Organizational reaction to a performance problem

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ABSTRACT

This case concerns an organization’s reaction when they learn that an employee has been stealing money from them by generating unauthorized checks for himself. The organization’s reaction and the employee’s reaction are related to their own values, which are very different from each other. Possible and actual consequences of the employee’s behavior are summarized. Students analyze the case and answer questions concerning the employee’s behavior and the organization’s reaction to this behavior. The case includes three parts, which should be completed in sequence.

Keywords: Employee discipline, performance management, employee relations

Note: This is a fictitious case developed for educational use. All statements, names, numbers, dates, etc. used herein were created for the purposes of this case and should not be construed as factual. Any resemblance to any actual organization or individual is purely coincidental.
INTRODUCTION

This case describes the reaction of an employer1 (called BIG) when an employee (Tom Malone) stole from them by generating checks written to himself. The problem was discovered by the Director of Finance (Mike Sersky) who considered Tom’s behavior as well as the consequences of this behavior when he chose a course of action in response to this problem. Background information concerning Mike and Tom are provided in order to analyze the reasons for their individual behavior and their responses.

The employer

BIG is a large service organization with offices in multiple locations. The employees described in this case worked at the main office, which was located in a downtown office building in a major city.

Mike Sersky

Mike Sersky was the Director of Finance for BIG. He started working at BIG after spending four years in the Marines. He entered the Marines right after high school and worked full-time at BIG while going to school part-time to earn his Bachelor’s degree and, later, an MBA. He valued hard work, honesty, and discipline. He was very proud of his successful career at BIG and the fact that he had worked his way up to his current position while going to school at night.

Mike described himself as someone who “…dots i’s, crosses t’s, meets all deadlines, and starts every meeting at the designated start time (even if no one else is there).” He was proud of his days in “the Corps” and wished more people spent time developing the discipline he learned in the Marines.

Mike became Director of Finance about two years ago. He began his position at a time when there were many rumors about inefficiencies and the misuse of travel funds by BIG employees. Alleged inefficiencies concerned the belief that too much money was being spent on travel. Some people believed that employees did not consider the cost of travel when scheduling their trips; so they scheduled travel inefficiently, made unnecessary trips just so they could be out of the office, and scheduled trips so they could take care of personal business. The rumors also included allegations about employees’ “padding” their travel claims—for example, being paid for trips they had not made, being paid more than once for the same trip, or making claims for fictitious expenses.

Mike took the allegations (which employees referred to as “Travelgate”) very seriously, and he promised to “clean things up” when he became Director. Mike discussed these allegations during his interview for promotion to Director. He believed that his statements of “zero tolerance” for unethical behavior and his reputation as a person who accepted “no nonsense” worked positively for him during the selection process.

When Mike started his job as Director, he investigated “Travelgate.” He was pleased to find no evidence for the allegations that had been made. However, he recognized the limits of

1This case is based on real events. Specific information (including names of the employer and all employees) has been changed so the individuals and organization may remain anonymous.
his investigation since no one had ever made a charge related to a specific employee or specific trip; and there was a limited paper trail. A thorough investigation would have required contacting all clients to determine whether or not a specific employee had visited a specific client on a specific day. This would, of course, have taken an extraordinary amount of time; and Mike was concerned about clients’ possible reaction if he tried to obtain this information for trips that were reported for months (or even years) ago. During the investigation, Mike also found a few employees whom he described as “troublemakers” or “toxic”. He considered the fact that these employees, who seemed to be the initial source of most of the rumors, may have initiated these rumors for their own purposes.

Mike ended his investigation with a resolve to prevent future problems. He was very public about his zero tolerance for all unethical behavior and his commitment to end the possibility of allegations such as the ones made recently concerning travel claims. When asked about any current problems, his usual response was “…not on my watch”.

