, judges, teachers and community leaders, presented at Chambers of Commerce, Rotary, Kiwanis, Lyons, and such other group meetings. It, too, could be used on local TV. While every effort should be made to get these programs used by TV and radio, and translated into print media, care must be taken not to have the media treat the project as a "story." Juveniles would almost certainly interpret such a story as an attempt at manipulation and all that would happen would be the generation of resentment and a possible increase in the crimes we are trying to reduce.

Selection of Sites

A high larceny-theft incidence per 100,000 would be an important consideration, in the absence of better data. Equally important would be the perception of the local business community that juvenile shoplifting and vandalism were serious problems and a willingness to cooperate in the type of program proposed. Perhaps most important of all is an overall community with the same perception and willingness to cooperate; churches, schools, and civic groups must have attitudes favorable to trying to prevent juvenile crime before it occurs rather than imposing sanctions afterwards. Hence, in selecting sites for this demonstration, it would be necessary to identify high crime areas first, then contact local groups in a set of these in order to identify some that seem to meet the required criteria. From these should be selected a further sub-set which would provide geographic and size variability.

We recommend at least three, but preferably more, communities for the project. These should not be the same as those used for the training of commercial managers, since it would be impossible to isolate the effect of the demotivation program from the managerial training program.

Project Organization

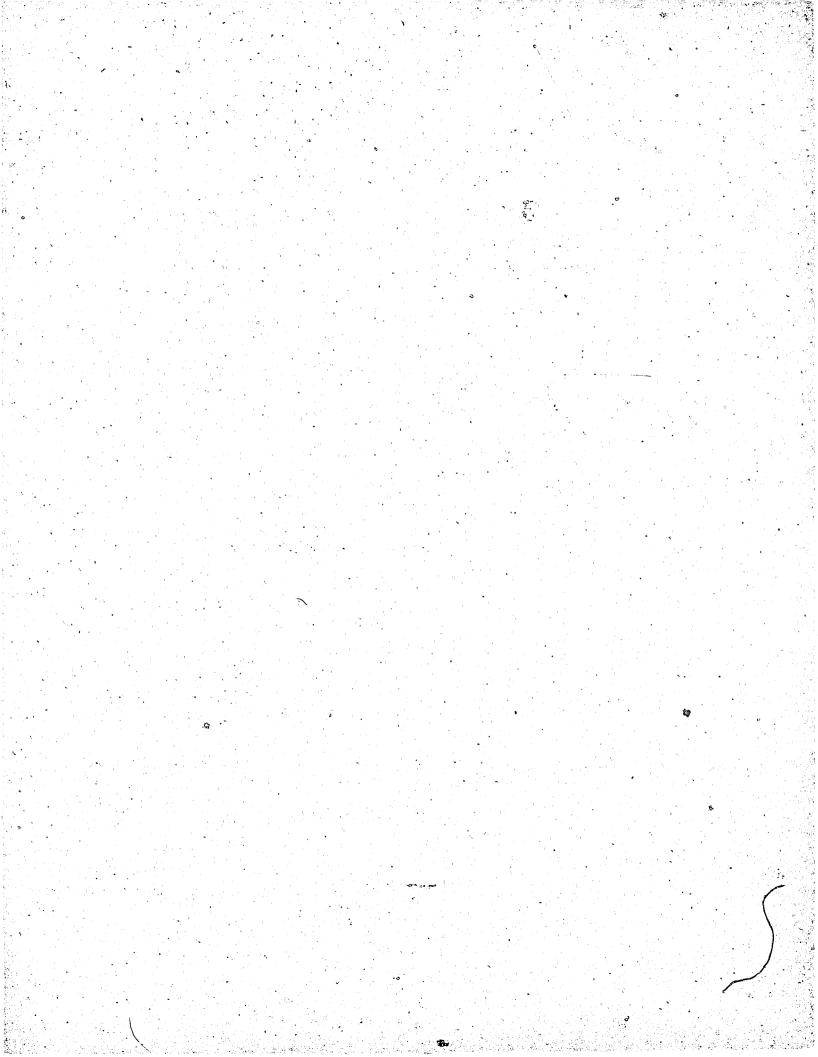
Phase I would consist of hiring specialist staff to design the overall program, especially those using canned media. Even if AMA were to have the role suggested in the overview, present staff would not have the very special expertise called for in this delicate area. As we see it, heavy emphasis would be placed upon consultants in the fields of a) education and b) communication, but a small, permanent specialist staff is also indicated. The hiring phase would take two months.

Phase II would be the design and production phase, during which the various curricula would be generated and the canned programs produced. This would commence as soon as the specialist staff had been hired and would take about 5-6 months.

Phase III would consist of hiring a local project director and support staff. This phase would commence at the same time as Phase II and would take about two months. It should be completed well before the program packages are ready.

Phase IV--the implementation phase--should commence as soon as the local director is appointed. His/her initial tasks would be to organize the community resources--schools, churches, PTAs, Chamber of Commerce, civic groups, local media--into a cooperative network, prepared to receive and use the programs. This would take 3-4 months, and at about the eighth month of the project it can be expected that the first programs would begin to operate. The period of actual program operation, excluding start-up time, should be not less than one year.

From the commencement of Phase V, careful monitoring should be initiated, to determine improved ways of securing community participation and improved programmatic material and delivery techniques.





RESEARCH PROJECTS

RESEARCH PROJECTS

The recommended research projects described in the following pages are by no means exhaustive of the areas that need to be investigated. They do seem, however, to be those with the greatest potential for producing actionable conclusions in areas of major concern in the fight against crimes against business in particular and economic crime in general. With the exception of the first two recommendations, they are not in any order of priority—after the study of the true cost to society of crime against business and the study of methods for detecting, preventing and estimating the magnitude of computer assisted crime, we feel that all the other proposals are of equal importance and that all the recommendations are, indeed, important and necessary.

Recommendation No. 8: Econometric Study of the Social Costs of Non-Violent Crimes Against Business

The costs to society of economic crimes against business are totally unknown. Even if the costs to business can only be crudely estimated there is no necessary equivalence between the costs to business and the eventual costs to society. If, for example, a refrigerator is stolen from a manufacturer, it is clearly a loss to that firm, unless it is covered by insurance, in which case it is, in part, a loss to the insurance company, not to the business. To the thief, assuming it is stolen to be fenced, it is a source of tax-free income. (But can this really be regarded as a "loss" by the government?) To the pseudo-legitimate business that purchases and then sells the stolen refrigerator, it is also a source of net income. To the person who buys the refrigerator at somewhat less than "fair market price" less, in fact, than other local retailers can afford to sell it — it is a bargain. To competing retailers it represents a lost opportunity to sell either the same refrigerator at a higher price (possible but not certain) or another refrigerator at a lower price (again, possible but not ... Add to this equation the costs of private security certain). and the criminal justice system trying to prevent/punish such activities (but this is income to these employees) and the (possible) forcing out of business of marginal retailers because of the commercial fencing operation - with some (possible) loss of amenities for the shopping public - and the net social cost is obscure in the extreme.

Similar complexities appear when one considers embezzlement and employee pilferage for personal use. Something is taken but it is subsequently used, even if illegitimately, and, in effect, increases the thieves' tax-free income. If, as has sometimes been suggested, such income is really a "fringe benefit" of certain occupations, how does it differ in economic terms, from other legitimate benefits?

And consider commercial bribery, a crime that is often regarded as victimless. Obviously this is not the case when the kick-back comes from billing the purchases for more than was delivered, or selling inferior merchandis at quality prices, but what of the cases where the bribery is more subtle — meals, tickets, vacations paid for by the vendor out of a.

vaguely defined business expense account? Is this a "cost of doing business," like advertising? From a strictly economic viewpoint, it may be difficult to see the difference.

On the other hand, consumer prices go up wherever the business can pass along costs of crime, and business income goes down when this cannot be done. At the very least, there are differential economic effects on different groups within society, whatever the net overall effect.

All in all, there is clear need for an input-output analysis that can yield estimates of the costs and the benefits to each concerned group, as a stolen object, or money (or, for that matter, trade secrets or other valuable information) moves through the system. We have termed it an "econometric" analysis to stress the statistical modelling aspects which will loom, large in the proposed study.

This is an exceedingly sophisticated inquiry; a specialist team should be recruited with excellent credentials in econometric modelling and the development of input-output matrices. There are at least two components in the work that this team would conduct; one is the design of an appropriate model and the other is the acquisition of data.

Some of the variables that would go into the model are listed below:

Costs

- insurance payments and premiums
- criminal justice system costs
- private security costs
- tax revenues "lost"
- price increments due to crime
- lost employee compensation opportunities
- lost job opportunities
- lost services to consumers
- e lost net income to vendors (because of unfair competition from commercial fencing operations, or when costs of crime cannot be passed on, and finally, when a business goes bankrupt.)

Benefits

non-taxed income to thieves and fences (or equivalent "satisfaction" from the use of directly, stolen property)

- reduced costs of purchase of fenced goods
- income to criminal justice system and private security employees

The model to be designed would have to incorporate these and other variables and trace their effects through the economic and social system and, finally, show the contribution of economic crime against business to the gross national product.

The collection of data will be crucial and at the same time extremely difficult and perhaps impossible in some cases. The proposed National Data Base project, discussed in this report, should be integrated into the econometric study, as one source of input data, and should, in due course, be expanded to obtain as much of the other required information as business is willing to give. Much ingenuity will have to be used in acquiring data and making reasonable estimates of variables for which direct measurements cannot be made.

We recommend that a twelve-to-eighteen months preliminary investigation should be carried out in conjunction with the National Data Base project, to develop a model(s) and test the feasibility of obtaining the needed data input. Thereafter, a series of increasingly more ambitious developmental projects could, if apparently justified by the first study, be conducted over a period of several years, leading eventually, we anticipate, to both a satisfactory model and a satisfactory data base that can be continuously used to estimate the economic and social costs of crimes against business, hopefully by that time on a community by community basis, with direct policy implications at federal and local levels.

Recommendation No. 9: Computers and Crime

In order that we may fashion a long-range ready response to the possible proliferation of computers and crime, it is recommended that a research study be undertaken in this area.

The objectives of such research will be to advance the knowledge of the use of computers in the commission of crimes, and critically assess whether such use of computers aids in facilitating the commission of a crime, or whether it indeed inhibits criminal activity.

Phase I. In order to examine the ways in which the computer can be used in various criminal schemes, it is suggested that a group of high-level computer specialists be brought together and given the mandate to develop prototypic models of computer-assisted frauds. These models would be developed for a variety of simulated situations which closely approximate the actual uses of the computer in a variety of business enterprises.

The composition of the team should include members of key government agencies including the FBI, the Department of Defense, the Atomic Energy Commission, etc., and various computer specialists and members of public auditing concerns.

In addition, the group should be cognizant of the ways in which the use of computers might inhibit crime.

It would be necessary to have access to a typical system (or to construct one), operating in batch and on-line modes. The growing use of mini-computers dictates that these, too, should be involved in the research, both as stand-alone processors and a part of computer networks. The possibility should be explored of working with a large manufacturer of computer hardware who could provide such facilities.

The next step would require this group to develop detection techniques necessary for active identification and investigation of these model computerassisted crimes. This stage is extremely important

considering the fact that in most audits the primary focus is on "balancing the books" rather than looking for fraud.

The group should make a systematic study of the software packages that have been designed for auditing "through" the computer, and evaluate their effectiveness (actual and potential) in detecting irregularities.

There should be a systematic study of how best to organize an EDP department, bearing in mind possible trade-offs between: (a) reduction of opportunities for crime, and (b) efficiency. It is widely believed that separation of tasks and responsibilities is a major component of any strategy in reducing computer assisted crime and guidelines for optimum allocations and supervision should emerge from the proposed study.

Phase II. This phase would focus, by means of a random sampling of business, on the identification and magnitude of current losses being sustained. It would require the active cooperation of business executives to allow an unannounced audit of computer procedures by the group's personnel. These audits would involve the application of the detection products developed in Phase I.

An analysis of these findings will allow a more accurate projection of current and potential losses than is currently available by more conventional techniques.

Ultimately enough relevant data should be accumlated to:

- define those situations in which computers do facilitate the commission of crime;
- define those situations in which computers inhibit crime, and then;
- design and develop programs and models to limit the use of computers in committing crime;
- design and develop programs and models that 'would use the computer itself to inhibit crime.

Recommendation No. 10: Statutes/Sentencing Guidelines, Criminal Justice Process

As the incidence of crimes against business rises, it is widely noted and accepted that criminals are prosecuted sporadically, and rarely, if ever, experience any meaningful sanction.

Accordingly, new and innovative statutes and procedures must be formulated and drafted to deal more adequately with the sophisticated and complex nature of economic crime.

Therefore, a sequential research project is envisioned, in order that sufficient data be gathered with respect to the following:

- 1. reviewing existing statutes, leading to recommended revision;
- 2. development of guidelines and procedures to ensure uniform sentencing;
- 3. other criminal justice procedural modifications.

The research should be initially confined to the following statutory areas of criminal activity either against business or by business:

• theft

- fraud
- commercial bribery
- embezzlement
- arson

Data should be gathered from as many sources as possible. The following is a sampling of procedures to be utilized in the data gathering process:

- Utilization of the "grape-vine technique" in order to locate prime movers in the field. People sought would be those experts involved in the drafting of model statutes, and designers of criminal justice system modifications.
- Researchers should actively seek cooperation from leaders of state legislative bodies and their staffs.

- Researchers should utilize information gathered from in-house and private security associations (e.g., ASIS) and utilize the input from business with respect to their views regarding statutes and procedures.
- Researchers should have extensive contact with the National District Attorneys Associations, and similar law enforcement groups, together with liaison with various regional and national legal organizations.

The aforementioned list is merely suggestive and in no way is meant to be exhaustive. However, it is incumbent upon the research group, after using these data gathering techniques, to devise a structure whereby the effectiveness or ineffectiveness of a statute may be measured. A methodology must be devised to determine a "good" statute from a "bad" statute. Consideration must be given to the population of a given area; major problems indigenous to that area; the number of arrests, prosecutions and convictions under a particular statute; the attitude of prosecutors with respect to the ease with which these statutes lend themselves to effective prosecution; the case—load of the court system; the volume of particular crimes, and the ability to write pithy and concise definitions without vague, unreasonable or unconstitutional elements:

Ultimately, basic components of effective, tightly drawn statutes will be formulated and-perhaps through the recommended Economic Crime Institute--information will be disseminated to legislative bodies seeking to have more uniform and effective statutes to deal with crime.

Some suggested areas of initial research should be to review the efficacy of the following:

Enactment of a statute requiring all persons to report knowledge of the commission of a crime, with violation thereof resulting in the imposition of criminal sanctions. (The statute could be modeled after Title 18 USC, Section 4, although the knowledge of the commission of any offense would be reportable, rather than limited to felonies).

- Enactment of a comprehensive theft statute, to replace antiquated statutes in many areas, still utilizing common law definitions of various larcenies.
- Enactment of statutes adequately dealing with fraud, especially insurance fraud, both committed by business or against business. (California and New York Model Penal Codes have representative examples.)
- Enactment of statutes that would expedite the disposition of Appellate cases.
- Enactment of statutes defining mandatory minimum sentences for repeat offenders.
- Enactment of comprehensive commercial bribery statutes; current statutues appear to be woefully inadequate.
- Enactment of comprehensive updated statutes dealing with arson.

The same procedure will then be followed with respect to promulgating fair and reasonable sentencing guidelines and delineating other modifications necessary to effectuate a more responsive criminal justice system. (For additional topics to be considered, review Workshop Panel No. 9, New Orleans "Crimes Against Business Workshop Panel Report" submitted in draft form, May 1977.)

