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Strategies for Small Businesses to Enhance Ethical Financial Reporting

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Walden University

College of Management and Technology

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Mercy Nchangnwi

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Walden University
2021

Abstract

Strategies for Small Businesses to Enhance Ethical Financial Reporting

by

Mercy Nchangnwi

MBA, Henderson State University, 2010

BS, Mississippi University for Women, 2009

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Business Administration

Walden University

October 2021

Abstract

Unethical financial reporting can negatively impact the sustainability of a business organization. Small business owners who struggle to promote ethical financial reporting are at high risk of failure. Grounded in the fraud diamond theory, the purpose of this qualitative multiple case study was to explore strategies small business owners use to enhance ethical financial reporting. The participants comprised four small business owners in Massachusetts who effectively used strategies to enhance ethical financial reporting. Data were collected from semistructured interviews, company documents, and casual observation. Data were analyzed using thematic analysis. Five themes emerged: ethical behavior, internal control and communication, monitoring, segregation of duties, and action against fraudsters. A key recommendation is for small business owners to augment sound antifraud measures over financial fraud, thereby allowing small business owners to function effectively and efficiently. The implications for positive social change include the potential to increase employment opportunities that positively affect other small businesses and allow local communities to thrive and create economic contributions to the U.S. economy.

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Dedication

I dedicate this study to Almighty God, who made it possible for me to complete this program regardless of the many obstacles during the doctoral journey. Also, I dedicate this study to my amazing and supportive family, Samuel Ambe Nchaw, Mary Susanne Pela Nchaw, Joy Nchaw, Mrs. Mary Ntaw, Mrs. Grace Mankah Tanifum Ambe, Dr. Matthew Ndonwi, Pastor Gideon and Mrs. Loveline Tanifum, Mrs. Judith Azinwi Shu, Late Mr. Godlove Ntaw, late Dr. Matthias Niba, and to the rest of my family members. To my wonderful friends Mr. Beatty and Mrs. Mary Guy Moore, Mrs. Susan Tucker, Late Mr. James Tucker, The Itawamba Christian Church of Fulton Mississippi, Mama Carole Tobeth, Dr. Doris Ngemasong. M. Chafac, Rev. Daniel and Mrs. Rosemary Mbiwan, Esther Mbiwan, Rev. Dr. William and Mrs. Grace Ekane. Rev. Dr. Felix, and Mrs. Bridget Niba, Dr. Gilbert and Mrs. Yaniqua Eyabi, Apostle Kelvin Ngai, Dr. Nso Besong Takang, Mama Pamela Anyi, Dr. Patrick and Dr. Mrs. Delphine Tamukong, Dr. Charles and Mrs. Anna Ghany, Dr. Clestine and Mrs. Elfride Akuma.

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Section 1: Foundation of the Study

Business organizations lose approximately $3.6 billion worldwide yearly due to fraud (Association of Certified Fraud Examiners [ACFE], 2020). Occupational fraud lingers in businesses despite various controls put in place by private and government organizational to alleviate the risk of fraud (Kennedy, 2018). The incentive for workers to engage in fraud schemes comes from different factors (Noble, 2019). Some factors that encourage workers to engage in fraudulent activities include pressure, opportunity, rationalization, and capabilities (Bishop et al., 2017). Some business leaders and employees view unethical behavior and fraud differently (Rengganis et al., 2019). Occupational fraud includes corruption, financial statement fraud, and asset misappropriation (Glodstein, 2017). Inadequate or no controls over a business' assets may escalate the probability of asset misappropriation (Mustafa Bakri et al., 2017). Peters and Maniam (2016) asserted that occupational fraud affects almost any type of business, and the consequences of fraud affect these organizations for many years. Small businesses are also not insusceptible to occupational fraud (Ackermann, 2017). Therefore, the purpose of this qualitative multiple case study was to explore strategies used by small business owners to enhance ethical financial reporting.