Although Mike had found no evidence of misusing travel funds, he believed the system was “sloppy”. He viewed many of the employees as “careless” when they made claims or processed claims, and the system did not have the types of controls he believed were necessary. When Mike became Director, he instituted more controls and accountability for the processing of travel claims; and he monitored all reports related to travel claims (as well as all other financial transactions). The new system was updated and refined during his first few months as Director. After Mike’s first year as Director, he felt confident that the new system was working well. The number of errors had been reduced significantly, and the system included various internal checks that automatically identified potential problems.

**Tom Malone**

Tom Malone was an Office Assistant who worked in the Finance Department in an entry-level administrative position. He started working at BIG two years ago—three years after graduating from high school. Working at BIG was a job for him, but not part of a long-range career plan. He wrote songs and played in a band, which was his real passion. He applied to BIG when his friend’s sister told him about the job opening. He completed the screening process, and he scored very highly on the written test used to select Office Assistants. The job did not excite him, and he did not envision a long career at BIG; but the job gave him a steady paycheck and regular hours. Also, the job paid more than the minimum-wage jobs he held after completing high school. The steady pay check made it possible for him to rent a house with his buddies and know that he would have rent money each month. He also was attracted by the predictable work schedule, which did not interfere with his band time. Most of the band’s opportunities for paid work occurred on the weekend. Tom could still write songs, practice with the band on weeknights, and play at clubs on the weekend while working at BIG.

Tom’s job involved processing travel claims for BIG employees. Specifically, he handled reimbursement for local travel (mileage, tolls, parking) for the many BIG employees who travelled to visit clients. He processed reimbursements for local travel only. Other employees in the office processed the more complicated claims for travel involving airfare, hotels, and so on.

Tom needed about a month to learn the basic parts of his job. He reviewed claims submitted by employees, verified information, checked for any needed signatures, made sure all required documentation was included, and then entered information into the software program
that generated reimbursements. Employees chose either to have the reimbursements directly deposited to their bank accounts or to be given paper checks sent through inter-office mail.

At about the time Tom started working, Mike assigned a Project Team to refine the system used to process travel claims and to develop new controls for the system. This team often met with Tom and other people who used the system, and they summarized their recommendations and developments to Mike.

During the first few months of the Project Team’s assignment, Tom learned about various controls the system used to process claims after they left his office. For example, the most common problem was related to the date listed for travel. Some employees inverted the date written on the claim (for example, write 6/2 instead of 2/6), and the system did not allow a claim for June travel to be made at any time before the designated travel date. Also, the system automatically returned any claim for travel on a weekend or holiday. The Project Team quickly learned of problems such as these, and they instituted changes in the claim forms and a desk review for Tom and other employees to use when they first received travel claims. These changes eliminated many problems.

As time went on, Tom learned of various other controls used to detect possible problems related to claims Tom processed. These claims required additional review. For example, the system returned claims if the claims included more than one claim for the same trip made on the same day, any trip made on a holiday, and any individual trip with a claim for more than one hundred dollars\(^2\) (except for certain cities where the limit was changed to two hundred dollars). These rejections usually reflected (1) an exceptional situation (such as an employee needing to make a second trip on the same day to the same client) or (2) reporting errors by the person making the travel claim. These exceptions did not necessarily reflect an attempt to receive money fraudulently; but the system required another layer of approval before these claims could be processed.

Over the next year, Tom became aware of other controls. For example, a claim for eleven hundred dollars was returned because the system automatically rejected local travel claims of over one thousand dollars. Since local travel claims included only mileage, tolls, and parking, it was extremely unusual for any claim to be this large (even when employees combined several trips on one claim form). Further investigation of this specific claim revealed that the claim included fourteen different trips made to the same client on different days in a single month, so the amount was justified. However, the thousand dollar limit was retained so that any claims this large would be initially rejected.

The control system became even more sophisticated as time went on. Eventually, the system was linked to the payroll system so that a claim would be rejected if someone claimed travel expenses for a day they were listed as sick or on vacation.