Recommendation No. 11: Separate Courts

In order to achieve better overall prosecution of criminal cases, it is recommended that a study be conducted to determine the efficacy of specialized courts, and more particularly, special courts for those accused of shoplifting.

An in-depth review and evaluation of the existing operation of a shoplifting court in Chicago, Illinois, must be undertaken. The initial purpose will be to determine those factors indigenous to the Chicago metropolitan area, be they environmental or sociological, that created a need for a special shoplifting court.

A detailed demographic study will be required to assess various population trends, including overall size of the community, age and sex differentials, etc. All relevant crime statistics must be gathered, evaluated, and analyzed, including number of arrests per one thousand population, number of prosecutions, number of convictions, and ultimately gathering hard information as to whether the Chicago project has indeed reduced the incidence of shoplifting and/or resulted in more convictions and sentences.

A survey of retailers is recommended to obtain their attitudes toward such issues as:

- increased/decreased rates of prosecution;
- saving of time when they do prosecute;
- relevance and effectiveness of sentences;
- perceived increase/decrease in inventory "shortages" attributed to shoplifting over, say, five years.

It would also be necessary to interview judges, prosecutors, and defense attorneys, to obtain a broad sampling of attitudes toward the court.

Observations should be made in the court itself, to obtain a sense of its conduct. In addition, records should be studied, of number of persons brought before the court, time till final disposition, nature of disposition (length of sentence, etc.) and estimation of costs of the running of the court per 100 offenses.

This data should be compared with:

- that from a survey of retailers in a "matched" community, which does not have the special court, using identical questions where relevant;
- data from a study of behavior and records of courts which deal with shoplifters, in the matched area;
- 3. data from the records of the Chicago court(s) which dealt with shoplifters prior to the creation of the special court.

Based upon the information so gathered, there must be developed indicators of viability with respect to the establishment of these courts in other jurisdictions, and basic procedural and/or logistical advantages and disadvantages must be determined.

Some of the advantages to be explored would include:

- whether the existence of a special court would encourage merchants to more actively prosecute shoplifting cases, rather than hold to the general belief that a bout with the judicial process will result in no criminal sanction for the perpetrator, and extensive amounts of wasted time on the part of the merchant.
- Whether a special court would have the capability of identifying recidivists and punish them accordingly.
- Whether a court solely devoted to one area of prosecution would expedite such prosecution and free backlogged calendars.
- whether a separate court would have the capacity to devise procedures that would reduce the amount of time that a witness or victim would actually spend in court; or could facilitate an early return of merchandise held for evidence, e.g., the utilization of photographs rather than the actual merchandise.
- Whether the knowledge that such a specialized court existed would be a deterrent to the would-be shop-lifter.

Some of the disadvantages to be explored would include:

- whether creation of a special shoplifting court in a particular locality would create enormous pressure from groups concerned with other crimes, to establish courts dealing with their specific area of crime interest. We might then be confronted with a myriad of special courts, making the system unreasonably fragmented.
- whether a court, concerned only with the prosecution of shoplifting cases, might not create a form of "combat fatigue" on the part of the judges, prosecutors and staff. If such a possibility exists, rotation of personnel should be considered, although measured against the ostensible loss of developed expertise in the area.
- Whether the existence of a special, separate court would encourage a more formal atmosphere, leading to the indiscriminate or excessive use of the plea bargaining process.
- Whether the costs would cause unwarranted fiscal difficulties for municipalities.

Favorable findings could then lead to a carefully evaluated demonstration project in several areas of the country.

Recommendation No. 12: Insurance Fraud Predictors

As the need increases to investigate arson more effectively and prosecute the perpetrator, so too does the need increase to predict and prevent an arson before it is committed.

Accordingly, a project is proposed which will explore the feasibility of gathering information and establishing an educational network with respect to insurance fraud by arson. This project will complement and develop information for the demonstration project on arson (as described earlier). It will also work in collaboration with the statutory revision project, seeking to provide information, so that more reasonable, sophisticated and tightly-drawn statutes may be written.

This feasibility study would actively seek the cooperation of lending institutions, suppliers, banks, insurance companies and various other groups, agencies or organizations having any involvement with the insurance fraud by arson. A prime source would be the existing Task Force on Arson in Wayne County, Michigan, and the contemplated Task Forces enumerated in the New Orleans Panel recommendations. We would seek to develop patterns, isolate constants, define variables, and seek to determine if information can be developed to actually predict a prospective arson.

Although the information sought should be given on a voluntary basis, in-depth interviews with properly trained interviewers will be essential if crucial information is to be received.

The very nature of the information gathering process will, at the outset, help to make more people aware of the growing nature and the devastating effect of arson.

After information is received from the above-mentioned sources, data analysis should result in checklists and guidelines in order that a prospective arson fraud can be predicted, prevented, or properly prosecuted.

These checklists and guidelines would then be disseminated to the original sources and others, for the purpose of allowing these individual groups or organizations to get all pieces of the puzzle at one time. The dissemination of

the analysis of the gathered data would be through educational seminars in a particular locality, sponsored by the very organizations involved in the learning/teaching process. A total picture, made up of the individual parts, would be given to each group, making it easier for them to perceive more readily when their particular area is being used for a possible fraud. It is contemplated that when conditions exist that conform to the checklist or guidelines, these conditions will be reported to the proper authorities for prevention and/or prosecution.

The feasibility of data gathering, prediction, and dissemination of information from the viewpoints of practicability, statistical validity and legality have to be studied in this project.

Recommendation No. 13: Improvement of Cooperative Efforts

Between Business and the Criminal

Justice System, and Between Business

and Other Business

Criminal Justice and Business

One well-known syndrome of business people is their reluctance to either report or to prosecute criminal activity directed at them.

In order to determine the reasons for such conduct, a research study should be undertaken to study the motives and attitudes of business regarding the roles of the criminal justice system, and of business as it relates to that system.

The study should determine both the perceived versus actual roles of criminal justice and business, and then determine how to reconcile any differences in order that both the criminal justice system and business deal fairly, responsibly and satisfactorily with each other.

Initially, in-depth interviews would be conducted with a small number of senior executives with responsibility for setting and implementing policies dealing with security and criminal justice liaison. We must attempt to determine:

- whether the company reports all crimes to law enforcement officials:
- if not, what crimes are reported;
- what percentage of all known crimes are reported;
- if all crimes are not reported, for what reasons are they not reported;
- how do these officials view their organization vis-a-vis the criminal justice system.

These initial in-depth interviews will explore these questions and seek to develop and evaluate any information as to the business perception of the criminal justice system, and how to improve any perceived imperfections in the system.

Subsequently, a formal, structured telephone survey should be conducted, seeking similar information from similarly situated individuals, although in much greater numbers of people contacted.

During these periods, the exact same procedure will be followed with components of the criminal justice system to determine their attitudes with respect to their role and the role of business.

For argument sake, assuming that each side will perceive the other differently than they perceive themselves, the research should seek to analyze the available information and develop lines of communication to reach a broad and legitimate understanding on the part of both criminal justice and business of their true roles and responsibilities in order to maintain a consistent, responsive, and properly functioning system.

Between Businesses

In addition to establishing information that might lead to better understanding and communication between the criminal justice system and business, a study should be undertaken to increase understanding and cooperation among businesses.

It should identify the nature of the barriers that business puts in the way of information exchange. It should determine what the attitudes of business people are, and what would entice them to reduce the barriers to the exchange of information relating to crimes against business.

Each of these studies should be broken down by type of industry and size of business establishment, in order to obtain more uniform and collectible information.

For example, retail establishments of similar size and quality would be contacted to determine what, if any, information is given to other retailers, if an employee is caught stealing; or if a shoplifter is apprehended and prosecuted; or if a particular scam is being perpetrated within a particular industry or area.

After analysis of this type of information, such analysis should be given to the research group on statutory revision in order that they might engender new statutory proposals in the areas of dissemination of information among business, taking into consideration the constraints imposed by law concerning the right to privacy.

Recommendation No. 14: Identifying Management Techniques

Cognizant of the increase in employee theft, and the need to devise programs and models to reduce or eliminate such activity, a research project is proposed to determine if certain management techniques and operational procedures have any appreciable effect in reducing or eliminating employee theft.

A proposed methodology has been outlined in a joint concept paper submitted to LEAA by the University of Minnesota and the American Management Associations. A small portion is herein excerpted to focus on some of the variables that may be considered:

Basic attributes and characteristics of the organizational setting and the individual worker describe different contexts with different rates of employee deviance. Some of these characteristics are:

Organizational	Individual
Size	Age
Structure	Sex
Production Technology	Education
Work-flow Process	Religion
Nature of Tasks	Ethnicity
Competitive Posture	Work History
Tenure/Age Distribution	Job Description
of Employees	Tenure
Unionization Status	Basis of Employment
Worker Autonomy	
	0

Organizational settings and individual workers can be more pointedly examined as to their work operations and attitudes, respectively, which are also correlated to employee deviance. Some of these factors are:

Organizational ·

Individual

Deviance Policies
Ethics of Superiors
Social Legislation Record
Minority/Women Affirmative Action
Peer Group Pressure
Compensation Structure
Supervisory Types
Supervisor/Worker Ratio
Promotion Rates
Strike History
Worker Training
Performance Expectations

Job Satisfaction:
Wages
Work
Supervision
Promotional Opportunities
Fellow Workers
Attitudes Toward:
Labor/Management Relations
Unionization
Collective Bargaining
Grievance Processing
Attention to Worker Welfare

Beyond these explanatory variables, the opportunity to indulge in deviance is a major conditional variable of specific interest to this project. Opportunity will be measured with data on:

Organizational

Individual

Work Flow Monitoring
Task Interdependence
Absenteeism Policies
Hours Worked Per Week
Money (Access and
Amounts)
Merchandise (Access and
Worth)
Equipment (Access and
Replacement Cost)

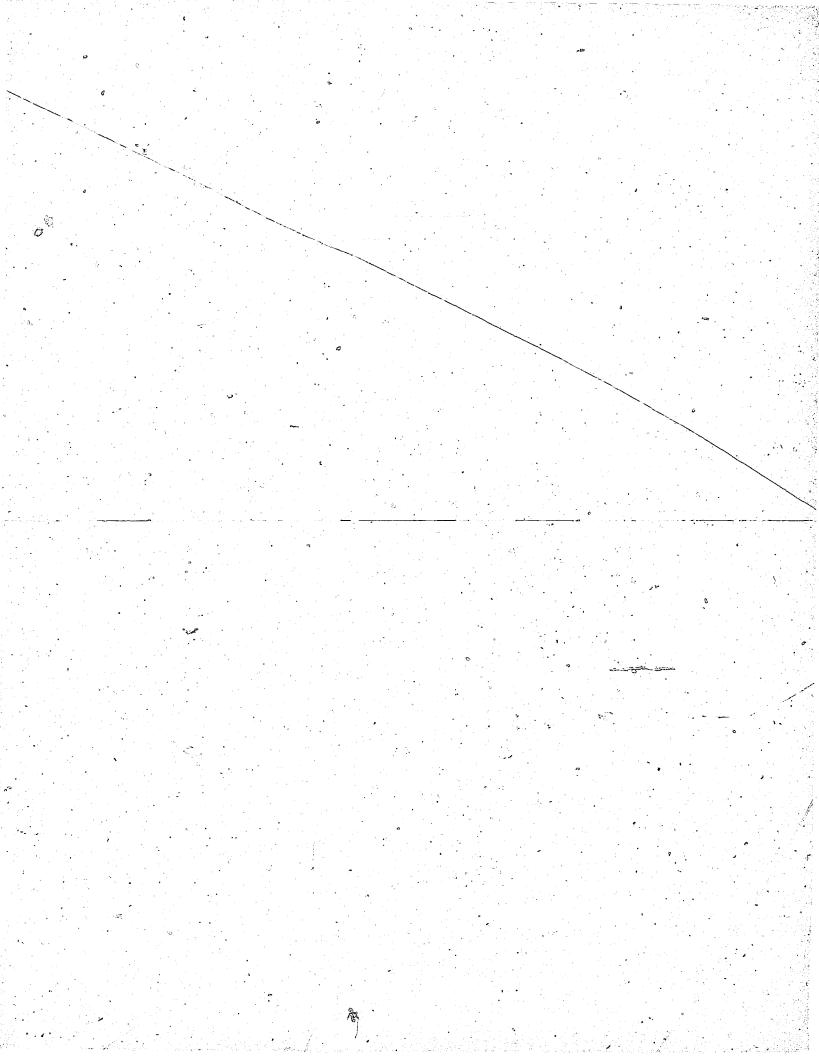
Perception of Job Eormalization
Social Value of:
Time
Money
Merchandise
Equipment

The tendency to deviance may be amplified or diminished by the quality of <u>social controls</u> which exist in the work setting. They will be assessed with data on:

Organizational

Individual

Formalization of Tasks Security Division Activity Internal Audit Controls Negative Sanction Rates Peer Group Sanctions
Perception of Sanctions:
Certainty
Severity





NATIONAL DATA BASE*

* The following recommendations are extracted from a concept paper submitted to the National Criminal Justice Information and Statistics Service, May 25, 1977.

Recommendation No. 15: National Data Base

Statement of the Problem

It is well known that available statistics of the incidence and economic impact of "non-violent" Ty crimes against business, by which we mean shoplifting, frauds of all kinds, employee theft of all kinds - including embezzlement, vandalism and sabotage - are gravely inadequate. investigation, including our own, concluded that the majority of such crimes are not reported to the criminal justice sys-In many cases, it is by no means clear whether or not a crime has been committed; all that is known is that inventory has been unaccountably lost or property destroyed or The nature and economic consequences of non-violent damaged. crimes against business is, therefore, largely unknown, despite many "informed estimates." However, there is good reason to believe that the total cost is in the \$30-\$40 billion Given that the economic impact is, indeed, very large, the question then remains as to whether it is worth investing considerable sums of money in a sophisticated effort to compute more precisely the extent of the problem.

There seem to be several answers to this question. Firstly, we need to know the magnitude and the effects, on businesses and communities, of various types of crime with sufficient precision to make sensible judgements as to which of them should receive what investment in counter-measures. Secondly, we need to be able to measure trends, so that we (a) change the allocation of resources to countering different types of crime and (b) measure the effectiveness, at a macro level, of counter-active measures. Thirdly, we need to know the relative incidence of various forms of anti-business criminal behavior among the population and the characteristics of persons who commit crimes against business, in order to make rational inferences about motivation and deterrence. These answers can all be summed up in the phrase, "policy guidelines." Just as accurate statistics regarding crimes against the person are needed to inform policy in dealing with these crimes, so accurate statistics on crimes against business are needed to guide policy in this area, too.

^{7/} i.e., non-violent as regards the person

It emerges from this statement of the problem that we need information about the crime, the victim and the offender, just as we do in studying any other form of criminal behavior. Therein, however, lies a difficulty peculiar to non-violent crimes against business. While an organization could reasonably expect to obtain a good reading of, say, inventory losses attributable to criminal acts (as distinct from legitimate discarding of items because of wear, breakage, etc.) it is by no means an easy task to identify how the loss took place and often impossible to identify cul-Characteristics of convicted offenders (or of persons who confess to a crime but are not prosecuted) and. the modus operandi used by these known offenders are by no means necessarily typical of the offender population (assuming different "populations" for different crimes); apprehensions are too few and investigative techniques generally too poor for one to have any confidence in such data.