Background of the Problem

Ethical leadership plays a crucial role in shaping workplace ethics culture and employees' level of work engagement (Mitonga-Monga et al., 2018). Ethical behavior can also lead to increased profits and an increase in employee and customer engagement. Furthermore, moral behaviors minimize the rate at which workers make unethical

decisions, thus promoting a positive financial performance. Abidin et al. (2017) acknowledged that management commitment towards ethics is positively associated with financial performance. Moreover, Agung (2020) asserted that disclosures of positive or negative changes in a firm's ethical performance could cause increases or decreases in firm value.

Organizations need to implement internal controls and external controls to detect any form of fraud. According to Vizirenko and Fedorenko (2020), internal audits help to assess the company to put an end to any fraudulent practices and also protect the resources of the company. Chidiac El Hajj (2018) specified that accurate financial statements are important for the company's well-being; they indicate that managing directors are not using financial reporting malpractices for self-interest.

Problem Statement

Financial fraud is a significant problem for small businesses (Kennedy, 2018). To resolve major corporate criminal enforcement actions in 2019, the U.S. Department of Justice's Fraud Section charged 478 individuals and tried 256 cases to verdicts involving approximately $4.1 billion in fraud loss (U.S. Department of Justice, 2019). The general business problem is that financial reporting malpractices linger in businesses in the United States. The specific business problem is that some small business owners lack strategies to enhance ethical financial reporting.

Purpose Statement

The purpose of this qualitative multiple case study was to explore strategies used by small business owners to enhance ethical financial reporting. The target population

consisted of small business owners from four small businesses located in Massachusetts. The participants demonstrated success in addressing strategies to enhance ethical financial reporting. Accounting managers and owners of small businesses can benefit from the results of this study by gaining awareness of the need to enhance ethical financial reporting strategies. The implications for positive social change include the potential increase of appropriate measures of control over financial reporting and to enable small businesses to succeed, which could increase employment opportunities. Increased employment opportunities could allow local communities to prosper.

Nature of the Study

The three research methods comprise qualitative, quantitative, and mixed methods (Saunders et al., 2019). I selected the qualitative method to use open-ended questions. Yin (2018) asserted that with the qualitative research method, a researcher explores a real-world setting, discovers how people cope and thrive in that setting—and captures the contextual richness of people's everyday lives. In contrast, the quantitative research method is appropriate when examining the relationship between variables by measuring and analyzing numerical data through statistical techniques (Shaw, 2018). Therefore, a quantitative research method was not appropriate for this study since I did not use statistical analysis to examine the relationships or the differences among variables. A mixed-method research method is a combination of quantitative and qualitative research (Saunders et al., 2019). A mixed-method was not also appropriate for this study because I only used data collected using a qualitative research method. The qualitative method was

most appropriate because I explored strategies small business owners use to promote ethical financial reporting.

I considered three research designs that one could use for a qualitative study: (a) narrative, (b) phenomenology, and (c) case study. Narrative research is about the life history of single individuals (Ford, 2020), whereas with the phenomenological approach, researchers focus on the meaning of lived experiences (Yin, 2018). The phenomenological research design was not appropriate for this study because my goal was not to describe the lived experiences of participants. I chose the case study design for this study, rather than phenomenology or narrative, because my goal was to conduct an in-depth exploration of the bounded systems of how small business owners can enhance ethical financial reporting. Yin (2018) acknowledged that researchers use a case study design to explore a bounded system in detail by collecting information from a variety of sources over some time. Therefore, the case study was the most appropriate for this study based on my goal.

Research Question

What strategies do small business owners use to enhance ethical financial reporting?

Interview Questions

1. What strategies do you use to enhance ethical financial reporting in your business?
2. What are some of the policies you have incorporated to promote ethical financial reporting?