The system produced various summary and exception\(^3\) reports that were reviewed by Mike and any other relevant employees. For example, one summary report categorized travel expenses by employee and client. This report initially was created to prevent multiple claims for

\(^2\) Tom handled only local travel claims (for mileage, tolls, and parking); so individual claims over one hundred dollars were unusual. Claims over one hundred dollars were allowed as long as the claim was justified. However, these claims required more review than the more common claims amounting to less than one hundred dollars.

\(^3\) Exception reports listed claims suggesting a possible problem. These individual claims generally required follow up or an additional layer of approval.
the same trip, but the operating managers used the report to analyze scheduling efficiency and frequency of client contact. Some managers found that their employees were not scheduling client visits efficiently or that they were travelling to visit clients when they could provide the same service in other ways (for example, by phone, e-mail, or Skype). Also, managers followed up on situations in which frequent visits were reported for the same client. The need for frequent visits could be related to a serious problem or a problem requiring contact with people from a different department.

By the end of Tom’s first year, he believed he was aware of all the controls in the system; and he was able to complete his job very efficiently. He was pleased that the Project Team had listened to his suggestions, and he was confident that they would listen to other suggestions he made. Tom’s system of desk review prevented many of the problems experienced during previous years. Now it was unusual to have claims rejected, most of Tom’s work became fairly routine, and very few of the claims he processed appeared on any of the exception reports.

THE CASE PROBLEM: PART I

Mike was drinking his morning coffee as he reviewed the monthly summary of travel claims processed for June. The system was programmed to identify most problems before a claim was processed, so most problems were addressed early. Only potential problems were listed on the exception reports.

Mike was pleased that the problems of earlier days seemed to have been eliminated, and the exception reports became shorter every month. Mike was pleased that the two years of close scrutiny found no evidence of “padding” expense reports or making fraudulent claims. He found many instances of carelessness and sloppy reporting (especially in the earliest months); but these mistakes also diminished to the point of being extremely rare. Mike was not sure if there ever was a real problem with fraudulent claims; but he believed that the new system, Mike’s zero tolerance policy, and Mike’s reputation for running a “tight ship” all contributed to positive changes. Mike really did not care if the problems never existed or if his changes reduced them. He was concerned only with the fact that these problems were not likely to occur now—as he said, “…not on my watch”. Now Mike needed only to scan reports, and most of the reported problems were so few and so unusual that the system required few changes in the past year.

The specific exception report Mike was reading at this time analyzed travel claims against a new field in the employee data base that classified employees by their eligibility to travel. The three employee categories were (1) Job requiring travel (local and other), (2) Job requiring local travel only, and (3) Job not requiring travel. The analysis identified various potential problems and produced relevant information on an exception report. For example, the names of employees in the third category (Job not involving travel, referred to as “Cat 3”) appeared on the Cat 3 exception report if they had a travel claim for (1) any non-local travel or (2) more than one local travel in any calendar month or (3) travel costing more than three hundred dollars in any calendar year. For the June report, only one name appeared on the

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4 Employees whose jobs did not involve travel occasionally travelled locally for training or a specific meeting. This travel was considered reasonable. On rare occasions, they travelled more than this; but their name still appeared on the exception report so the travel justification could be verified.

Organizational reaction to performance, page 5
exception list: Thomas Malone, Office Assistant, Finance Department, Main Office. The report listed two June travel claims for Thomas Malone: one for 56$^\text{5}$ dollars and one for 78 dollars.

Mike put down his coffee cup and looked at the report again to be sure he was reading it correctly. When he realized he was reading the report correctly, he sat back, inhaled deeply, and asked himself, “Would this guy really generate checks written to himself?” Mike looked out the window and counted to ten as he tried to control his anger. Surely, he needed to investigate this matter. He logged into the data base for travel claims and typed in “Thomas Malone”. He first checked to see if more than one Thomas Malone worked for BIG. Perhaps this problem was just some confusion with the records for two employees. Unfortunately, this was not the case. He found only one Thomas Malone and no Tom Malone listed in the employee database. Mike then searched for all travel claims for Thomas Malone. He found more claims: one claim for each of the months January through May. The claims became progressively larger, and each one was less than one hundred dollars: 18, 33, 59, 76, and 91 dollars, respectively, for each of the months January through May. Mike hardly could believe his eyes. A claim for one month might be justified or due to some kind of mistake, but not for six months!