In the retail trade there is a particular difficulty, namely the separation of losses due to employee theft from those due to shoplifting. Separation of these is important — if the statistics of loss attributable to criminal acts are to be interpreted in ways that can influence policy.

Finally, it has to be recognized that certain types of non-violent crimes against business may be, by their very nature, beyond measurement from the actual or potential victims' records, in the sense that one can never know how much crime has been successfully hidden. These are the crimes of deceit, particularly embezzlement or commercial bribery.

For these reasons, we conclude that:

- a. we cannot rely solely upon an organization's records, even if the data were obtained and the records maintained in the best "state of the art" manner, and therefore;
- b. we have to create and install new data capturing and recording procedures in organizations within any proposed sample of reporting organizations, and;

c. we have to interview <u>individuals</u>, using some procedure for obtaining voluntary and nonidentifiable "confessions" of various nonyiolent criminal acts.

Objectives

In consequence, this proposal is for an essentially exploratory study into a treacherous area of data collection, analysis and interpretation, with the intent that the outcome will be a procedure for obtaining acceptably valid statistics, in an on-going process for measuring:

- the economic effects upon business of various types of non-violent crime directed against the organizations;
- the economic and social consequences of such crime;
- the frequency and nature of such crimes;
- the proportions of the relevant population(s) who commit certain types of crime in certain periods of time;
- the demographic (and perhaps other characteristics) of offenders compared with those of the relevant population(s).

Assuming that at the end of the proposed work a valid methodology has been found for obtaining the required data, the ultimate goal would be to institutionalize the procedures in an on-going program. The intention is to be in a position to launch such a program in about two and a half years from the start of the study.

Methodology

Organizational Statistics

The proposed methodology is based upon the concept of sample panels, reporting over a period of two to three years. This approach is already used in the Commercial Victimization Studies (carried out by the Bureau of the Census for the National Griminal Justice Information and Statistics Service)

CONTINUED

for measuring incidence of armed robbery and burglary. It seems most cost-effective to use sub-samples drawn from the existing commercial victimization panels to develop the methodology, proceeding through a series of small pre-pilots and pilots until the investigators are sufficiently confident in their data gathering and recording techniques to enlarge the data base to a full-fledged field trial. We propose that the Bureau of the Census, again, be the field arm of the study.

It does not seem practicable to set firm sample sizes at this point. Neither the costs of data collection nor the variability of the data are known, so that the values of the two parameters essential for efficient sampling design are missing. We propose that the details of the design, including the size and allocation by area, etc., of the final sample for the field trial, be worked out as the data from the small scale pre-pilots and pilots are analyzed.

For the preliminary investigations, we propose (again tentatively) a sequence of organizational samples, drawn from the existing commercial victimization study panels, of twenty-five (25), fifty (50), and two hundred (200), spread over a period of twelve (12) months. A schedule of tasks will be found below, with appropriate starting and ending points for working with these samples. The large-scale field trial would commence about fifteen (15) months after the commencement of the study with a yet to be determined sample size — perhaps one thousand organizations spread over, say, three communities of differing socio-economic and industry-type characteristics.

The objective of these various stages is:

- a. to develop a data capturing methodology which will be practicable in different organizational environments, economically feasible and producing acceptably valid data;
- b. ascertain the costs of obtaining such data and the variability of the data, in order to design both a large-scale field trial and at least the outline of an on-going data collection and analysis effort.

The major problem to be addressed for the organizational component would seem to be how to obtain valid data from each sample unit. (NOTE: Units should not be selected because they have, presently, good records on inventory loss, apprehensions and the like, since this would induce biases of many kinds.) We propose that the investigators either install new data collection and maintenance systems for measurement of loss (inventory control, financial control) or, more feasibly, modify existing systems where they appear to be deficient, to ensure reasonably good record Here the investigators can start with certain well-tried systems and then improve and modify them to individual circumstances. Specialist consultants will be needed to ensure that the best systems are being employed and it should be noted that AMA, as an organization, is highly knowledgeable in the areas of inventory and financial control systems. The investigators would need to conduct a preliminary study of the systems in place in the selected organizations in order to determine whether new systems or modifications to the existing systems were needed, and if so, of what kind.

These control systems will provide data on identifiable losses. With respect to inventory, including inventories of tools, work aids, equipment, etc., as well as stock (for sale or shipment, parts, semi-finished and so forth) we can anticipate fairly accurate figures of non-legitimate loss, if "state of the art" systems are employed. Losses due to embezzlement and internal fraud are much more difficult to detect and while data should be collected, it has always to be remembered that successful financial crimes are never detected.

The breakdown, in retail establishments, of criminal loss due to shoplifting as compared with employee theft is another difficult area; while we would ensure that control systems identified particular areas for which losses occurred (delivery, stock room, merchandising shelves or display, etc.), there is no satisfactory means of ensuring that really valid data have been obtained.

Much ingenuity will have to be used in developing even state of the art systems to meet the unique needs of the project. As stated, specialists in these areas would be involved at the outset in order to develop a practicable method for non-specialists to recognize inadequacies in any existing system and determine what to do about it (hence the need for extensive piloting and the field trial). Obviously, it would be hopelessly uneconomic and unrealistic for experts to visit every site in an on-going nation-wide data collection effort. Before that stage, it would be expected that a standard set of procedures had been worked out so that an organization, with minimal aid from the surveying organization, could set up an appropriate system without specialist intervention.

Once an appropriate data collection and recording system was installed, the reporting to the investigators would, we propose, be by mail. During the pilot stages there would be very considerable involvement of project personnel in order to continuously monitor and modify the process, but for the major field trial there should be minimal intervention, only occasional monitoring visits. At all times, however, consultant services should be available to deal with any problems that may arise in operating the systems. With increasing experience, these should become less and less in demand, but some capability should always be maintained.

So far as reporting frequency is concerned, this should, where possible, fit the organization's usual schedule. Certain types of inventory should be recorded daily, but for purposes of the initial development of the procedures, a monthly return would be adequate. Financial control reports that would be relevant may not be feasible on so frequent a schedule. This will have to be explored in the field.

An aspect of the procedure should be mentioned. The very fact of improving controls is likely to impact the very variables one is trying to measure. Eventual national estimates of the effects of measurable crimes against business are likely to be conservative, therefore. There is little one can do about this effect of the observer modifying we at is observed, except to make changes unobtrusively. decision has to be made whether to use accurate statistics from organizations with somewhat above average control systems or use inaccurate statistics from more typical organizations. We prefer the former, since at least trends are likely to be valid and we do not anticipate the effect of the superior controls to be so large as to seriously distort the picture.

Individual Statistics

The objectives are to estimate the proportion of the relevant population (let us say from twelve onwards) who have committed a particular crime or crimes within prescribed intervals, to estimate the magnitude of the offenses, in dollar terms if possible, to identify procedures and to relate these data to such individual characteristics as can conveniently be measured: sex, age, marital status, educational status, socio-economic status, race, whether currently employed or not, and if so in what type of employment, and so forth. From these data would emerge estimates of the economic magnitude of crimes which the organizational study could not necessarily identify, modus operandi, the extent to which criminal behavior has permeated society and a demographic profile of the perpetrator of various kinds of crime.

When dealing with individuals there are several apparent options, such as, for example, interviewing employees in the same organizations as are used for the organizational statistics. For research purposes this might be feasible but for on-going data collection procedure, it presents far too many difficulties. In fact, it would seem that there are two practicable sampling approaches (probability and quota) and two information gathering approaches.

Sampling. With respect to sampling, the better approach of the two is to use conventional probability sampling techniques to identify a sample of persons representative of a population aged, say tweleve years and upwards. The procedures of multi-stage stratified probability sampling normally used by the Bureau of the Census would be appropriate.

Respondents would be asked to relate details of non-violent crimes against business they had committed in various time intervals and that they knew about (see "Instruments" below). However, the data collection instruments would have to be mailed back, with a number of devices built in to ensure anonymity and, furthermore, to make it self-evident that the return was anonymous. For example, the respondent could select the particular form(s) and the return envelope from a set, to avoid the possibilities of their being coded in some way. There would also have to be a formal statement of

confidentiality. Local university sociology research departments might be the appropriate vehicle for the conduct of the field work; they would have more credibility in guaranteeing confidentiality than any official government body.

As in the case of organizational statistics, we propose a series of pre-pilots and pilots of the entire procedure. Again, we are not in a position to estimate costs per unit of data or the variability of the data, at this point. We propose development of both sample and instruments via a series of small (25-30) sample studies, with a final pilot of 200-250, and a large field trial of perhaps two-three thousand individuals.

There is another approach to sampling which should be considered, even though it lacks the rigor of the conventional probability sampling; it is often utilized by market research organizations. In the present instance, it has one advantage over probability sampling, in that it is not necessary to call upon an address, thus raising the respondent's suspicions that, despite all evidence to the contrary, he/she can somehow be identified.

The procedure entails matching a sample to a set of interlaced "controls", such as sex, age, socio-economic status and race, for example, and geographic location. The sample is representative, in proportional terms, of the population it is designed to represent, with respect to the control variables.

While this would be decidedly a second choice, it is presented as an alternative approach, in case the probability sampling approach fails to achieve adequate response.

We again propose using the Bureau of the Census as the main survey organization, with local universitites as "field offices".

Instruments. The purpose of the instruments is to extract a valid record of past non-violent crimes against business from individuals in the suggested population. Essentially, it seems that one can ask a series of direct questions or use some (apparently) more sophisticated technique such as that developed by the Mid-Atlantic Research Institute (funded by NCJISS) in which cards (describing various crimes) are sorted into "Yes/No" boxes, and respondents are also

measured by a veracity test. Whether this latter technique is valid seems open to question, but it does not seem unreasonable to assume that individuals will confess to crimes if they are not in any fear of sanctions as a result. We propose an investigation and evaluation of Mid-Atlantic's method and, as stated, a series of small scale studies to develop the basic concept of measuring crime by asking potential offenders.

COMMUNICATIONS AND INSTITUTIONALIZATION

COMMUNICATION AND INSTITUTIONALIZATION

Recommendation No. 15: Economic Crime Institute

The Concept

Communication is key to controlling crime against business in particular and economic crime in general; communication of statistical data, of research findings, of education and training programs for business and law enforcement, There is need to distribute economic data and methodological data--how to reduce crime against business by improved controls and management policies and procedures, by improved cooperation between the business and criminal justice communities, by changing criminal statutes and the processes and structures of the criminal justice system. But to bring this communcation about we need a network that distributes information to business, to criminal justice agencies, to the general public, at local levels, and a central, coordinating and stimulating source. Our recommendations, as summarized earlier, are therefore to establish an Economic Crime Institute as the coordinating and stimulating central source, and using a voluntary network of already existing organizations at state, county and municipal levels to take the economic and methodological information and output of the Institute and utilize it, or see that it is utlilized, at local levels, where it can be effective.

The Institute would:

- Initiate research projects in the areas of asset protection, investigative techniques, criminal statistics, criminal justice system structure and process and so forth, as they relate to economic crime.
- Conduct literature searches to create a "state of the art" awareness of other researches and practices relating to economic crime.
- Make recommendations/design programs in accordance with findings from its own or other studies.
- Coordinate economic and incidence data from the national data base, the econometric study and other sources of statistical data.

- Disseminate recommendations, programs, and statistical data to organizations at state, county and municipal levels.
- Provide technical assistance in the utilization of information.
- Encourage the growth of the proposed information network.

Some early activities would include:

- creation of a series of public service announcements for use throughout the country and integrated with local campaigns against business crimes;
- design of a national logo for use throughout the country
- development of a series of monograph, pamphlets, and fliers to be used in a public education program;
- development of "kits" or packages of information that can be used by local groups. All of these products should be modular and flexible to permit use by different kinds of organizational structure;
- a documentary that includes an overview of the problem of economic crime, its costs, causes, and possible solutions and their impact on the consumer and society.

The policy of the Institute would be set by a Board of Directors representing the various components of the criminal justice system, private security, the business community, organized labor, and consumer and citizen groups. The staff would consist of a Director and a professional staff with skills in management, communication, training and social science research.

The proposed Institute on Economic Crime would look to a combination of sources for its funding. Business, as a recipient of many of the services of the Institute, would be looked to for support. Specific research and demonstration projects should be funded by Federal and state governments, and business organizations that have a major interest in the area being investigated.

As the Institute matures, much of its research could be financed by those businesses that are directly affected by the work. It would be the function of the Institute to develop the programs in conjunction with the organizations that plan to use the material. Thus, information would flow both to and from the Institute staff and into the communication network.

The communication that the Institute would foster and supply would, as stated, be at state, county and municipal levels, although it would incorporate national organizations as well. It would include organizations representative of:

- Business, e.g., Chambers of Commerce, Rotaries, Kiwanis.
- Private security.
- Criminal justice, e.g., State Criminal Justice Planning Agencies, state and local police, Citizens Crime Commissions, state and local bar associations, local branches of the National District Attorney's Association.
- Organized labor.
- Consumer/citizens, e.g., local branches of American Federation of Women's Clubs, religious groups, PTA's.

The Program

In order to create the Institute and the corresponding network, we propose the following program:

• Hold an Economic Crime Forum, probably in Washington, D. C., preferably officially sponsored by the Federal Government (in the form of a White House Conference) but certainly with government backing and the guaranteed presence of the U. S. Attorney General, the Director of the FBI and other very senior appointed members of the government.

The short term goals of the Forum would be:

- to create a national awareness, via the media, of the problem of economic crime;
- to demonstrate the urgency of developing and disseminating programs that address the problem of economic crime;
- to suggest a series of manageable pilot projects that the various participant organizations could conduct or sponsor.
- to lay the foundation of the Economic Crime Institute and information network described above;
- to nominate from the attendees, membership of a National Economic Crime Council, the purpose of which would be to give on-going policy guidance for the formation of the proposed Institute and network.

We see the long-term objective as the control of economic crime by means of the Institute, its programs and the information and dissemination and utilization network.

The following organizations are typical of those we would invite to the Forum, but the list is by no means exhaustive.

Business

American Management Associations
Chamber of Commerce of the United States
Better Business Bureau
National Alliance of Businessmen
National Retail Merchants Association
American Society of Retired Persons
American Institute of Certified Public Accountants
Various other industry groups
Other retired executive groups

Consumer/Citizen

Citizen Crime Commissions Common Cause Civil Clubs (JC's, Kiwanis) Junior League Public Interest Groups

Consumer/Citizen (continued)

State Consumer Agencies
League of Women Voters
Urban League
Insurance Women
American Federation of Womens Clubs
Religious/fraternal groups
Senior citizen groups
PTA's

Labor

AFL-CIO Social Services
Coalition of Labor Union Women
Teamsters
United Mine Workers
United Auto Workers
Local and regional labor groups/
federations

Public

Law Enforcement Assistance Administration National Conference of State Criminal Justice Planning Administrators State Planning Agencies Criminal Justice Coordinating Committee

Private

American Society of Industrial Security
National Crime Prevention Association
American Bar Association
National Council on Crime and Delinquency
National Association of District Attorneys
International Association of Chiefs of Police
National Legal Aid and Defenders Association

We envision that the Forum would require about a five-month planning effort, divided into six stages:

- First stage the formulation of an agenda and speakers;
- Second stage the selection and invitation of participants and telephone follow up;
- Third stage the preparation of conference materials;
- Fourth stage logistical arrangements in Washington, D. C.;
- Fifth stage running of the Forum;
- Sixth stage follow up work for the formation of the Council, communication network and groundwork for the Institute.

Following the Forum, a task force would be appointed to complete the design of the Institute and the network, and establish funds for its creation (with the fund-raising aid of the Council, which would also set policy guidelines from the outset).