3. What strategies have been most successful for fostering ethical financial reporting?
4. How do you assess the effectiveness of the strategies for enhancing ethical financial reporting?
5. What principal barriers did you encounter when implementing your strategies for enhancing ethical financial reporting?
6. How did you address the principal barriers to implementing your strategies for enhancing ethical financial reporting?
7. What additional information can you provide regarding strategies to enhance ethical financial reporting?

Conceptual Framework

In qualitative research, theories, concepts, and models can be used to construct a conceptual framework (Lugg, 2019). The conceptual framework provides the lens through which researchers understand, explore, and present the context of the research (Johnson, 2017). I chose the fraud diamond theory, developed by Wolfe and Hermanson (2004), as the conceptual framework for this study.

In the fraud diamond theory, Wolfe and Hermanson (2004) added an element named “capability” to the three initial fraud components of the fraud triangle theory. Cressey (1953) coined the fraud triangle by asserting that the three reasons why people commit fraud include pressure, opportunity, and rationalization. Wolfe and Hermanson argued that although perceived pressure might coexist with an opportunity and a rationalization, it is unlikely for fraud to take place unless the fourth element, capability,

is also present. People who choose to behave unethically must possess the skills and abilities to engage in fraudulent activities (Abdullahi & Mansor, 2015). Therefore, the key constructs underlying the theory are (a) pressure, (b) opportunity, (c) rationalization, and (d) capabilities. Wolfe and Hermanson's fraud diamond theory and Cressey's fraud triangle theory both align with this study exploring the strategies that small business owners use to enhance ethical financial reporting.

Operational Definitions

Accounting manager: This is an employee with an educational background in business, accounting, or corporate finance, who oversees the accounting operations of a business organization (Amankwah‐Amoah, 2020).

Business ethics: This is the study of business situations, activities, and decisions where the issues of right and wrong are addressed (Crane et al., 2019). The concept of business ethics expands to how employees behave toward and with each other, as well.

Financial reporting: This is the disclosure of financial results and related information to management and external stakeholders (e.g., investors, customers, regulators) about how a company is performing over a specific period (Bentley-Goode et al., 2017).

Fraud triangle: This is the theory designed to explain the reasoning behind a worker's decision to commit workplace fraud, and the three stages categorized by the effect on the individual can be summarized as pressure, opportunity, and rationalization (Abdullahi & Mansor, 2015).

Fraud diamond: This is the revised version of the fraud triangle, and the four components include pressure, opportunity, rationalization, and capabilities (Wolfe & Hermanson, 2004).

Organizational culture: This is a system of shared cognitions or beliefs in an organization. It is the basis for holding an organization together and governs its normative behaviors (Alsaqqa & Akyürek, 2021).

Small size business enterprise: According to the Affordable Healthcare Act (ACA), a business entity with 50 employees or less is a small business enterprise (Cameron, 2019). Healthcare.gov sets a standard size to define what is classified as a small business enterprise. If you have 50 employees or less, you are considered a small company, according to the ACA.

Assumptions, Limitations, and Delimitations

Assumptions

Assumptions are concepts that the researcher believes to be true but are unproven (Nkwake & Morrow, 2016). I made some assumptions for the study. My first assumption was that participants would honestly answer the interview questions. Secondly, I assumed that participants were versed in ethical financial reporting strategies. My final assumption was that unethical financial reporting negatively impacts small businesses and society.

Limitations

Limitations are occurrences that arise in a study that are out of the researcher's control (Simon & Goes, 2013). The first limitation was that participants are accounting professionals, and their experiences may not be extended to other professions. Secondly,

qualitative research does not require a set number of participants, but rather, it is defined by sufficiency and saturation. Sufficiency ensures that enough data are collected for themes to emerge, and saturation is reached when no new data or themes emerge (Topping et al., 2021). My final limitation was that the interview responses could also reveal limited knowledge of the successful outcomes of ethical financial reporting.

Delimitations

Delimitations are the boundaries set by the researcher to limit the scope of the study (Theofanidis & Fountouki, 2018). My first delimitation was that participants in this study would consist of small business owners and accounting managers in Massachusetts. Secondly, the purpose of this qualitative multiple case study was to explore strategies used by small business owners to enhance ethical financial reporting. My last delimitation was that this research is limited to four small businesses.