Mike closed his office door and let his phone calls go directly to voicemail as he considered his options. Tom’s desk was located on the same floor as Mike’s. Mike saw Tom almost every day when Mike walked through “the cubes” on the way to his office. He remembered Tom’s participation in last year’s redesign of the system for processing travel claims and the many helpful suggestions Tom offered. Mike had a positive impression of Tom. He thought that Tom was intelligent and capable of moving to higher positions. Mike believed that Tom had real potential. He had encouraged Tom to apply for promotional positions and to take college courses at night so he could earn the degree necessary to apply for higher positions at BIG. Mike could not believe that now Tom was processing unauthorized travel claims for HIMSELF. Why would Tom do this? This was not only dishonest, but it also was incredibly foolish—taking such a risk for only a few hundred dollars! This could ruin Tom’s career and possibly land him in jail. Mike became angrier and angrier as he thought about Tom’s behavior. His anger was intertwined with his positive feelings about Tom. Previous concerns about “Travelgate” concerned people Mike had never met. This problem was literally at his own door.

Mike avoided his temptation to walk out to Tom’s desk, and he tried to be as objective as possible as he considered his options. He held his emotions in check as he thought back to the training session he had attended concerning employee discipline and performance management. He knew that he first needed to verify the facts, so he called one of his most trusted auditors (Anne Vega) to his office. Mike did not mention any of the possible consequences to the auditor. He asked her only to investigate all checks (other than payroll checks) written to Thomas Malone. He told her to “Find out all you can about these checks—Were they cashed? If so, when, where, by whom, etc.?” Of course, he told Anne that all this information had to be kept confidential.

While Mike waited for Anne’s response, he casually stopped by Tom’s desk and Tom’s supervisor’s desk later that day. After some small talk about the beautiful weather and upcoming vacation plans, Mike asked Tom and his supervisor how the new system was working for processing travel claims. Both Tom and his supervisor said the system was working fine—a great improvement over the old system. Mike also casually observed that they processed so

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5 All dollar amounts in this case were recorded as whole dollars. Amounts in the actual reports were recorded as dollars and cents.
many claims. He asked if they ever processed travel claims for anyone in the Travel Unit. Tom said that the only claims he ever received were from his manager, who sometimes attended meetings in other locations. “No claims for the rest of us,” he said. The only time they left the office for BIG was for orientation or training on new software. Orientation and training both were conducted at BIG’s Training Center, which was located only a few blocks from the Main Office, where Tom and Mike worked.

Anne obtained records for all checks written to Thomas Malone (a.k.a. Tom Malone), Office Assistant in the Finance Department at the Main Office. Other than his regular biweekly paychecks, eleven checks had been written to Thomas Malone:

- Five checks in January through May (one check each month for 18, 33, 59, 76, and 91 dollars, respectively)
- Two checks in June (56 and 78 dollars)
- Four checks in July (58, 74, 88, and 93 dollars)

All eleven checks had been sent by interoffice mail to Thomas Malone, 563 Main Office. The January check was cashed about a month after the check was sent. The other ten checks were cashed soon after they were sent. The back of each check was signed by Thomas Malone, and the signature looked similar to the signatures found in Thomas Malone’s personnel files (on his job application, benefit forms, etc.). The checks all were drawn on ZYW Bank, and they all were cashed by ZYW Bank.

ZYW was the main bank used by BIG, so ZYW representatives were very willing to provide information to Anne. They reported the identification used to cash these checks was a driver’s license issued to Thomas Malone. The checks were cashed at the branch office located on the first floor of the office building where Tom worked. The bank kept time-stamped videotapes of the public areas at local branches, and they were willing to provide the relevant tapes to BIG and/or the Police in order to provide videotaped proof of Tom’s cashing the eleven checks.