Sometime after the Forum, the Institute would be formally established and staffed with a small professional research and communication-oriented staff, and a Board of Directors drawn from (and by) the Council, which could then voluntarily dissolve.

Soon afterwards, the information network would be finalized and brought "on-stream" by beginning a series of local and regional conferences, bringing all the concerned organizations and agencies together, sharing problems and disseminating ideas on strategies for controlling various forms of economic crime, including, of course, the specific crimes against business that the present project has been studying. The design of those conferences would presumably be the responsibilities of the Institute, possibly with the aid of sub-contractors and funded, in part at least, by Federal sources.

NCJRS

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ACQUICITIONS

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CRIMES AGAINST BUSINESS

Appendices to Recommendations

American Management Associations

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December 1, 1977

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APPENDIX 1

LEAA GRANT

1

Deputy Assistant Administrator Office of Regional Operations

Director
Program Evaluation and Monitoring Staff
Office of Regional Operations

LEAA GRANT APPLICATION: #0405-99-DF-76

TITLE OF PROJECT: Crimes Against Business, A National Action Plan

GRANTEE: American Management Associations (AMA)

GRANT PERIOD: August 1, 1976 to July 31, 1977

LEAA SUPPORT: \$300,000

TOTAL PROJECT AMOUNT: \$333,659

I. Project Information

A. Purpose Statement

The principal purpose of this grant is to develop a strategy to counter crimes against business, to develop appropriate attention to these crimes, and to engender the cooperation between law enforcement and business that is required to accomplish these ends. These are the crimes for which there is little data, a lack of law enforcement attention and experience, and in which, for the most part, disposition and offender treatment are handled by the individual businesses alone. The crimes include arson, bad check fraud, credit card fraud, embezzlement, shoplifting, employee theft. insurance fraud, computer fraud, etc. Although non-violent and often undetected, these crimes are not victimless; even more than the particular business target, the true and ultimate victim is the citizen who pays the cost of these crimes through increased prices and reduced services. Component developments in this project will include the following:

1. Recommended demonstration action-programs, each to implement strategies through which the business community and criminal justice system can cooperatively address particular crimes and dimensions of the overall problem.

- A recommended program of communication between business, law enforcement, and the general public through which the importance of reducing these crimes is recognized as a major hitherto unaddressed cost to the public.
- 3. Recommended operational requirements for a data collection and statistical system that will provide the basis for measurement and analysis of these crimes in the future.
- 4. Recommended research programs for a greater understanding of the nature of particular crimes and criminals.
- 5. Recommended strategies through which the momentum and visibility achieved by the initial grant-supported cooperative efforts of business and law enforcement can be maintained.

Although this initial project is a program planning and generational effort, it is envisioned that the program that will be developed will include instruction and assistance to businessmen on prevention of specific crimes, on how to behave and notify law enforcement when they occur, to law enforcement on how to investigate and prosecute. The primary products of the initial grant will include demonstration action program designs, training requirements for prosecutors, police, and businessmen, a public information program to convince the citizen that it is he rather than the businessman who is the real victim, and requirements for statistical systems and research to improve the understanding of the crimes and countermeasure strategies.

The grant will produce a series of reports embodying the above through means of staff development and the exploitation of selected panels of representative leaders of business and criminal justice.

B. Merhodology

A small staff will be established. A small steering committee composed of representatives of the business segments and law enforcement that are principally involved will advise the staff throughout the planning and design. Later, a Program Operations Group will be organized into 10 to 12 panels to deal with specific subject areas. Each panel will be provided staff papers defining issues and presenting the available facts relating to the subject area of panel concern. Panel activity will be structured and will have specific objectives to provide recommendations and designs for action. Finally, criteria for selection of demonstration communities to carry out particular action plans will be designed.

The products will be a series of reports on the specific subjects with action recommendations. In addition, reports will be made of findings that result from staff research.

C. Summary of State-of-the-Art in Program Area Proposed in Application

1. Responsibility.

There is less known about the subject crimes against business than about any other crimes. So few are handled by the agencies of criminal justice, the extent to which they appear as parts of regular crime reporting systems, if they appear at all, is so small compared to the actual magnitude, as to be unusable. Few prosecutors and fewer police have had an opportunity to develop any experience with, enforcing the laws relating to these crimes, therefore data on criminal justice response is skimpy.

In July, 1975, the National Retail Merchants Association (NRMA) representing department stores with 41 merber companies reported an inventory value loss for the year to crimes of over \$2 billion. In a survey of NRMA the responding companies reported apprehending 96,963 persons for shoplifting. Few of the losses were due to burglary and robbery. The reliability of this estimate is questionable due to the undisciplined collection of data; however, if close, it indicates an even greater cost to the public, for NRMA represents only a segment of the department stores and thereby only a fraction of the retail industry.

The prevalent books on the subject generally have been written by successful (and otherwise) investigators that provide only anecdotal information on types of crime and approaches used by investigators. Additional information may be found in security textbooks, but these too have little data and are not given great credence by the leaders of industrial security.

The American Society for Industrial Security (ASIS) is the leading professional association of security managers, mainly those who are personally employed by corporations and institutions of all types. In a recent survey of its members the question was asked, "What problem do you consider to be the most important one that you will have to face in the next five years?" Thirty-four percent responded that employee dishonesty would be most important, far more than any other single item. There is much knowledge in the ranks of the private security professionals, but little of this is quantified, organized and published, or effectively communicated to other security professionals. Even more

important, the agencies of criminal justice have little contact with the problem. The Department of Commerce estimates that over \$24 billion a year is currently being lost to crimes against business. Other announcements raised the figure to \$40 billion. Neither number has much basis, but the fact that such estimates are given high credibility indicates the impression that prevails among those who are closest to the problem.

In general, there is little organized and quantified knowledge. A major objective of this project is to point the way to obtaining such knowledge.

2. Activities of LEAA and Others in Work of this Hature

In 1970 a \$10,000 grant was awarded to the University of Utah to investigate certain characteristics of shoplifting (70-NI-99-6514). The report is of minor value to this project.

In the area of criminal distribution (fencing) a new manual on corbatting fencing has been developed and a number of ORO organized crime discretionary programs have accomplished excellent results in developing specialized capability for law enforcement investigation and prosecution; however, even more can be done in the area of encouraging honest businessmen to monitor the participation in fencing by dishonest competitors, or of manufacturers and wholesalers to monitor the diversion of their products to illicit marketing channels. In 1974. NILECJ funded a study of fencing, which though concentrating on offender practices, investigation, and prosecution, included the intention to study the relation of fencing to honest businessmen. The report has just been received.

There has been no other work by LEAA, unless through unknown block grant sub-grants, in addressing the particular crimes that are the subject of this application.

Some non-Governmental agencies have been active in the area of these crimes against business. These activities are almost entirely limited to the security branches of industry associations. Such associations as the National Security Industries Association (NSIA), the National Retail Herchants Association (MRMA), the American Bankers Association (ASA), and others have devoted annual meetings to discuss technical. legal, and other developments in their areas of concern and compare experiences. The major specialized security association, covering all types of institutions and industries, is

the American Society for Industrial Security (ASIS). ASIS conducts specialized seminars, and develops instructional materials for its various industrial institutional divisions.

Recently NCCD becare interested in employee theft which it calls "workplace crime" and sponsored a short conference on the subject. This effort appears to be relatively weak and shallow.

There are three periodicals published that occasionally have articles pertinent to crimes against business; Security Management (ASIS), The Nielson Report (credit card fraud), and Security World.

It is expected that the grantee will utilize the results of the MILECJ research mentioned above, and will conduct a thorough literature search of all writings in the field. In addition, AMA's own experience in studies of computer fraud will be of value. Finally, all major industries will be requested to provide representative leaders for the specialized channels.

- D. Relationship with Related Programs in Other Interested Law Enforcement and Criminal Justice Agencies.
 - 1. Responsibility.

Discussions have been held with the Department of Commerce, the Small Business Administration, and with the Criminal Division of the Department of Justice. Although each of these three agencies have some effort in this area, the almost complete lack of funds severely limit these efforts. Each agency is looking forward eagerly to cooperate with LEAA in this program. Through a special condition, the grantee is required to invite selected Federal agencies to participate in the appropriate panels that will be established. It is my intention to assure that at least one representative of each of the three receives an invitation. In addition, copies of progress reports will be forwarded to the agencies whenever appropriate.

- 2. Related Activities of Other LEAA Offices and Programs.
 - a. Organized Crime Program (ORO Enforcement Division)

This program deals with a number of crimes against business, including economic crimes against business.

Therefore, cargo theft, scam operations, and bankruptcy fraud and criminal distribution (fencing) will be considered only to the extent that they do not involve major crimes and organized crime activities. Cargo theft and scam will not be considered at all. Nevertheless, it is planned that communications and relationships be close between the two programs because of their slight overlap and the hopes that methodologies developed in one will assist the other.

b. Economic Crime Project of National District Attorneys Association (ORO - Adjudication Division)

This project concentrates heavily on consumer fraud of various types. As such, it is often concerned with criminality by unscrupulous businessmen against their customers, therefore it provides a balance for the LFAA program in that LEAA will now be giving attention to crimes against consumers as well as to crimes against business.

Prosecutors are expected to play an important role in countering crimes against business. Without doubt, a product of the anticipated grant effort will be a training program for prosecutors to deal with crimes against business. This will require the active participation of selected skilled prosecutors. Experience gained in the criminal consumer fraud program will be valuable here. The grant application indicates that an outstanding prosecutor (Harry Connick of New Orleans) will serve on the steering committee and that a representative number will be included on the various panels.

c. MCJISS Statistical Planning.

It is intended that HCJISS will be kept completely informed of progress on the project, and that representatives of the statistics service will be consulted during consideration of future data requirements.

d. NILECJ Research and Development.

It is hoped that in addition to the project (mentioned previously) on criminal distribution (fencing) that the Institute will participate through a designated researcher that will be involved with the planning process envisioned by this grant.

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3. Persons Outside of LEAA With Whom This Project Has Been Discussed.

a. Joseph Rosetti, Corporate Director of Security - IBM Corporation.

Mr. Rosetti approached the Administrator and the Grant Manager with a request that LEAA engage in a program of this type. When this proposal was described, he indicated that it was very close to what he had in mind. The applicant has included Mr. Rosetti as a member of the projected Steering Committee.

b. Arthur Bilek, Vice President, Pinkerton's, Inc.

In early 1975, Mr. Bilek approached the Administrator with the request that the Private Security Advisory Council be allowed to extend its concern to the general area of crimes against business. When informed of this proposal, he responded enthusiastically and was also asked by AHA to serve on the Steering Committee.

c. Morris Lynch, Director, Department of Commerce.

Mr. Lynch has special responsibility for crimes against business at the Department of Cormerce and manages the activities of the Interdepartmental Cormittee to Assess the Impact of Crimes Against Business. The Grant Manager is LEAA representative to this Committee. Cormerce considers the proposed project as an important initiative to assist their public in a critical problem area.

d. Allice K. Cullen, Small Business Administration.

SEA is anxious to participate and learn from this project how to improve their own advisory services in the crime prevention area.

e. U. S. Chamber of Commerce.

The Chamber has been deeply involved in the development of this project. It has been discussed by their Board of Directors who support the need and the project enthusiastically. President Lesher is taking direct personal interest in the project. Officers of the Chamber with whom I have been in contact since this program was planned, indicate that their membership consider this to be one of the most important law enforcement innovations and one that is a great need for them and for the public.

f. National Retail Merchants Association.

General Manager Gordon Williams of NRMA requested a meeting in early 1975 with the Administrator to ask that LEAA establish a program to counter these crimes against business. Subsequently, at the Administrator's direction, the Deputy Administrator met with a delegation of top rank representatives of the following retail industries: National Retail Merchants Association, National Association of Chain Grocery Stores, Mass Retailing Institute, National Association of Drug Stores. The Deputy Administrator promised a program as a result of that meeting. This grant will be the initiation and fulfillment of that promise. Mr. Williams has been asked to serve as a member of the Steering Committee.

- g. The list of citizens, prosecutors, police, and business leaders that enthusiastically support the initiation of this project can be as long as the number that are made aware of its possibility. At the same time, it should be recognized that unless the message is primary and clear that the ultimate objective is to reduce the cost of crimes of this type to the citizen and to demonstrate a thorough attack on crime, misunderstandings can arise. A quick and shallow appraisal may result in the criticism that LEAA is trying to help the businessman. The grant applicant is particularly cautious of this possibility and will emphasize the public value and interest.
- h. Edward Davis, Chief, LAPD, and Incoming President of IACP.

Chief Davis was approached by the applicant to be a member of the Steering Committee. He responded that although unable to accept this position on a LEAA grant, he personally considers the project a very important innovation and encourages development.

E. Management-By-Objectives (MEO). 1.215

The Crimes Against Business Program is a sub-program of Crime Prevention. It is listed in the DF Guideline M 4500.1 under Chapter 11, although the description was not given. This was because there was to be only one national grant and the exact description and nature was not completely known at that time. For FY 1977 the program is completely described under MBO 1.215. Since this is the only project under this MBO sub-program, the description previously given of the project adequately describes the MBO sub-program.

F. Utilization of Results.

It is expected that as a long term result of this program being initiated with this project, the business and law enforcement communities will have developed suitable skills and strategies, business to prevent and detect these crimes and law enforcement to investigate, prosecute, and advise business, and that both will cooperate through institutionalized communication channels toward the general reduction of these crimes against business. The initial project carried out by this grant will develop the plan and initial strategies. The program will require equal efforts by law enforcement and by the business community. In the future, attention should be given through correctional program innovation to dealing with the peculiarities of the types of criminals involved.

G. Monitoring.

Grantee progress reports and studies will be closely monitored to assure that project goals are being addressed. The grant monitor will attend and observe some of the planning sessions, particularly those of the Steering Committee and the General Session of all panels.

Principal Grantee personnel will come to Hashington as required, to report and discuss the status of the project.

Financial status will be monitored through monthly report reviews.

H. Evaluation.

Although evaluation will be minimal for this first grant, since the products will be reports and plans for future action programs, a serious evaluation planning effort will be conducted by a subcontractor to the Grantee. This will include the following:

- 1. Observation of the program planning process engaged in by the Grantee.
- 2. Analysis of program objectives to assure that they are measurable.
- Identification of available statistical data concerning the subject crimes that will be useful later in comparative analyses.

4. Formulation of a detailed program evaluation plan to analyze impact, cause-effect relationships and projected institution-alization costs that is compatible with the program plan developed by this grant.

II. Grant Applicant Information.

A. Criteria for Choice of Applicant.

1. Credibility with Business Community.

The American Management Associations has a preeminent reputation with American business for practical business management know-how. Its over 53,000 members are from every type of medium to large firm in every industry. The AMA Presidents Association has a membership of more than 11,000 chief executives.

2. Strong Recommendation by Other Business Associations.

The U. S. Chamber of Commerce has taken particular and active interest in the development of this project and, since they decided to continue the policy of not accepting any government grants, contacted AMA and urged their application for the grant. The National Retail Merchants Association, also an early advocate of the program to LEAA, supports the selection of AMA, as does the American Society for Industrial Security.

3. Capabilities of the Applicant.

Founded in 1923 as a non-profit membership corporation. AMA has specialized in research, conferences, training and publications in every area of business and institutional management.

4. Past Activity in Crimes Against Business Area.

In the specific area of crimes against business, AMA has sponsored a number of special conferences and included the topic on the agenda of others. AMA published four books on crimes against business.