Significance of the Study

Contribution to Business Practice

This study is important to small business owners and accounting managers, so they may discover the gaps they have in their financial reporting systems in their businesses and how they can improve accounting control. The findings from this study could provide relevant information to small business owners on how to safeguard organizational resources. This safeguarding will lessen fraud risks. Misappropriation of assets is one of the most common types of fraud schemes perpetrated against organizations (Kazemian et al., 2019). To implement effective ethical financial reporting strategies, small business owners and accounting managers need to understand the

different types of fraud risks that can create an opportunity for financial fraud. According to the ACFE (2018), fraud can be more impactful in small businesses than in large businesses since small businesses have half the implementation rate of internal controls than larger businesses. Small business owners need to implement effective ethical financial reporting strategies to achieve business objectives of effective operations, reliable financial reports, and compliance with laws and regulations (Lee, 2021). The results of this study could provide small businesses with additional information on how to develop and implement ethical financial reporting strategies to lessen financial malpractices and alleviate fraud loss.

Implications for Social Change

The results of this study may contribute to positive social change by equipping accounting managers in small size firms and small business owners to create an ethical business environment. Also, small business owners may use the results of this study to promote ethical financial reporting in their firms. Small business owners can encourage ethical behaviors within the workplace when they teach their staff how to respond to pressure to behave unethically (Harvey, 2018). Strong ethical financial reporting strategies increase the likelihood of business success and therefore, improve the economic well-being of the surrounding community. When small businesses operate effectively and efficiently, they may boost their profits and increase employment, which could create a positive effect on other small businesses and the local community. Moreover, an increase in the success rate of small businesses may generate economic contributions to the U.S. economy.

A Review of the Professional and Academic Literature

A literature review is a critical and in-depth evaluation of previous research related to the phenomenon of study (Ruoslahti & Trent, 2020). A critical analysis and synthesis of the literature provide the context and conceptual framework for the research (Saunders et al., 2019). Torraco (2016) affirmed that researchers conduct a literature review for dissimilar reasons and diverse audiences. A literature review for a study is an important aspect of research, for it provides a comprehensive summary of the existing knowledge on the phenomenon of study (Rao & Moon, 2021). Saunders et al. (2019) acknowledged that the literature review is intended to identify knowledge gaps and illustrate the justification to the research aim.

The purpose of this qualitative multiple case study was to explore strategies used by small business owners to enhance ethical financial reporting. The literature review is foundational in understanding the phenomena surrounding small business owners' successful ethical strategies to enhance financial reporting. This section includes a review of the professional and academic literature on fraud diamond theory as used by other researchers to explore related research topics. To conduct a review of the literature for this study, I considered the work of other researchers who had studied strategies needed by accounting managers and small business owners to foster ethical financial reporting and prevent financial fraud. The findings of this study may contribute to the gap in small business practices regarding strategies accounting managers and business owners might use to lessen the effects of financial loss as a result of financial fraud. Literature review sources were from business-related searches on how small business owners and

accounting managers can promote ethical financial reporting. The literature review on interrelated areas provides a good rationale for the study. The interrelated areas were the fraud triangle theory, the fraud diamond theory, the fraud scale theory, the agency theory, the importance of fostering financial reporting, organizational culture, occupational fraud, and internal control.

The literature review encompasses peer-reviewed articles, authoritative books, and dissertations relating to the topic. The research design of selected literature included both quantitative and qualitative research methods. The primary databases used in this literature review included ProQuest, Accounting, Tax & Banking Collection, Google Scholar, ABI/INFORM Collection, Emerald Management Journals, and Walden University Library. Other sources of literature for this study included Business Source Complete, Academic Search Complete, ScienceDirect, Thoreau Multi-Database Search, and SAGE Journal, a few Dissertations & Theses at Walden University. I also used the *Report to the Nations on Occupational Fraud and Abuse* by ACFE.