Anne checked the state and number for the driver’s license used to cash the checks. They were the same state and same number as the driver’s license Tom used for identification when he first was hired by BIG.

Tom’s cashing the checks at the local branch incensed Mike even more. This branch was used by many of BIG’s employees (including Mike). Tom could have been cashing a fraudulent check at the same time Mike was using the branch’s ATM!

The available information was considered sufficient for BIG to conclude that Thomas Malone, who worked in the Travel Unit, had cashed all eleven checks. Tom had not been authorized for BIG travel for any reason this year, so this information was considered sufficient for pursuing this matter further.

Case questions

1. At this point, what options does Mike have?
2. What options would you recommend Mike consider? Why?

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6 Anne checked employee ID number, Social Security number, and office address for all checks to be sure the checks were sent to the same Thomas Malone.
7 This was the Office Address used for the Thomas Malone who worked as an Office Assistant in the Finance Department, located on the same floor as Mike’s office.
3. What are the consequences of each option you recommend he consider?
4. What would you recommend that Mike do now? Why?
5. What do you think Mike did? Why?

THE CASE PROBLEM: PART II (MIKE’S REACTION)

Mike thought back to his repeated statements concerning “zero tolerance” of unethical behavior and all the efforts he had made to be sure his office was above reproach. The old rumors of “Travelgate” had died a slow death, but now the problem was in his own office! He liked Tom, and he knew that Tom’s behavior could lead to serious consequences. Mike knew he had to address this problem immediately, and he wanted to consider all his options carefully. He also knew that he had to consider the consequences of any option he chose.

Mike decided that he had to follow through with his zero tolerance policy. Even if Tom had made only one false claim for one dollar, the only possible employment decision was termination. Zero tolerance meant zero tolerance.

Mike gathered all his information and met with the Human Resource Department, who worked with the Legal Department to identify a course of action. Everyone agreed with Mike’s recommendation to terminate Tom. Mike then waited for the Legal Department to let him know about any decisions concerning the process for completing the termination process and the possible pursuit of criminal charges against Tom.

Tom’s final day at work

Mike noticed some activity in the fifth floor reception area. Two BIG security officers and two uniformed city police officers were in the reception area. Mike stayed in his office and observed the following behavior:

- The security guards and police officers walked to Tom’s desk.
- The security officers spoke with Tom.
- Tom removed his lanyard with the attached employee ID card and gave the lanyard to the security guards.
- The security guards removed the ID card and gave the lanyard back to Tom.
- The security officers gave Tom some papers, which Tom signed.
- The security officers walked away.
- The city Police spoke with Tom, who then stood up, was handcuffed, and was escorted out of the building by the two city police officers.

Mike started to call the Human Resource Office, but he was interrupted by an incoming phone call from the HR Department. They told Mike that Tom had been arrested and that the BIG security officers had taken Tom’s employee ID. The Information Technology (IT) department had shut down Mike’s computer accounts, removed his computer ID from the computer system, and closed his voicemail. They were on their way to Mike’s office to take his computer. Representatives from the Human Resource Department also were on their way to Mike’s office to enact immediate termination protocol (securing Tom’s files, looking though all materials in his desk and cubicle, gathering Tom’s personal belongings so they could be sent to his home, etc.). They asked Mike to tell all employees in the Finance Department to join him in the large conference room on the fourth floor.
The meeting on the fourth floor was short and full of tension. The HR Director said that Thomas Malone had been arrested, but BIG could release only information that was considered public record. They sympathized with the employees’ concern about Tom, and they understood that employees may have questions about the arrest. They reminded employees that this was an arrest, not a conviction; and the criminal justice system would determine Tom’s guilt or innocence. BIG would cooperate with the Police to give them any information relevant to the charges made against Tom.

The employees went back to their offices, and Mike went to the Human Resource Department to discuss the situation.