5. Past Work with Government.

In recent years AMA expanded its training and research activities to include effective management of government

operations at local, state, and Federal levels. This program is growing.

6. No Comparable Choice.

AMA is the only organization with immediate acceptability to the business corrunity that specializes in program development and management training for business. Without business recognition and credibility, much time would be lost in developing it, with the possibility of failure. Detection of crimes against business and policy development are management tasks, the area of AMA specialization.

7. Desire to do the Work.

This grant represents a small portion of the AMA program. Nevertheless, AMA is matching the LEAA portion in cash, limiting their overhead to well below their audited level, and assuming a number of charges that would normally be direct. The AMA Comptroller, Mr. Rand, personally handled the financial negotiations. They indicate that were LEAA not interested, they would attempt the effort alone, but feel that LEAA sponsorship is essential to assure the commitment of law enforcement.

B. Applicant's Integrity.

The NAA is a large, well-known reputable association, as noted above. It has over 750 employees. Although AMA has not worked for LEM previously, its work for business and already several Government agencies demonstrate the highest level of integrity and fine reputation.

III. Financial Information.

A. Continuation Requirements.

It is likely that application will be made for second and third year grants to complete the planning and to provide expert assistance to the initial demonstration projects. No complement has been made and AMA is informed that LEAA would limit its continuation of the project (not other parts of the program as a whole) to one or at most two years. These should be at lower funding levels, since the major planning effort will have been completed.

APPENDIX 2
PLANNING PROCESS

PLANNING PROCESS

The following steps were taken to achieve the objectives of the grant. It will be seen that the procedure was to start with a broad loosely structured approach and systematically to acquire information enabling us to focus with increasing precision upon those crimes and those industries with highest claims for attention, and those models and strategies most likely to be of practical assistance to the business community.

Step One was to establish an advisory Council, representative of all concerned and knowledgeable groups, which could assist the project staff in its planning work. This Council has continued to perform this function from its inception to the present date. (Membership of the Council is listed in Appendix 3.)

Steps Two and Three were carried out more or less simultaneously—the in-depth interviews of over thirty individuals (named in Appendix 4) with special knowledge of economic crime, and a survey of the literature, especially the statistics of crime against business.

The in-depth interviews were conducted among business executives, law enforcement officers, prosecutors, judges, private security directors and other specialists in the field (including one ex-offender, now rehabilitated and working closely with other ex-offenders of many types and hence a valuable data source regarding attitudes and motiva-The interviews ranged from short, but intensive, discussions, to whole-day interviews accompanied by supporting documentation. The purpose of these interviews was to try to ensure that no source of information, statistics, modus operandi, motivations and attitudes of offenders, and the criminal justice and business communities, and techniques of prevention and deterrence was overlooked. As a consequence we emerged with some interesting hypotheses which could be put into "model" formulations for purposes of demonstration and research projects.

The literature survey consisted of reading all the standard texts on economic crime, sampling extensively from the literature of business and private security and analyzing crime statistics reports (the FBI Uniform Crime Reports and

the detailed reports of criminal and anti-criminal activity from each of the states). The data from the in-depth interviews and the literature search was then combined so that we could perform Step Four.

Step Four--drawing upon Steps Two and Three --was to make our first approximation of the dollar cost to business of various crimes and ranking the losses due to each crime within industry type. Step Five, also drawing upon the previous steps, was to conceptualize some approaches to each of the five types of problems the grant required us to examine. This conceptualizing step was based upon our analysis of data from the interviews and literature search which suggested categorization of strategies as "Defensive," "Deterrent," or "Demotivating," and the vehicles for carrying out these strategies as "the Private Security System," "The Criminal Justice System," "the Business System," and the "Educational/ Socializing/Ethical Systems(s)." Interrelating strategy with vehicle produced a matrix, into the cells of which we then inserted the problems that our researches indicated inhibited the carrying out of the strategies by means of the corresponding vehicles. For example, senior management's failure to grasp the fact that the problems of loss prevention/asset protection were not different in essence from the problems of purchasing, production, inventory control, marketing and fiscal control, was seen as an inhibitor of good defensive and demotivating strategies. The former is the concern of both the private security system and the business system that employes it, with the latter the concern of the business system itself.

The conceptual approaches were submitted in the form of discussion papers to the advisory Council, which, in Step Six, approved/modified, leading to Step Seven, the selection of priority crimes within priority industries and finalization of concept papers relating to these crimes/industries and the grant-required areas of demonstration, research, data base, communication and institutionalization. (These concept papers—see Appendix 5—formed the input to the Workshop Panels, the members of which were to expand them into programmatic form, or modify and then expand, according to their evaluation of the conceptual approach.)

Step Eight was the selection of persons for each of the Workshop Panels. Once it was known what crimes/industries/strategies were to be considered, it was not difficult to design criteria for selection. The lists from which such

individuals could be drawn were constructed with the aid of the Council, and of the participants in the original in-depth study, who had been asked for suggestions when interviewed and from the additional names uncovered by the literature search.

It was decided that it would not be possible to hold one very large national meeting to cover all the conceptualized areas. The organizational problems would have been to vast. Instead, two separate meetings were held, one concerned with demonstration projects relating to defensive, deterrent and demotivating strategies, and the other relating to research and communication/institutionalization projects and to the national data base. These activities formed Steps Nine and Each meeting consisted of an introductory overview and orientation session, followed by intensive work in small groups (workshop panels), each group having been selected as especially knowledgeable and/or concerned about the topic in question. Each group had a concept paper to work with, and an appropriate staff person as a resource and each was chaired by a member of the Council. A review and critique session, bringing all participants together concluded each meeting. Mr. Joseph Rosetti was overall Chairperson of the first meeting in New Orleans (May 4-6), and Mr. Leonard Smith was overall Chairperson of the second, held in New York (June 14-15).

The output of these Workshop Panels (a list of participants and a summary will be found in Appendix 6) after further consideration by the participants, who were sent draft copies for final review, forms the basis for the recommendations to LEAA contained in the "Recommendations" volume to which this forms an appendix. The participants gave their time without recompense, only their travel and per diem expenses being reimbursed. The contribution of these individuals cannot be over-emphasized.

To complete the planning process there remains an exploration, by mail survey, of the willingness of business to cooperate in a national data base project, and the current availability of loss data and the potential for expanding these data without major expense or interference with the smooth operation of the business. This exploration is scheduled for September, 1977.

APPENDIX 3
CRIMES AGAINST BUSINESS COUNCIL

CRIMES AGAINST BUSINESS COUNCIL

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Mr. Gordon Williams Vice President National Retail Merchants Association 100 W 31 Street New York, New York 10001 (212) 244 8780 APPENDIX 4

IN-DEPTH INTERVIEWS

AND

SUMMARY OF FINDINGS

IN-DEPTH INTERVIEWS

The following is a list of individuals with whom the staff of the Crimes Against Business Project conducted in-depth interviews between the months of February and April, 1977.

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Ms. Shirley Barefield State Planning Office of New Mexico Suite 403 Santa Fe, New Mexico 87503

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Chief Leo Callahan Vice President International Association of Chiefs of Police 1300 N. Broward Fort Lauderdale, Fla. 33312

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Mr. Clarence Kelley Director Federal Burdau of Investigation Ninth and Pennsylvania, N.W. Washington, D. C. 20535

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SUMMARY OF IN-DEPTH INTERVIEWS

The following is a summary of the problems and possible solutions that regularly emerged from the in-depth interviews conducted by the staff with a variety of specialists in economic crime across the country.

- There is little or no hard data on losses to business due to non-violent crime, either at the macro or micro levels. Even the relevant importance of employee theft versus shoplifting as contributors to retail shrinkage is not known by the most sophisticated stores. Currently the split is thought to be close to 60:40 ratio in favor of employee theft, although this is variable from area to area and is unquestionably subjective. The issue of bookkeeping error also arises, and here again, little if anything is firm, but some part of unaccounted for retail inventory shrinkage is unquestionably attributable to this cause.
- Poor record keeping and stock/fiscal controls systems are an invitation to employee theft, from pilferage to embezzlement to commercial bribery.
- Business people should tighten their security systems, which are perceived as typically lax in the case of the smaller organizations.
- Good relationships between employer and employee contribute significantly to the control of employee theft of all kinds.
- Only a small proportion of crimes against business are reported to the criminal justice system, even of those known to the business. This is less true of shoplifting but especially true of all forms of employee theft and commercial bribery.
- A major reason why business does not report crime is that the judicial system is seen as inefficient and excessively lenient. Major steps have to be taken to improve both the reality and the image of the judicial system (a separate shoplifting court was seen by one respondent as a useful solution, although this is only one small step in dealing with a large and complex problem.)

- The criminal justice system responds to public pressure and currently the public concern is with yiolent crimes. Business must communicate to the public and the criminal justice system that the non-violent crime is of major sigificance to the economy.
- Public pressure aside, the criminal justice system does not want--and cannot allow itself--to be saturated with the mass of shoplifting and pilferage offenses. This has to be the role of private security, working closely with the public criminal justice system, not independently of it.
- Because of the importance of their role, there must be higher standards for security guards. Contract guards in particular are very frequently ill trained and psychologically unfit for their role. Many have prior criminal records.
- Privacy legislation has made it very difficult for employers to screen potential employees regarding past offenses. Although conviction records can be legally obtained, they are difficult to come by in practice. Further, past employers are very reluctant to inform a would-be hirer that an individual was terminated for theft. There is extreme, perhaps excessive, sensitivity to the possibility of violating the Privacy Act and, indeed, of being accused of a variety of civil rights violations.
- Insurance companies require very little in the way of security as prerequisites for policies. The cost of a claim is passed back to the consumer and the insurance companies recoup the payment of a large claim within three years via increased premiums.
- There needs to be an education/communication program between business and the criminal justice system, particularly relating to business' learning to protect themselves and the responsibilities they have.
- Values such as honesty and civic responsibility must be taught and reinforced in the schools.

- Organized crime is heavily involved in white collar crime. (Although not within the purview of this grant, any on-going anti-economic crime entity will need to recognize and deal with the impact on organized crime respecting >> business.)
- Privacy Act, Freedom on Information Act hampering law enforcement.
- Businesses do not communicate with one another. Business has a responsibility to share knowledge (e.g., current fraud operation going on within industry, known criminals operating within industry). The short term objectives of what is "best for business" must be weighed against longterm objectives of reducing loss.

Certain specific points were made by individual respondents that are worth noting in this summary. One respondent mentioned the role of insurance companies in encouraging business to be lax in its security by not being sufficiently strict in insisting on good security systems and checking to see that they do, in fact, exist. Another gave favorable mentions to the Boston high school program (elective) that featured a "mock trial" and generally educated juveniles in the consequences of criminal behavior and believed that schools could and should play a part in reducing juvenile shoplifting.

The overall sense of these interviews was that: (a) much of the problem lay with business management, which by using improved business systems, better security and better relationships with their employees, could greatly reduce both opportunities and motivation to commit crimes against business; while on the other hand, (b) the courts were backlogged, sentences varied in an apparently idiosyncratic manner and there was a lack of trust on the part of the business community in the judicial system, leading to increased reliance on private security, independent of the public criminal justice system. Special courts, standardized sentencing guidelines and improved communications between business and criminal justice communities were suggested as possible answers to the latter problem.

APPENDIX 5

CONCEPT PAPERS:

Demonstration Projects

Research Projects

Suggested Criminal Justice System Modifications

National Data Base

Communication and Institutionalization

DEMONSTRATION PROJECTS

Introduction

It is evident that one cannot combat crimes against business in a piecemeal manner. The pieces interact and a total system has to be designed in order to obtain the maximum impact on the problem. It is also clear that there are three strategies which must be pursued - defense, deterrence and demotivation. Defense--"hardening the target"--is the proper task of private security; it is unrealistic to expect the police to do much in this area; except, perhaps, by assisting in the training of small business to defend them-Deterrence is everyone's task, and it is clearly not being accomplished. Part of the problem lies with the prosecutorial and judicial components of the criminal justice system and some proposals in this area will follow. Demotivation refers to reducing the motivations to commit the crimes; some of these motivations are rooted in social and socio-economic circumstances which go beyond the scope of this project, crucial though they undoubtedly are; others relate to the spread of "counter culture" attitudes which can be influenced among the school age population; and others (perhaps also related to counter culture attitudes) spring from dissatisfaction with one's employment because of real or imagined inequities in pay or promotional prospect, working conditions, etc: these can be addressed but probably not under LEAA funding.

Our demonstration program recommendations, at the conceptual level upon which this paper is written, are summarized by type of crime, industry and strategy.

Before turning to this, it is necessary to address the issue of criteria for selection of crimes for demonstration purposes and the data to which the criteria can be applied. Figure 1 shows the criteria used, which are essentially economic impact, recognition of importance by business, feasibility of having an impact which can be measured.

The loss statistics used are the "best estimates" quoted in the "Statistics Paper Part I", which enables us to rank order overall economic impact. Figure 2 shows the selected target crimes by industry.

We have eliminated, as crimes for demonstration purposes, arson* (because this is a topic that needs research before any recommendations could be made, so inadequate are the data) and burglary (because police forces already do

^{*} Other than arson for insurance fraud.

Figure 1

CRITERIA FOR SELECTION OF TARGET CRIMES

DEMONSTRATION

RESEARCH

Economic Impact of the Crime on Society

Actual or Potential Economic Impact of Application of the Research Findings

Feasibility of Emergency of Valid Research Findings

Recognized High Priority by Business

Recognized High Priority by Business

High Probability of Measurable Achievement

Generalizability to Small as Well as Large Business and to Several Types of Business Operations

Generalizability to Small as Well as Large Business and to Several Types of Business Operations a great deal in this area). Embezzlement and securities theft/fraud have not been singled out for a specific demonstration project, because it would be, in our opinion, difficult to prove the affects of any particular set of counter measures. However, we are not excluding them from the overall program; they are too important to be neglected. Our approach is to treat them by means of the "across the board" measures which will be proposed (particularly the creation of an economic crimes unit attached to the District Attorney's office and an evowed policy of prosecution by the District Attorneys and by the business community.)

("Organized crime" is also omitted from consideration, since it is outside the terms of the grant, being studied by other groups within LEAA.)

We have selected industries on the basis of the overall importance of a given crime to society as a whole and its relationship to a given industry, the economic importance of the industry, the specificity of an economically important crime to an important industry, and the extent to which the Federal government is already (through its various agencies) involved in regulating crime within the industry, or supporting particular anti-crime activities. Thus we have omitted organized crime in financial institutions and transportation industry (the latter is very concerned about hi-jacking, mostly an organized crime activity which is covered by specialized agencies). We have suggested light manufacturing (this could be the electronics industry or machinery) because it is economically important and vulnerable to employee pilferage, a nationwide evil. Retailing and the insurance industries have been selected because they are economically important and extremely vulnerable to certain crimes.

General Concepts, Relevant To All Industries And Crimes Against Business

Deterrent

We propose that, in a selected community (preferably medium-sized and self-contained), there should be established certain general programs and organizations, most important of which would be an economic crimes unit attached to the prosecutor's office. It would be given particular training in the nature of and investigation of, economic crimes against business. Typically (and

Figure 2

SUGGESTED DEMONSTRATION PROJECT TARGETS (CRIME AND INDUSTRY)

강의 등 다 가면 살았는데까지 모르게 다. 당한 하고 하다 당하는 것 같은 다 하나 있다.		Industry: Manufacturing						
Crime	Retail	(Light)	Hotel	Insurance				
Employee Pilfering) [1**	1**	2**	4				
Commercial Bribery	3	2 *	3					
Securities Theft/Fraud) Embezzlement)	See Note a	at Foot of Fi	gure					
Arson	Excluded	Excluded	Excluded	Excluded				
Burglary	Excluded	Excluded	Excluded	Excluded				
Vandalism ∞	4	3**	4	3				
Shoplifting/Guest Theft*	2** **	NA	1**	NA				
Insurance Fraud	NA	NA	NA	1*				
Check Fraud	5 * **	4	5	NA				
Credit Card Fraud	6	NA	6	NA				
# = Rank Order of Estimated * = Feasibility of Impact and Measurement								

NOTE: Although not dealt with as specific, measurable projects, combatting these crimes will not be overlooked. The general measures recommended are expected to have some impact.