Key search terms for researching for the literature review included *small businesses, financial reporting, financial fraud, fraud diamond, fraud, fraud triangle, qualitative method, ethics, accounting managers, small business owners.* Other keywords include *asset misappropriation, signs of fraud, whistleblower,* and *COSO framework*. The literature review includes peer-reviewed articles published within 5 years of the expected date of receiving approval from the chief academic officer at Walden University and published between 2017 and 2021.

The Fraud Triangle

One of the oldest and more basic concepts in fraud deterrence and detection is the fraud triangle. The fraud triangle is a framework designed by Cressey (1953) to explain the reasoning behind a worker's decision to commit workplace fraud. Cressy developed the fraud triangle theory after interviewing 250 prisoners in numerous prisons in the United States who were trusted and violated that trust (Kramer, 2015). Cressy realized that the inmates serving white-collar crimes had similar characteristics According to Cressey, the three reasons why people commit fraud include pressure, opportunity, and rationalization. Figure 1 shows the fraud triangle.

Figure 1

The Fraud Triangle

The Historical Development of the Fraud Triangle Theory

Most business owners use the fraud triangle to understand why and how workers engage in fraudulent activities (Sabatian & Hutabarat, 2020). Raval (2018) acknowledged

that for many years most discussions on financial fraud have centered on the fraud triangle, which has evolved through various extensions and re-interpretations. Machado and Gartner (2018) emphasized that a clear understanding of the fraud triangle theory can enable small business owners and accounting managers to detect and prevent fraud. Ergin (2019) conducted a study with 13 German, Swiss, and Western Austrian convicted offenders of financial statement fraud, corruption, bribery, embezzlement, and accounting fraud in their organizations. According to the interviewees, pressure, opportunity, and incentive were relevant triggers (Ergin, 2019). Huang et al. (2019) conducted a study to identify the financial statement fraud factors around the fraud triangle. Huang et al. discovered a significant advantage to auditors and managers in enhancing the efficiency of fraud detection and critical evaluation. Small business owners who understand the fraud triangle theory and implement a firm internal control system should ensure that employees within the organization are aware of the control system (Verschoor, 2015). When workers within a business organization are aware of controls in place, the perceived opportunity to engage in a fraudulent activity decreases within the organization (Roden et al., 2016). Kramer (2015) suggested that business owners can prevent fraud when they focus on the opportunity component of the fraud triangle by augmenting the possible fraudsters' awareness of fraud detection. Opportunity refers to the fraudster having the knowledge and chance to commit fraud (Machado & Gartner, 2018). Opportunity is perceived when a control weakness is present, and the probability of being caught is remote (Maragno & Borba, 2017).

Circumstances in life may motivate an individual to engage in fraudulent activities (Sabatian & Hutabarat, 2020). Some of these situations may include heavy financial burdens and addictions. Small business owners can use the fraud triangle to prevent fraud before it occurs (Kirsch, 2018). Accounting managers and business owners who work closely with their employees may notice unethical behaviors and address them before fraud occurs (Sabatian & Hutabarat, 2020). Employees often demonstrate certain behavioral traits before engaging in fraudulent activities, and business leaders can use those traits to recognize their intentions (Machado & Gartner, 2018). Small business owners administer the fraud triangle to proactively address the fraud risk components in their businesses (Sabatian & Hutabarat, 2020). Managers and business owners who have a clear knowledge of the opportunity element of the fraud triangle usually modify and strengthen internal control systems (Omar et al., 2016). Small business owners and managers need to safeguard their organization's resources by ensuring strong internal control when using the fraud triangle as a tool to detect and prevent fraudulent activities (Maragno & Borba, 2017).