**Case questions**

1. Why do you believe Tom made the travel claims and generated checks for himself?
2. Evaluate Mike’s reactions to Tom’s behavior.
3. Evaluate BIG’s reaction to Tom’s behavior.
4. Is there anything Mike and/or BIG should have done differently?
5. Is there anything Mike (or BIG) could have done to prevent Tom’s behavior?

**THE CASE PROBLEM: PART III (TOM’S REACTION)**

Tom was shocked when he was arrested. At first, he thought he was being “punked” by some of his friends. He quickly realized that the arrest was real, and he persuaded his parents to post bail for him. He met with a lawyer to see if there was some way to prevent his being prosecuted and, especially, to prevent his incarceration.

Of course, Tom knew he was wrong to generate checks he did not deserve; and he was wrong to have cashed the checks. However, he believed that Mike and BIG overreacted. He said that “It’s fine if they want to fire me. It’s not like this was my dream job, but bringing in the police was definitely over the top”. Tom was especially angry when his lawyer told him about all the evidence against him. He became even angrier when he learned that Mike (and a few other BIG employees) discovered the problem after reading the June report. “I feel like I was really set up. They let me keep writing checks even after they discovered the problem. They should have let me know about this as soon as possible.” Tom also wondered if BIG’s reaction was due to Mike’s “law and order” way of trying to act as if he was still in the Marines.

Tom said that he would have stopped generating the checks after the first check if someone had told him to. Also, he would have paid the money back. “All they had to do was ask.” Tom said that he needed the money to pay his rent, so BIG provided too much of a temptation for him to resist when they made it so easy for him to generate and cash checks. Also, he really did not take that much money. All told, Tom took less than eight hundred dollars. This was only a small amount of BIG’s budget. Tom concluded that “They spend more money than that on paper clips, so why does this have to be such a big deal?” Also, the arrest at work (in front of all his coworkers) was “…really embarrassing. They knew where I lived. They could have arrested me at home or waited until I was leaving the building. They didn’t have to be so incredibly dramatic about it!”

Tom now was subject to criminal charges. The total amount included with Tom’s charges was over the 250 dollar limit used to categorize such crimes as a felony, rather than a misdemeanor. Tom was shocked when his lawyer told him that he could be charged with a...
felony, which usually resulted in prison time. If BIG had found the mistake after the first check Tom cashed (or even after the fourth check), Tom would have been charged with a misdemeanor only. If Tom was convicted of a misdemeanor, he would not have to serve prison time. For both the felony and misdemeanor charges, Tom most likely would have to pay a fine and/or be forced to pay restitution to BIG. On top of all these expenses, Tom was not happy with the quality of the public defender assigned to his case. He hired a private attorney; and he had to pay attorney fees, which were really adding up. All these costs were especially difficult to cover now that Tom was not receiving his regular paycheck. He may have to ask his parents to take out an equity loan against their home. Tom regretted the fact that, “BIG was not just punishing me. They were making real problems for my parents”.

Tom wrote a letter of apology to Mike and various other people at BIG. He offered to pay back all the money if BIG would speak with the District Attorney and ask that the charges against Tom be dropped.

Tom’s letters to Mike and other BIG employees were not received positively. They were outraged that he was offering to pay the money back if they asked for the charges to be dropped. They believed that Tom should pay back all the money (plus interest and/or fines) regardless of what happened in court.

Mike and BIG’s other representatives did not contact the District Attorney. When the District Attorney contacted them, they said they expected full restitution. Mike and BIG’s other representatives did not see any reason to intervene on Tom’s behalf. Mike said that, “This is why we have police and courts. Let them do their jobs. Tom’s fate will be decided by the justice system. If we are asked any questions, we’ll tell the truth. I see no reason to ask for any special treatment for Tom, and I do not want to spend any more time on this problem. We have wasted enough time already.”

Case questions

1. Describe any ways you support Tom’s reaction.
2. Describe any ways you do not support Tom’s reaction.
3. Why do you believe Tom reacted the way he did?
4. Why do you believe Mike reacted the way he did?
5. When you consider what happened in this case, are there any changes you would recommend that BIG make? If so, describe these changes.