** = Industry Concern

= Selected for Demonstration

understandably) these units, where they exist, have dealt with crimes by business. Any such units should unquestionably do this work, but a sub-unit skilled in embezzlement and employee theft and fraud should be set up. The training would be a mix of management, criminal method and investigative subject matter, to be designed for general use among all such groups and by prosecutors and police (in modified forms).

Another basic deterrent strategy would be a joint public commitment of prosecutors and business to prosecute. We suggest that in the case of businesses, a club or league should be formed in a community (it could be affiliated with the Chamber of Commerce) of business managers committed to this policy. Retailers would carry its emblem displayed prominently, and all employees would receive this philosophy in their employment policy documents.

Defense

Another general type of program would be training (by workshops or seminars and publications) of business people-especially those running small businesses in the identification of vulnerable points in the flow of material, money, information, etc, in the hiring of staff (what can and cannot be asked, what information can be gleaned from what source about potential employees), the physical design of the "plant," and how to deal with identifiable vulnerable points. In other words, a loss-prevention systems analysis.

This is described in the Communications Strategy paper, but it is necessary to consider it as part of the total system being proposed.

Demotivating

Conduct public meetings—and, in particular, meetings and workshops in schools for pre—and early—teenagers—emphasizing the perils of committing the crimes in the environment created by the new deterrent systems being established in the community, and the economic folly of continuing; a) driving small independent concerns out of business; b) in any case having the cost of crime added to the grocery bill. These meetings and workshops should be conducted by charismatic individuals who are "heros" to the audience being addressed.

This type of program should be extended by audio-visual presentations, also using these "hero" figures.

All communications efforts should stress the importance of good relations between employee and employer, especially at the supervisory level. To match these attempts at consciousness-raising, in-house programs should be designed to establish a good organizational climate in businesses that have morale problems. This would involve diagnosis followed by specific programs, including those related to the inclusion of loss control as a variable in job evaluation of supervisors and such obvious morale-builders as improved control over work schedules, more equitable and visible promotional structures and processes, etc.

RETAIL INDUSTRY

Employee pilferage, shoplifting, vandalism, commercial bribery and check fraud are of major concern. In addition to the general elements so far discussed, we propose the establishment of a special court, to deal exclusively with the non-violent crimes against retailers (excluding burglary). Judges would be rotated through a "tour of duty" and would be encouraged to attend meetings of concerned groups and read the specialized literature being prepared for the proposed training of police, prosecutors and business people as detailed in the Communications Strategy paper (as well as above).

MANUFACTURING INDUSTRY

The proposed general program would form the basis of the demonstration project in a community with an appropriate type of manufacturing industry. The seminars, workshops and in-house training programs would, of course, be tailored to the particular characteristics of this kind of business.

We would also expect this group formally to establish and announce a "no kickbacks given or received" policy and, again, prosecute for any established case.

The importance of employee vandalism in many manufacturing plants suggests that here is a case where programs stressing:
a) supervisory responsibility for loss prevention and also for establishing good relations with employees, and; b) some employee relations and personnel management training in general would be of major importance.

HOTELS

In addition to the general programs that are as applicable to hotels (and, indeed to service industries as a whole) as to any other industry, it is proposed that one or more hotels/motels in a demonstration locality, with especially high "guest-theft" problems should experiment with specific defensive strategies to combat this problem. Expert advice is needed here, but one possibility is to have room keys handed to a designated floor supervisor (housekeeping) on check out, who quickly inspects the room before the guest is handed the bill. Evidence of theft would be immediately communicated to security who would then directly interrogate the quest. Complementary to this there should be notification to guests that rooms are subject to inspection upon check out and that losses may lead to questioning and possible report to the police, etc. hypothesized that the risk of such embarrasment would deter the typical "rip-off" guest, but not, of course, to the professional. Good public relations would be called for to avoid undue offense to non-offender guests. The tradeoff between loss due to guest-theft and loss of business is one that has to be measured in evaluating any such program.

Commercial bribery is common in the "hospitality industry." A formal "no kickbacks given or received" must be stated by top management and identified cases prosecuted.

INSURANCE

Insurance fraud is found in many areas of insurance business. It is unlikely that any project could (or should) deal with every area. We propose that fraud by arson and some petty but pervasive fraud, such as inflated automobile repair work charges, should be the focus.

With respect to fire insurance frauds we propose that a formal link be established between police, the proposed economic crime units and the fire marshal's office, so that all suspected arson cases where insurance is an issue—a fact which can be drawn to the attention of the economic crimes unit by the insurance company if it so desires—can be investigated as suspected economic crimes. (The training proposed for the economic crimes unit would encompass any legal and technical aspects of insurance fraud that called for special knowledge.)

The petty frauds are sometimes collusive, between insured and a claims adjuster, and/or between repairer and insured. The explicit threat of prosecution could probably determany of the typical offenders, if it were made credible by the proposed overall committal of the criminal justice system to support business in this respect and the wide publicity that such a philosophy should be given in the demonstration community.

With respect to (other) employee crimes against insurance companies (e.g. kickbacks), firm policy statements, the placing of responsibility upon immediate supervisors and the general model of formal announced commitment to prosecution, etc, as discussed elsewhere should be implemented.

ADDENDUM

As a result of the Crimes Against Business Council meeting in Washington, D. C on March 24/25, 1977, it has been agreed that Fencing should be added as a crime to be included among our demonstration projects. Strategies for this particular project have not been agreed upon.

PROPOSED RESEARCH PROJECTS

Introduction

In dealing with a topic such as Crimes Against Business, there are numerous possibilities for meaningful research. The criteria used for identifying the proposed projects were as follows:

- the suspected actual/potential economic impact
- the applicability and generalizability of the findings
- feasibility of the research effort
- recognition of priorities of business
- general lack of information in the area

The attached outlines for proposed research address the general questions:

- To determine if it is possible to develop predictors for crimes which would allow for active prevention efforts (No. 1 Predictors for Arson and "Bustout Schemes").
- 2. To determine whether it is possible to define and catalogue potential modus operandi of potential crimes and demonstrate effective models of detection on the basis of these mo's (No. 2 Computer-Assisted Crime).
- 3. To determine whether current legislation is sufficient or if changes in statutes would provide for more judicious and effective processing of Part II crimes (No. 3 Legislative Package).
- 4. To determine if it is possible to abstract and determine the actual cost-effectiveness of prevention and deterrence efforts by determining the actual dollar impact of crimes against business (No. 4 Econometric Analysis of Crimes Against Business).

5. To determine whether it is feasible to develop a prescriptive package for law enforcement and prosecutors to follow in developing economic crime cases. The primary intention would be to enable them to pass the screening procedures of the prosecutor's office (No. 5 Model Package for Prosecution).

These projects are not considered exhaustive of the needs in the area, but they do attempt to deal with a broad range of the issues which are relevant to effective identification, prevention, investigation and deterrence of crimes against business.

Research Project 1. Predictors for Arson (Insurance Fraud) and "Bustout Schemes"

There is general agreement that the occurance of arson (insurance fraud) and "bustout schemes" become more prevalent during times of economic recession. In most cases the insurance companies and police departments are reactive in their investigative attempts to identify the individuals responsible. The purpose of this proposed research effort is to determine if some common factors can be identified with regard to the histories of the businesses which have been destroyed by these crimes. Following identification of such variables it would be possible to track potentially vulnerable businesses and presumably determine a constructive course of prevention.

Procedure

Insurance investigators and municipal fire inspectors would provide initial identification of a population of businesses which have been subjected to arson or "bustout schemes."

Analysis of variables such as:

- credit rating
- single owner/corporations
- loan extensions
- business losses
- geographic locations
 profit picture

would be attempted to determine a profile of the "typical" business subject to these schemes. Secondly, an in-depth analysis of the trends profile of these businesses would be required to determine which factors are most likely to provide Economic Crime Units with reasonably reliable predictors for the occurance of such schemes.

In order to be useful, this information would require a standardized technique for tracking businesses within a given community.

Research Project 2: Computer-Assisted Crime

There is general agreement that the proliferation of computers provides a vehicle for enormous potential losses. Two fundamental problems associated with this statement concern:

- The lack of information regarding how these rip offs can be accomplished.
- The lack of information which defines the extent to which these losses are currently actually occuring and have not been identified.

Procedure

This research project presumes a two-phase effort.

Phase I. In order to elaborate the ways in which the computer can be used in nefarious rip off schemes; it is suggested that a "think tank" of high-level computer specialists be brought together and given the mandate to develop prototypic models of computer-assisted frauds. These models would be developed for a variety of simulated situations which closely approximate the actual uses of the computer in a variety of business enterprises.

The next step would require this "think tank" to develop detection techniques required for active identification and investigation of these "model" computer rip offs.

This stage is extremely important considering the fact that in most audits the primary focus is on "balancing the books" rather than looking for fraud.

Phase II. This phase would focus on the identification of and the magnitude of current losses being sustained by a random sampling of businesses. It woulr require the active cooperation of business executives to allow an unannounced audit of computer procedures by the "think tank" personnel. These audits would involve the application of the detection products developed in Phase I.

An analysis of these findings will allow a more accurate projection of current and future potential losses than is currently available according to more conventional techniques.

Research Project 3. Model Statutes Program

The criminal justice system is under attack. It has been called a "non-system" by many knowledgeable people in the field.

It must pull itself together into a cohesive, well-functioning system that is a true deterrent to criminal behavior;
a system that swiftly and fairly punishes those who are
guilty and exonerates those who are innocent.

Crimes must be re-defined in light of our present sophisticated society, and in light of our past experiences.

Statutes must be uniform, concise, and specific as to what actions are proscribed. They must afford limited opportunity for interpretation, for on such foundations ladders are built to allow guilty parties to climb above the intent of the law.

The law must consider new and novel approaches to writing statutes, allowing the punishment to fit the crime. The law might decide to eliminate some of the judicial discretion abounding so freely and seek to establish mandatory minimum sentences for repeat offenders.

In any event, the law must be made contemporary. And in no field does the law seem to be more archaic than in the field of business and economic crime.

Procedure

A comprehensive review of existing federal and state statutes with respect to economic crimes must be undertaken.

The review must cull from existing statutes those provisions that appear relevant and have led to high rate of conviction.

Statistical data should be reviewed determining which courts' are prosecuting which crimes, and with what success.

Bar Association and other panels should be set up allowing the vast reservoir of legal talent to formulate model statutes in areas that they feel are unproductive.

State legislatures should be canvassed to determine if pending bills have any relevance to economic crime.

Various other agencies, associations, panels, etc. should be contacted in order that all existing or prospective laws are gathered for review.

After such a gathering of information, model statutes should be drafted to be used on a national basis.

Research Project 4. Economic Analysis of Crimes Against Business

It is currently accepted practice to quote a 24-40 billion dollar loss to business and the economy due to crimes against business. It is presented that this cost (loss) must also be added to related costs of maintaining private security forces and the criminal justice system. It is often presumed that a considerable portion of these costs/losses is passed on to the consumer, through increased prices which in effect contribute to the general inflationary spiral and the inability to sell many products to foreign markets (imbalance of payments).

Procedure

This research project proposes an econometric analysis of the actual dollar cost and impact of Crimes Against Business on:

- individual businesses
- the consumer
- the national economy

This analysis, in effect, will attempt to define the way in which the presumed impact of crime compares with the actual recirculation of the dollars withdrawn from legitimate business due to crime. Secondly, the analysis

will examine the actual cost/benefits of maintaining the current criminal justice system with regard to the dollar savings for the population of business regarding criminal losses. Finally, this analysis will attempt to define the direct and indirect ways business losses and security expenses impact the consumer and business.

Research Project 5. Model Package for Prosecution

The current drop-off rate from arrest to prosecution is approximately 30% for economic crimes. Law enforcement officials often claim that prosecutors screen out "good" cases which should be prosecuted; while prosecutors refer to the "bad" arrests made by police officers. The latter claims, in many cases there is a lack of sufficient evidence for prosecution from a lawyer's point of view.

This proposed research project will attemp to define the criteria used by prosecutors for screening economic crime cases. On the basis of this information, a model package will be developed for investigations, defining minimum standards of evidence required for prosecution.

Procedure

Prosecutors with economic crime units will be solicted for their cooperation. Screening techniques will be reviewed with the intention of defining key potential criteria for the decision to "not prosecute". A sample of well documented cases should be reviewed in order to determine the requirements for success in prosecution.

On the basis of these variables, a prototypic investigative package will be developed which will include requirements for passing the screening criteria used by most prosecutors' offices.

This information will then be made available for dissemination through workshops, seminars, and pamphlets to law enforcement officials and prosecutors nationwide.

Suggested Criminal Justice Modifications

Introduction

It is a widely accepted view that those committing crimes against business are victimizing not only business but the public at large. However, it is also widely noted that these criminals are prosecuted sporadically and rarely, if ever, experience any meaningful criminal penalty or sanction.

Therefore, if we are to fashion a credible deterrent to commercial crime, the prosecution thereof must become more than an empty gesture or a sporadic act.

New and innovative statutes must be written to adequately deal with the sophisticated and sometimes complex nature of commercial crime. In addition procedural devices must also be fashioned so that the criminal justice system can properly and fairly prosecute and dispense justice with regard to these crimes.

Cognizant of these conditions the Council has endorsed basic recommendations to be considered by the Criminal Justice Modification Workshop Panel. Following is a list of those recommendations and the rationale behind the initial discussions.

Sponsor legislation allowing for severe penalties to be imposed, when the magnitude of the crime warrants.

The existing Commerical Bribery Section, 35-18-10-1 and 2, of the Indiana statutues, relegates the entire area of commercial bribery to the bribery of officers and carriers or the bribery by officers and employees of carriers. However, even more startling is that the most significant provision of this statute provides that violation thereof, in any manner, subjects the guilty party to a ridiculously low fine (minimum of \$25 to a maximum or \$100.)

The statute is ineffective and counterproductive. Although it is repealed effective July 1, 1977,

it is illustrative of the fact that with respect to certain commercial criminal statutes, the criminal justice system does not provide adequate penalties, nor does the criminal justice system attempt to fully address the magnitude of the problem.

As the legislation with respect to statutes should become more cognizant of the range of penalties imposed, so too must we look to the various aspects of sentencing with respect to the variety of commercial crime.

Recently, a group representing real estate developers in the Southwest perpetrated a fraud upon the public, reaping a harvest of over 200 million dollars in profit. The guilty parties were tried and convicted. They were sentenced to a maximum of two years in jail, such time to be served during the week only. The perpetrators were allowed to go home on weekends.

It is submitted that sentencing of this type, after an acknowledged theft of over 200 million dollars, makes the prosecutorial deterrent nonexistent. Under these conditions such acts will continue to be committed no matter what the written law proscribes.

 Create separate courts dealing with non-violent crimes against business.

The City of Chicago has instituted a concept long championed by the retail industry. A separate court dealing only with retail shoplifiting has been established.