To reduce fraudulent activities in organizations and ensure a controlled business environment, small business owners and managers can employ the fraud triangle (Noble, 2019). Roden et al. (2016) affirmed that business owners who successfully implement the fraud triangle substantially reduce fraud crimes within the organization and safeguard the reputation of both the employees and the organization. Financial fraud is costly to small business owners (Maragno & Borba, 2017). To mitigate financial risk and financial loss, most business owners encourage ethical behaviors within the organization (Kirsch, 2018).

Small business owners who clearly understand the concept of the fraud triangle prioritize fraud prevention to alleviate the stress and loss of energy and money that come with detecting fraud (Baten, 2018). Business leaders with a clear understanding of the fraud triangle will encourage a positive work environment and alleviate fraud occurrences (Maragno & Borba, 2017). Management should familiarize themselves with the fraud triangle and provide workers with venues to share their non-shareable financial burdens, thus reducing the fraud motivation (Sabatian & Hutabarat, 2020). Small business owners who implement the fraud triangle as an instrument within their organizations encourage effective, ethical cultures that support efforts to minimize the justification of unethical behaviors (Machado & Gartner, 2018). Some managers use the knowledge gained from understanding the fraud triangle to provide employee ethics training related to the organization (Verschoor, 2015). Some of the ethics training programs for small businesses include whistleblowing and surveys of employee behavior and personality traits (Istiqomah & Anisykurlillah, 2020).

Components of the Fraud Triangle

Some employees commit fraud when they are experiencing financial difficulties (Peprah, 2018). A confidential financial challenge exists when an individual is faced with a financial hardship and is unwilling to disclose the difficulty to others (Mustafa Bakri et al., 2017). Undisclosed financial challenges are some of the reasons why some employees engage in dishonest behaviors (Mustafa Bakri et al., 2017). Most often, a nonshareable financial pressure problem can occur as a result of fear of mockery and loss of social status (Noble, 2019). The pressure element of the fraud triangle could be financial or

nonfinancial (Machado & Gartner, 2018). Employees' motivation to engage in fraudulent activities changes with time and what was considered an incentive could suddenly become a pressure to act unethically (Ergin, 2019). An individual may decide not to share his or her financial challenge to acquire the necessary help for fear of social stigma (Bishop et al., 2017). Fraudsters prefer to resolve their non-shareable financial pressures secretly, including embezzling organizational funds (Kirsch, 2018). Some employees commit fraud as a result of a significant financial need leading to dishonest acts (Peprah, 2018). Some financial pressures are unreal; once employees experience pressure, they can act dishonestly (Noble, 2019). Financial pressure can be caused by greed, living beyond one's means, and unforeseen financial burdens like medical bills (Hess & Cottrell, 2016) Workers with addictions might turn to untrustworthy behaviors to fund their conduct (Ergin, 2019). Pressure from addictions may include gambling, drugs, and alcohol (Noble, 2019). Business leaders need to understand these various pressures to design, implement, and monitor a more effective internal control system (Woolley, 2016). Some employees commit fraud due to pressure from their family members (Omar et al., 2016). Workers who fear losing their jobs easily engage in fraud schemes (Machado & Gartner, 2018). When individuals are highly pressured due to financial needs, they are more likely to validate their reasons for committing fraud (Rengganis et al., 2019; Roden et al., 2016).

Employees can easily commit and conceal fraud when there is an opportunity (Omar et al., 2016). The opportunities to commit fraud increase when workers have access to organizational resources with inadequate control (Lestari et al., 2019; Omar et

