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# Good Management's Impact on Inventory Shrinkage

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## **Good Management's Impact on Inventory Shrinkage**

By David Jack Cherrington, 28 October 2009

One of my good friends, Joseph Nelson, tried to convince me that inventory shrinkage was mostly a management problem. Based on his experience as a store manager, Joe claimed that the conduct and example of top management were the most important factors in curtailing shoplifting and employee theft. I was much more inclined to focus on the dishonesty of customers and employees.

Joe was a very effective store manager and his shrinkage rates supported his argument. Under his leadership, the shrinkage rates for the previous eight years in his department store were less than 0.2 percent while the average rates for other stores in the same national chain were about 2.0 percent. The shrinkage rates for two similar department stores in the same mall usually ranged between 1.5 and 2.0 percent.

When I asked Joe what he did that was so effective in controlling shrinkage he simply said "good management." I said that was not an adequate answer and pressed him to learn what exactly he did. He described several things and I disregarded most of them as not really having much impact on shrinkage. For example, he explained how he left his office frequently and walked around the store visiting with each employee. He knew all the employees personally and called them by name, and he coached them on their job performance. When he saw display items that didn't look attractive, he would stop and change them. When he saw items that were not stacked neatly, he restacked them. When he saw litter on the floor, he picked it up. Employees were quick to help him make improvements. When customers needed help, he tried to find someone to help them or he would help them himself.

I thought there were only a couple of actions that might have impacted shrinkage and even they seemed rather trivial. First, he insisted on meeting all new employees before they were hired, and second, he taught about 30 minutes of each new employee orientation. When he met job applicants he would visit with them in a very personable way for a few minutes and then he would ask them directly if he could trust them. Obviously, they all said yes; so I didn't think this served as a very effective screening interview.

During the orientation session he explained how sales associates should act and dress and how they should treat the customers. His vision of professionalism was highly inspiring to the sales associates and many of them told me they were very motivated by his instruction. His argument was that in the eyes of the public they represented the store. At the end, he would remind them about the time he asked them if they could be trusted and then he would say: "We would not hire you if you were not smart enough to discover clever ways to steal from us; therefore we have to trust you. Consequently, I confer upon you my sense of trust and hope that you never do anything to violate it."

I told Joe I thought his expectations were useful; but I didn't think they adequately accounted for his results. He claimed that all of his good management practices contributed to his success. I didn't buy it then; but now, I think I was wrong. Subsequent research suggests that many small management actions can contribute to reducing inventory shrinkage rates.

One of my colleagues, Katie Liljenquist, recently published a study in *Psychological Science* showing that a clean environment influences the moral behavior and fairness of experimental subjects. In the first experiment, she and her colleagues had people participate in a classic trust game that required them to negotiate with a partner. The subjects received \$12 of real money, allegedly sent by the anonymous partner in another room, and they had to decide how much of it to keep and how much to return to their partners who had trusted them to divide it fairly. Half the subjects were in normal enclosed rooms while the experimental subjects were in rooms that had been recently sprayed with Windex. Those in the clean-scented rooms were less likely to exploit the trust of their partners and returned a significantly higher share of the money (\$5.33 versus \$2.81).

In the second experiment, students were told about opportunities to volunteer time and money to help a campus drive for Habitat for Humanity. Students who were asked in rooms scented with Windex were much more willing than students in non-scented rooms to volunteer their time (4.21 versus 3.29 on a 7-point scale) and much more likely (22 percent versus 6 percent) to donate money. Thus, cleanliness and order seem to have an impact on our moral behavior.

Now I believe that inventory shrinkage is influenced by everything management does to create a healthy and attractive environment. Everything about a store should be clean and orderly, including the merchandise, the displays, the floors, the walls, and the aroma. Everything about the sales associates should be equally clean and professional, including their facial expressions, their hair, their clothes, their shoes, and their conversation. I agree with Joe that inventory shrinkage is mostly a management problem and I have a much greater appreciation for the little things he did as a manager to create a climate of integrity and professionalism in his store.