Advocates of this type of alignment believe that the congestion of the regular courts will be alleviated. They believe that a judge will be more inclined to view the seriousness of a non-violent crime without having to compare it to a violent crime. Judges and prosecutors will become more expert in commercial crime and better able to understand otherwise complex material and testimony.

 Establish mandatory prison sentences for any repeat offender, notwithstanding the crime.

Long a controversial topic, the Council feels it must be considered, notwithstanding the obvious consideration that judicial discretion will be severely limited.

It should be noted that the proverbial "one bite of the apple" is allowed. Judicial discretion as to prison confinement is not eliminated until the party being sentenced has already been previously convicted. The length of the mandatory sentence may either be statutorily prescribed or left to the discretion of the judge hearing the case.

 Establish the use of increased penalties for repeat offenders.

Once again, this provision is aimed at the recidivist. The knowledge that increased penalties apply to a repeat offender will hopefully deter possible future crimes.

 Establish the use of multiple offender statutues to focus on the career criminal.

Applicability of multiple offender statutes is often ignored by prosecutors. However, if utilized consistently by each prosecutorial office, the deterrent effect is obvious.

 Provide both criminal and civil sanctions to those convicted.

For example:

9

- the guilty party must make restitution of all monies or property;
- the guilty party is precluded from engaging in similar business or practice.

A person may enter a particular commercial endeavor, defraud various businesses in any number

of ways, and somehow be caught. Yet, after trial, conviction and sentencing, it is conceivable that this person will be required to pay merely a nominal fine, keep the fruits of his labor and re-enter the same business to conceivably begin the cycle anew.

Ostensibly, common sense would dictate that the law prohibit this person from beginning the same sequence again.

• Conduct a comprehensive study of all statutes having relation to crimes against business. Such a study should seek to re-define these crimes, recognize the limitations of the existing statutes with respect to these crimes, and write model statutes to be utilized mationwide.

For example, as is illustrated by the aforementioned Indiana statute, the area of Bribery must be studied and new laws written to reflect circumstances as they exist today.

So too must new laws in other areas be studied and written. Some state legislatures have already attempted to write new legislation seeking to attack a long-standing problem from a different perspective

In the State of Minnesota the penal law now includes a provision against the possession of shoplifting gear. It provides:

Whoever has in his possession any device, gear, or instrument specially designed to assist in shoplifting with intent to use the same, to shoplift or thereby commit theft may be sentenced to imprisonment for not more than three years or to payment of a fine of not more than \$3,000 or both.

The implication is clear. This state has sought to confront the shoplifting problem at its inception and has made the maximum penalty quite severe in light of the penalties enumerated in other statutes. Innovative statutes similar to this Minnesota statute must be considered, and their feasibility measured.

 Create specially trained units assigned to the police and prosecutorial staffs, trained to investigate, prepare and prosecute commercial cases.

A commitment through the criminal justice system must be made in attempting to deal with commercial crime. It must begin with the police, and carry on through to the judicial process.

Law enforcement must acknowledge that commercial crime is complex and difficult. If a person is mugged, he will know it immediately. If employees pilfer, or embezzle, the effect is not as immediately recognizable, and the case is lokely to be more difficult and time consuming to develop.

Accordingly, specially trained units must be assigned to investigate and prosecute commercial cases in order to effectively process them through the criminal justice system.

Set up a procedure whereby the sentencing judge and prosecutor are notified when an individual comes up for parole.

It seems obvious that the prosecuting attorney and sentencing judge would have meaningful input with respect to an individual's application for parole. Accordingly, corrections should be required to make proper notifications at all parole hearings.

Conclusions

The existing laws, and the prevailing level of prosecution of those laws, has not and will not create any measurable deterrent threat to the criminal in our society. Crime against business does pay. And it will continue to proliferate until meaningful commitments are made by legislators, police, prosecutors and the judiciary.*

^{*} A total commitment from business is essential also, but that is not within the purview of this paper. However, it should be noted that without such commitment from business (e.g., better record keeping; strict announced policies against all crime; the willingness to report and prosecute offenders, etc.) then the commitment made by the criminal justice system will remain an empty gesture.

Better laws, investigation, prosecution, sentencing procedures, and education are all necessary before our criminal justice system is made to function effectively to deter crimes against business.

Some Recommendations for a National Data Base

In the first phase of our information collection process, the staff of the Crimes Against Business Project attempted to locate and assess the current statistical base regarding the economic impact of crimes against business. This phase focused on:

- sources and extent of available data;
- gaps in available data base;
- accuracy and adequacy of current data collection methodologies.

On the basis of the information complied, preliminary recommendations were made for provision of a reasonably valid national data base respecting the economic impact of crimes against business.

The following recommendations are excerpted from our "State of the Art" paper of March 1977 as approved by the Crimes Against Business Advisory Council.

Preliminary Recommendations

Data collections should serve several purposes in addition to scoping out the dimension of a problem. The recommendations set forth below describe methodological alternatives which take into account the conclusions/problems described in the previous sections, and the need to accomplish the following through the process of data collection.

- Provide an incentive and a vehicle for individual businesses to assess the impact of crime on their profit picture and make crime loss a management issue.
- Establish communications between and among businesses and the Federal government which brings crimes against business into focus and priority attention.
- Provide information to raise the consciousness of the consumer vis-a-vis the impact of crimes on the general economy and inflation.
- Provide baseline data to assess within each organization and nationwide the impact of programmatic efforts to reduce and prevent crimes against business.

With these purposes in mind, the following recommendations are described in summary form. The first four are not mutually exclusive, although it is likely that if both 1 and 2 (collection from business by a modified tax return or via a special data collection effort in a sample of businesses) were found to work, only one would, in fact, be the basis for a nationwide effort.

1. IRS Corporate Tax Report Modifications

deduction of losses due to theft where "theft" includes but is not limited to larceny, embezzlement and robbery (see Appendix L). IRS supplemental schedules for forms for gains and losses could potentially provide an accurate source of information regarding the loss figures sustained by businesses due to crime.

Currently, it is not possible to parcel out these figures on corporate tax returns as the schedule groups together allowable losses and therefore the source of the loss cannot be determined from the gross figures.

Secondly there is generally collusion among executives at all levels of a corporation to "bury" such losses under alternative categories and thus prevent identification of losses directly due to theft (which companies and executives find embarassing).

A modification of categories on the supplemental form with the explicit requirement to identify accurately the nature of the loss could provide direct, reasonably accurate data. Since tax forms are filed yearly these figures would represent an ongoing data gathering process which could be compiled and reported by the IRS in in its publication, Statistics of Income - Business Income Tax Return.

Groundwork would have to be done to generate the willing cooperation of business by indicating that this is the most discrete and confidential method of collecting statistics which are important to business.

Advantages

- The IRS is a highly credible source and the request to report on tax forms should provide adequate incentive for businesses to maintain accurate loss records on crimes against business.
- The IRS tax machinery represents the most direct, efficient, inexpensive and accurate method for generating statistics on an annual basis.
- The IRS could maintain the confidentiality of the information from sources and therefore would be the most likely of all Federal agencies to receive accurate information.
- The IRS would be able to analyze these figures with regard to a variety of variables; e.g., size of corporation, geographic location, personnel expenditures, type of business organization, etc., since this information is available off the tax forms.

The IRS would have information from the entire population of businesses rather than a sample. This could help overcome the reluctance of individual businesses to reveal losses for fear their credibility will be reduced vis-a-vis competition.

Disadvantages

An effort would be required to establish a reporting requirement for IRS to gather this data. IRS refused a similar request made by the Department of Commerce in 1975. It is unlikely that they would be immediately favorable to such are request in 1977.

Unless businesses can be persuaded that it is in their own best interest to report accurately, they are likely to resist any such additional change in the IRS reporting format.

Reporting may still not be accurate with regard to loss category. Business may still attempt to "bury" figures in order to prevent disclosure of actual losses and the split between shoplifting, internal theft and non-criminal "shrinkage" of inventory would remain extremely difficult to assess in the retail industry.

2. Representative Sample Panel of Businesses

This proposal envisages an analog of the Victimization Surveys, with business organization as the sample unit. The sample would be some form of stratified (by type of business, size of business, geographic area) random sample within selected communities. (Probably differential sampling fractions would be used in some strata, in order to improve the reliability of estimates for particular industries, etc. Weighting would be used to obtain national estimates.)

It is envisioned that the businesses that constituted the sample would form a panel, continuously reporting losses over a two or three year period, from the time of enrollment, before being replaced by new units.

Bias due to difference between those organizations that cooperated and those that did not would have to be investigated, presumably by taking a "once only" picture of a sample of non-cooperators, and comparing this with

equivalent data from cooperators. Corrective weighting could then be applied to improve the estimate, if discrepancies were found.

We anticipate that a sample of about 10,000 businesses would be adequate for the purpose of estimating losses. making comparisons between broad industry groups (various categories of retail and wholesale business, of manufacturing, of service, finance, insurance and transportation). Sub-samples of the total panel sample would be replaced, at intervals, with new units. This procedure can be optimized to give the best combined estimates of losses at a particular time and of trends over time. It also has the advantage that dropping a cooperative business from the study after, say, two years enables that business to drop the sophisticated data collection effort if it finds it onerous and not, for its own purposes, cost-effective. On the other hand, if it finds such data to be a useful management tool, then it would possibly want to continue without federal support for the effort. From the viewpoint of data validating per unit, a panel has the advantage that one is not relying upon data gathering by mon-standardized methods (or upon memory) in order to obtain the entries in the recording schedule. A unique, standardized. system, using very rigorous and explicit definitions of each crime category and explicit means of measuring, would be established at the outset in each cooperating organization. Once this system was in place, reporting would not call for personal, face-to-face interviews; returns could be made by mail, although some monitoring visits would be in order. The panels could be extensions of the existing commercial victimization surveys.

Advantages

No legislative changes would be needed to establish these panels and, given a truly representative sample, the loss figures could be made sufficiently accurate for all practical purposes (although the shoplifting/pilferage breakdown would still be in doubt without a further step, as described in 3) below). The NCJISS would analyze and disseminate the data as part of its standard service.

Disadvantages

Even with the proposed sample size, there would be considerable restriction on the fineness of analysis that could be performed, compared with a census such as tax returns would provide. There is also the danger that despite all checks and corrective weightings, a bias

could enter the estimation process because of differences between these organizations that joined the reporting panel and those that did not.

In any system, the problem of identifying the crime (as distinct from the fact of loss) still remains and, as stated, is acute for the shoplifting/pilferage split.

3. Sample Survey of Individuals

In order to help in obtaining information on the dollar magnitude of crimes (shoplifting versus pilferage) that cannot be easily obtained by loss measurements within an organization, it is suggested that an experiment be carried out among a sample of the public (say 14 years and over) to obtain "confessions" of illegal activity. Obviously, this would have to be carried out under circumstances of absolute confidentiality, with quaranteed (and evident) absence of any identification. (This probably precludes sampling householders and interviewing at a person's home as is customary in Bureau of the Census work; a version of the "quota"* method used by market research organizations, although frowned on by sampling statisticians, might yield good results because the individual interviewed in the street or in a cafe, etc, would not be asked for name or address and could be more easily convinced of anonymity, than if the householder's address were identifiable.)

There is some evidence that people are quite willing to "confess" to illegal acts against business under the appropriate circumstances, as illustrated by some LEAA-funded work by the Mid-Atlantic Research Institute. Whether their particular approach and instruments are valid is a subject for further inquiry, but some such effort seems promising enough to explore and would, if valid, be a useful complement to the loss estimates obtained from the business organizations, either by a tax return or a sample-panel method.

^{*} Sample is balanced by demographic characteristics such as sex, race, age and socio-economic status, within area.

4. Uniform Crime Report Revisions

A requirement for businesses to report losses due to crime to local prosecutors' offices as a prerequisite for claiming a deduction on an IRS Tax Schedule might be instituted as an effective reporting system for Part II crimes against business. Prosecutors would require standard formats for maintaining records; providing businesses with appropriate exemption forms; and passing the information onto the state UCR agencies.

Such a report system, although cumbersome, would focus the attention of business onto crime losses. In addition, prosecutors would have to gear up economic crime units to handle the increased case load. This would increase the number of white collar crimes processed through the criminal justice system and foster a more equitable distribution of deterrence efforts for Part II as well as Part I crimes.

This effort would be expensive and most probably meet with considerable resistance.

5. Random Sample Survey of Businesses

A survey comparable to the one mounted by SBA in 1969 would be the least desirable alternative. Survey/interview could potentially be effective for data gathering if sufficient visibility and commitment among business were generated prior to the effort. Cooperation with such an effort could be fostered by joint sponsorship of Federal government/Chamber of Commerce/National Trade Association/LEAA/AMA.

Some effort would be required to provide an ongoing sponsorship to the survey effort. Single efforts such as the original SBA do not provide the kind of in-depth continual focus on the problems of crimes against business. Indeed such periodic single effort may actually distort more than they reveal.

Recommendations

With regard to data gathering several recommendations can be made:

- Business must be pursuaded to report known offenses to local police departments.
- UCR reporting should place stronger emphasis on the reporting of Part II crimes reported by municipal agencies (currently only approximately one-fifth of municipal police departments turn in such records).
- Prosecution data gathering system should be established nationwide. A standardized format and some standardized process for monitoring the screening procedures is required. This information should be forwarded to UCR state centers.
- Courts should refer disposition data, sentencing and actual commitment to prisons to UCR units.
- Correctional institutions should provide standardized annual reporting systems to state UCR centers as do municipal police departments. This information should include annual admissions data and population profile by standardized offense categories.

Some Recommendations for Communications and Institutionalization

Introduction

The following overview of proposed strategies for communications and institutionalization (see below for definitions) is presented as a basis of consideration for further expansion by the panel workshop members. These recommendations reflect the suggestions of the project staff and modifications made by the Advisory Council at the last joint meeting.

Communications

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Communications strategy is defined for present purposes as a procedure for the exchange and dissemination of information relevant to controlling crimes against business among individuals and groups who are (or should be) concerned about the problems of such crimes.

We propose a communications network, the goal of which is to take the high-level awareness and support for the Crimes Against Business Project being developed by the AMA Public Relations Program and communicate: (a) the magnitude of the economic and social effects of crimes against business among business, the criminal justice system, the private security community and the general public (i.e., raising the level of awareness); and (b) the general nature of the solutions that these groups can adopt, especially by working together.

A primary focus is the breakdown of the "we/they" perceptions that presently exist among groups (in particular the business and criminal justice communities). Useful types of vehicles to achieve such an end are the Public Interest Groups and professional and trade associations, which have an interest in controlling crimes against business.

The purpose here would be to bring together those groups which recognize the magnitude of the problem and want to do something about it, but whose efforts have not been coordinated or unified for effective information dissemination and exchange or for lobbying for legislative changes regarding the problem.

Examples of such agencies are:

- International Association of Chiefs of Police
- National Association of District Attorneys
- American Society of Industrial Security
- National Association of Manufacturers,
- Chamber of Commerce of the United States
- Local Chambers of Commerce
- Various citizens groups which are concerned with crime, community economy or the cost of living.

There has been indication, by many of these national organizations, of their willingness to cooperate with the Crimes Against Business Project, but as yet no common meeting of all these groups has occurred and each tends to view the shared problems through their own perspective. Coordination and cooperation can be achieved by such means as national and regional forums, roundtables, presentations by one agency to another, etc., and a systematic exchange of ideas and data by an inter-group newsletter.