al., 2016). There exists an increase in the opportunity to commit fraud when workers perceive the absence of an internal control system or when business leaders can override the internal control system (Roden et al., 2016). The most effective way to mitigate fraud in the organization is to address the opportunity element of the fraud triangle (Rengganis et al., 2019). Lack of checks and balances is one of the major fraud opportunities with small businesses (Jha et al., 2020); Omar et al., 2016; Roden et al., 2016). The same worker should not take control to create, implement, and monitor business activities (Omar et al., 2016). Ackermann (2017) asserted that business leaders should outline the job description of every employee. The opportunities to commit fraud in business organizations could be reduced when management can design, implement, and monitor the internal control system (Noble, 2019). An inverse relationship exists between the opportunities to commit fraud and internal controls (Lestari et al., 2019). The workers within an organization are more like to perceive opportunities to commit fraud when the internal controls of an organization are weak (Mason & Williams, 2020). Loishyna et al., (2019) suggested that small business owners can alleviate financial and nonfinancial fraud in the organization by actively engaging in internal control oversight. Business managers can create opportunities for fraud by overriding strong internal controls (Ramamoorti & Epstein, 2016).

Rationalization is the last element of the fraud triangle. With rationalization, employees seek to validate the reason for engaging in a fraud scheme before they engage in an unscrupulous act (Rengganis et al., 2019). Fraudsters justify their unethical actions because they do not want to seem morally unacceptable; they would rather consider

themselves as an exception (Bishop et al., 2017). Most workers commit fraud and validate the consistency with their beliefs and values (Ergin, 2019). Some individuals rationalize their fraudulent behaviors with entitlement to the organization's assets (Hess & Cottrell, 2016). Workers who are angry at their employers may retaliate by engaging in fraudulent activities (Noble, 2019). Individuals validate their dishonest behaviors with inadequate remuneration or insufficient performance recognition (Roden et al., 2016). Some workers might justify their fraud schemes to job dissatisfaction (Mustafa Bakri et al., 2017; Trompeter et al., 2013). Business leaders can address the rationalization element of the fraud triangle within the organization through workers' training and fraud awareness (Raval, 2018). Managers can mitigate rationalization by encouraging a positive and ethical work environment for employees (Hess & Cottrell, 2016). Business leaders can appropriately implement whistleblowing, which is a vital approach to detect and prevent fraud in the organization (Istiqomah & Anisykurlillah, 2020)

Limitations of the Fraud Triangle

Although several business owners and regulators use the fraud triangle theory in detecting and preventing fraud, it has some shortcomings (Maragno & Borba, 2017). With the advent of modern technology, fraud schemes have evolved in complexity and fraud has grown in complexity. Swindlers are progressing in creativity, making it difficult for the fraud triangle to have complete coverage of some aspects of fraud (Omar et al., 2016). All fraud cases are not the same (Mustafa Bakri et al., 2017). Some fraud triangle opponents assert that the theory has a narrow interpretation (Sabatian & Hutabarat, 2020). Critics like Wolfe and Hermanson (2004) argued that the fraud triangle needs other

elements like the capability of fraud perpetrators since management cannot observe the rationalization and the pressure elements in fraudsters. Other critics claimed that the pressure and the rationalization elements of the fraud triangle cannot be controlled by management. The fraud triangle addresses the motive of fraud from an individual's perspective where perceived pressure and rationalization cannot be observed and controlled by the organization (Ergin, 2019; Stone, 2016). The pressure and rationalization components, which are more difficult to observe and influence, are based more on employees' personal beliefs, individual values, ethical issues, and organizational culture (Machado & Gartner, 2018). The inventor of the fraud triangle provided insufficient reasons why individuals commit and conceal fraud (Noble, 2019). Wolfe and Hermanson added a fourth component, capability, to Cressey's (1953) three elements of the fraud triangle. Wolfe and Hermanson believed that capability as compared to perceived pressure and rationalization can be observed by business leaders and auditors. Roden et al. (2016) claimed that amongst all three elements of the fraud triangle, only the opportunity component can be controlled by an organization.