One particular means of bringing these national organizations together is to form a specific division, representative of common problems, within each of the existent organizations. National conferences would include, via these divisions, papers, ideas and discussions regarding issues of overlapping interests and jurisdiction. Formal representation by members from each of the groups at the administration level would enable a consistent and scheduled sharing of information. A rotating system of executives through the executive members or members of Boards of Directors would assure that a shared commitment is constantly being established.

Press releases and lobbying activities would be coordinated by means of these interlocking efforts; a joint "Crimes Against Business Coordinating Council" might be the appropriate structure. This could form the core of a national "Economic Crimes Institute," as described below. (It should be noted that the LEAA grant proposal states that "detection of crimes against business and policy development are management tasks, the area of AMA specialization." Therefore a key suggestion for developing a communication network system is the design and utilization of AMA-type workshops, seminars and publications. These have, however, been addressed at a conference in New Orleans held on May 4/5/6, concerned with demonstration projects and need not be specifically discussed at the present series of workshop panels.)

Institutionalization

This is defined as the creation of new organizations or innovative use of existing organizations to act as vehicles for the on-going implementation of programs directed at controlling crimes against business. Emphasis here is upon "hard" and specific programs rather than the exchange and dissemination of general information, although the latter can itself be institutionalized (as discussed in the previous section on Communications).

Such institutionalization should operate at national, state and local levels. While the public interest, professional, and trade associations can, we believe, play a valuable role in communication of broad, non-specific information, they are not suitable vehicles for the conduct of research or "hard" action programs; we, therefore, propose a separate but related network of organizations to that suggested under Communications.

National Level. We propose the formation of a national organization, dealing with the issues of economic crime, both against and by business. It could, as indicated earlier, be a development of a Crimes Against Business Coordinating Council created to coordinate the relevant activities of appropriate public interest, professional, and trade groups, but expanded by a small professional staff. In that case, its functions would be:

- coordination of information exchange and dissemination;
- coordination of lobbying activities, especially those concerned with criminal and crime-related legislation;

- creation of (or efforts to create) uniform policy toward strategies for the control of crimes against business, by the various sections of the criminal justice and business communities;
- maintenance and advancement of "state of the art", by original research and dissemination of research findings;
- to serve as a technical resource for organizations at the state and local levels.

The proposed organization would have a Board of Directors drawn for a diversity of sources representing criminal justice, business, private security and the public sector, plus a small professional staff. It is suggested that it could be funded by a variety of means, including business (through trade associations), foundations and the Law Enforcement Assistance Administration.

State Level. State Planning Agencies could be utilized at the state level. Their concerns for the criminal justice system provide built in support for an extension or subdivision of the present body to work in coordination with the proposed national organization. Additionally, many SPAs provide for regional supervision in their structure. Each state would organize a sub-unit of the Agency to oversee activities of the local organizations.

Local Level. The local organizations can be based upon already existing bodies (such as "Citizens Crimes Commissions") or be extensions of existing programs (e.g., Operation Shoplift in New Orleans) where there is the potential to bring together prosecutors, business people and law enforcement individuals. In addition, local organizations can be actually created via innovative demonstration projects offered to particular locales. The presumption is that once such local organizations are initiated they will gain the momentum necessary for further effort, which would be appropriate to particular priority problems faced by each community.

These organizations would be the means for viable local interaction between the general public, the business community, private security and the criminal justice community.

APPENDIX 6

WORKSHOP PANELS

NEW ORLEANS, NEW YORK

AND

SUMMARY OF FINDINGS

WORKSHOP PANEL MEETING MAY 4/5/6, 1977 FAIRMONT HOTEL, NEW ORLEANS

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Crimes Against Business Project

Summary of Recommendations Emanating
from Panels of "Crimes Against Business"
Specialists Attending Two Conferences:
New Orleans (May 4-6) and New York City (June 14-15)

June 30, 1977

SUMMARY OF RECOMMENDATIONS FROM PANELS OF "CRIMES AGAINST BUSINESS" SPECIALISTS

Introduction

Two conferences were convened in order to develop certain concepts, initially generated by the American Management Associations' "Crimes Against Business" Project, into recommended programs. The project is funded by a planning grant from the Law Enforcement Assistance Administration (LEAA) and is concerned with strategies to control "non-violent" crimes against business. The final outputs will be a set of recommendations for:

- Demonstration Programs
- Research Programs
- A National Data Base
- Strategies for:
 - communicating the economic and social impact of crimes against business to the American public and establishing communications between the criminal justice system and business communities;
 - institutionalizing the project and the proposed program so that momentum is maintained.

In all, some one hundred leaders in the fields of criminal justice, private security, business and academia participated.

Demonstration Programs

Participants were asked to consider concepts relating to defensive, deterrent and "de-motivating" strategies.

Internal Defensive Measures

Employee Pilferage and Vandalism. A series of curricula outlines were proposed for training and educating top and middle management in the fundamentals of loss prevention systems, suitable for small and medium sized organizations in retail, manufacturing, and hotel/motel industries.

Shoplifting and Check Fraud. Two curricula outlines were proposed for training and educating management of retail stores in the essentials of loss prevention systems, aimed against shoplifting and check fraud, and suitable for use by small and medium sized concerns. In addition, an employee training program was proposed relevant to the same concerns.

The proposal was that mall areas should be used in demonstration sites, and a program outline was developed that could lead to measurable results and dissemination of findings.

Hotel/Motel Theft and Related Crimes. The National Crime Prevention Institute model security survey was taken as an example of a recommended basis for a training program for management. In addition, a general employee training program was recommended, this being considered "the fulcrum upon which loss prevention programs will pivot, combined with unrevokable commitment on the part of management." The issue of key control was also addressed in detail.

The above three sets of programs could be combined into a loss prevention/asset protection demonstration project in selected communities.

Commercial Bribery. The outputs of the group concerned with this issue were:

- 1. A definition.
- 2. Summary guidelines for use by organizations in establishing and communicating its operational philosophy, its commitment and its operational standards relating to ethics in business.
- 3. A description of situations in which bribes are accepted or offered and their nature.
- 4. Guidelines for establishing controls to make temptations towards dishonesty "appear impractical or unprofitable," with such controls being more personally demanding upon executives than those imposed on employees of lesser responsibilities.
- 5. A recommendation for closer cooperation between business and the criminal justice system in investigating, detecting and prosecuting bribery, and

in particular the creation of a staff that can serve as interface with the system, and an improved capability in the public sector to cooperate with business in this activity.

- 6. Guidelines for the development of vehicles for the cooperative dissemination of goals within industries, with a particular recommendation that industry associations establish committees of members to deal with dissemination of information on the problem, appropriate philosophy, codes and deterrent techniques.
- 7. An outline of training programs/seminars to promote the deterrence and control of corporate bribery.

Joint Defensive and Deterrent Measures

Arson. An outline was developed for a two-track training program, consisting of an overview course for members of the judiciary and an intensive course for arson-insurance investigators and members of the criminal justice system dealing with the problem. Suggestions for changes in statutes concerning arson were also made, including a recommendation that states should consider adoption of the American Insurance Association Model Arson Law.

The expertise that is already available was recognized as was the existence of the National Fire Prevention and Control Administration and the National Academy for Fire Prevention and Control, but the point was stressed that effective promulgation and implementation were lacking. A possible demonstration project would be the creation of an arson task force in an area with a growing arson problem and no such force, and the instituting of training of all personnel along the recommended lines.

Public Deterrent Measures

Modification of the Criminal Justice System. A proposal was made for the establishment of Economic Crime Units, under the auspices of local prosecutorial offices in metropolitan areas. The purpose of such units would be to conduct special investigations involving complex commercial crimes and crimes

that generally affect the business community. They would be staffed by prosecutors (experienced trial attorneys) and investigators. Personnel would be specially trained. The National District Attorneys Association models were recommended for staffing and training.

While some areas do already have such units, many do not and where they do exist they are not always efficiently staffed. The proposed demonstration project would be to establish a model unit, with a carefully selected staff, properly trained, and with the involvement of business people in an advisory capacity.

In addition to such structural changes, many recommendations were made concerning statutes, sentencing guidelines and court procedures. In most cases, it would not be possible to set up demonstration projects in these areas, since state or municipal legislative action is called for; they have therefore been treated as subjects for research and dissemination of research findings, in the belief that this is the most effective way of producing change.

Commercial Fencing. Commercial Fencing is a means whereby stolen goods are sold to legitimate business for resale to the public, the legitimate business being sometimes aware that the goods are stolen. The panel recommended methodology for identifying the elements which will improve the chances of incovering such operations and the capability to successfully prosecute. A number of research projects were proposed, which it was thought would lead to various demonstration projects, including an extension of "Operation Sting," directed, however, at finding the receiver who places stolen goods in the legitimate market.

"Demotivation"

Workplace Crime. The goals to which this panel worked were: a procedure to identify causes of employee dissatisfaction, alienation, ignorance, and other psychological dimensions which could be induced by organizational factors and which could, hypothetically, motivate workplace crime; matching solutions. While recognizing that there was not much hard data to support this hypothesis, it was agreed that it was plausible and worthy of testing in a "real" environment.

The elements of an organizational survey were determined, which would identify causes of dissatisfaction, etc. Matching solutions would depend on the survey findings in any one organization, but would range from eliminating discriminatory personnel practices and improving working conditions to improving internal communications, providing security training for all employees, dedicating the corporation to a policy of excellence and high ethical standards in all its operations, and communicating and implementing a policy of strict sanctions against offenders.

A proposed demonstration program would entail locating organizations with recognized problems among its workforce, then identifying the causes of these problems, instituting solutions and measuring the impact upon workplace crime. A mediumsized retail store (or stores) was proposed as an example, with a similar organization(s) as a control.

Crime By Young Persons (Shoplifting and Vandalism). The panel recognized that juveniles from all social strata commit acts of vandalism and shoplifting. Peer pressure was thought to be the strongest single influence, but a "multi-initiative" approach was stressed, which would include the family, schools and business, and innovative judicial reform. Specific activities proposed include: developing "canned" programs for use by (a) mass media, and (b) by schools, churches, Parent-Teacher Associations, Chambers of Commerce, directed to parents as well as to juveniles themselves; field trips to prisons by juveniles; involvement of business representatives in school and containity programs; evaluating the Albuquerque Shoplifting Rehabilitation Program (based on driver re-education models), for possible extension into models of the prison of the purisdictions.

A particular municipality would be selected as the site of the "canned" program project, one with recognized problems of juvenile crime and little in the way of structured programs to deal with the problem.

Research Projects

Arson. As a complement to the demonstration project on arson already considered, it was recommended that research should be conducted on the feasibility and effectiveness of an "educational network," which would instruct elements of the criminal justice system, banks, lending institutions and insurance companies on what characteristics of a business should be looked for in order to (a) predict the likelihood of intended fraud by arson; and, (b) increase the likelihood of successful investigation of frauds that have been perpetrated.

Computers and Crime. To research the field of computers and crime, it was proposed that, firstly, an attempt should be made to develop prototypic models of ways in which frauds and embezzlements can be perpetrated by use of computers. This would be achieved by bringing together a team of computer specialists and permitting them to simulate (with access to one or more computer systems) ways of "beating the system." Secondly, the team would develop methods of preventing and detecting these crimes, when committed in real-world businesses. Thirdly, given the methods so developed, a study would be made of a sample of businesses, to detect the magnitude of computer-assisted crime.

Since it may well be that computerized systems inhibit rather than facilitate crime, it was considered necessary that the research should be so designed that comparisons between the actual and potential magnitude of crime via automated and manual systems could be made.

The project staff would, it was recommended, include experts from the FBI, Department of Defense, Atomic Energy Commission, members of public auditing firms, and academic and private computer specialists.

Statutes, Sentencing Guidelines, Criminal Justice System Processes. The focus, it was proposed, would be on commercial bribery, theft, fraud, embezzlement and arson. The study would commence with an analysis of the affects on the system and on society of differing statutes, sentencing procedures and court processes, currently in use, from which recommendations would emerge as to what "ideal" statutes, sentencing guidelines and processes should be. The researchers would work with such organizations as the National District Attorneys Association and the National Attorneys General Association, with legal associations, associations of state legislative leaders and with staffs of legislative committees.

Separate Courts. Closely related to the issue of process changes in the criminal justice system is the issue of special courts, particularly those set up to deal with shoplifting. It was proposed that the Chicago, Illinois Shoplifting Court be used as a model for study comparing its results with those in another jurisdiction with a similar level of shoplifting and similar demographic and criminal justice system characteristics (other than the existence of the court). The outcome of the study would be guidelines for the establishment and operation of such courts in jurisdictions meeting certain criteria.

Econometric Study of the Social Impact of Crimes Against Business. The objective would be to estimate the true costs to, and effects on, society of crimes against business. These costs and effects include increases in consumer prices, lost services, lost job opportunities, etc. It would be necessary to track through the effect of each type of crime on the business itself, insurance companies, the consumer, and the community. Much of the input to the study would come from the proposed National Data Base, described elsewhere in this summary.

Identifying Management Techniques that Relate to the Encouragement or Discouragement of Workplace Crime. The proposed method is to locate organizations of similar sizes, labor areas, markets products or services, etc., but with different internal crime rates and seek differentiating management practices, either with respect to personnel, overall conduct of the business or loss prevention. With an appropriately designed sample, the effects of different practices upon internal crime could be identified.

Improvement of Cooperative Efforts Between Business and the Criminal Justice System and Between Business and Other Businesses. It was proposed that research should be undertaken to study the motive and attitudes of business regarding cooperation with the criminal justice system and vice versa, and also the motive and attitudes of business regarding cooperation within the business community itself. In-depth interviews, followed by a telephone survey of business executives, prosecutors and senior law enforcent officers were recommended as the method.

National Data Base

It was proposed that, as a first step, detailed, in-depth studies should be made in a small number of businesses, concerning the current availability of loss data and the potential for increasing the availability of valid data by cost-effective means. Following this initial effort, it was hoped that a developmental project could be mounted, possibly using the Bureau of the Census/LEAA Commercial Victimization sample as a basis for creating a panel of respondent businesses. It was not felt that this could be recommended at this time, however, since too little was known about what business could or would provide in the way of loss data, hence the need for the initial step.

A second proposal was to use self reporting as a means of assessing individual rates of offending, and to relate offenses to offender characteristics and modus operandi. Again, it was not felt that this method could be recommended until a thorough study of self-reporting techniques had been made.

Communications and Institutionalization

The panel recommended that an Economic Crimes Institute be created, policy control being vested in an Economic Crimes Council which would act as a Board of Directors. would be broadly based and would represent business, justice, private security, consumer groups and organized labor. The Institute's mission would be research, development and information dissemination in the field of non-violent crime against and by business and other organizations. Information would be disseminated via a network of other organizations represented on the Council, each of which would have affiliated organizations at the state, county and municipal levels. Hence, centrally generated or gathered data, on economic impact of crime, recommended statutory changes, internal procedures to control crime and so forth, could readily be disseminated at the levels where the information could be used. The Institute should be funded from the private sector, with some on-going support from Federal sources (by grants and contracts).

The creation of the Institute would be preceded by conducting a National Economic Crimes Forum, with Federal support. This Forum, like the Council, would be very broadly based. Its purpose would be to focus national attention on the problem and lead, more or less automatically to the formation of the Institute and a national network for the exchange and dissemination of information.

Implementation Strategies

All the above recommendations are currently being translated into specific task or program formats and submitted to the Law Enforcement Assistance Administration with a request that steps should be taken to ensure their implementation in the near future. Other government departments and agencies at Federal and state levels will also be approached as will concerned professional, trade and consumer interest organizations to maximize the probability that some, at least, of these many proposals become on-going programs, having some real impact on crime against business.