Albrecht et al. (1984) criticized Cressy's fraud triangle theory, and they replaced the rationalization component with personal integrity. According to Albrecht et al., an employee's decisions and the procedure of making those decisions can be observed by management as compared to the rationalization component. Business leaders can lessen financial loss and safeguard the organization's reputation if they monitor employees' integrity (Al Farizi et al., 2020). Management can alleviate fraudulent activities in the organization by maintaining good corporate governance and internal control (Omar et al.,

2016; Zalata & Roberts, 2016). In their qualitative research, Sabatian and Hutabarat (2020) surveyed a unique respondent group of fraud perpetrators, auditors who investigated fraud and employees who witnessed fraud within organizations, to identify whether, and how, an instrumental organizational climate is associated with the fraud. Based on their results, Sabatian and Hutabarat suggested that fraud has an important social dimension that is largely neglected by current fraud triangle interpretations. Business owners cannot use the fraud triangle to identify all the occurrences of fraud within the organization (Baten, 2018). Management should scrutinize employees' ethical behavior since fraud is embedded in the moral principles of some individuals (Ergin, 2019).

Critics of the fraud triangle like Ramamoorti and Epstein (2016) claimed that Cressey's theory does not address certain traits like narcissists, Machiavellians, and psychopaths. Workers without dignity do not seek to validate their fraud schemes (Ramamoorti & Epstein, 2016). Employees with narcissistic, Machiavellian, and psychopathic personalities are incapable to rationalize the elements of the fraud triangle (Ramamoorti & Epstein, 2016). Psychopathic workers have no integrity and empathy for their managers, and the desire to satisfy their needs first (Bailey, 2019). Psychopaths do not care about the consequences of unethical behavior on others (Bailey, 2019). Ergin (2019) added that some workers engage in fraudulent acts without any incentives or justification.

The Fraud Diamond Theory

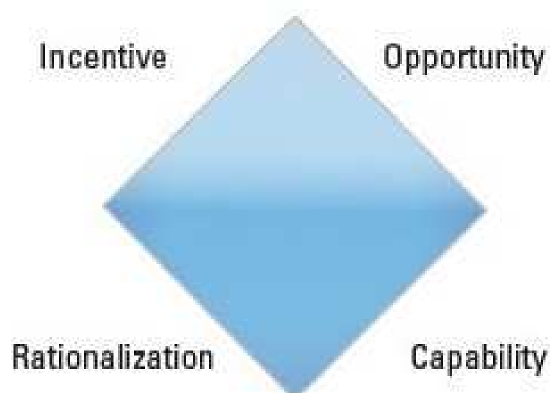
The primary theory for this study is the fraud diamond theory. The reason for using the fraud diamond theory as a conceptual framework for this study is that small business owners can use the theory to understand key financial fraud factors (Pedneault & Kramer, 2015). Small business owners can use the fraud diamond to understand why workers engage in fraudulent activities and how to protect and detect fraud in an organization (Noble, 2019). Abdullahi and Mansor (2015), posited those components of the fraud diamond are dynamic, and business owners could take them into considerations when determining why employees commit fraud. Perceived pressure paves the way for an individual to commit fraud. Perceived pressure is a motivating factor to commit fraud (Peprah, 2018), perceived opportunity paves the path of the fraudster to engage in fraudulent activities (Rengganis et al., 2019), rationalization helps fraudsters justify their actions (Ergin, 2019), and capabilities imply having the necessary traits or skills and abilities for the person to commit fraud (Sabatian & Hutabarat, 2020).

In 2004, Wolfe and Hermanson developed the fraud diamond, a revised version of the fraud triangle. According to Wolfe and Hermanson (2004), revising the fraud triangle could improve both fraud prevention and detection. The fraud diamond consists of an additional component to the fraud triangle called capabilities (Peprah, 2018). In addition to addressing pressure, opportunity, and rationalization, Wolfe and Hermanson claimed that fraud is unlikely to occur unless an individual can commit fraud. Therefore, personal traits and abilities play a major role in whether fraud may occur even with the presence of the other three elements. Pamungkas et al. (2018) acknowledged that many frauds,

especially some of the multibillion-dollar ones, would not have occurred without the right person with the right capabilities in place. Wolfe and Hermanson maintained that opportunity opens the doorway to fraud, and pressure and rationalization lead a person toward the door. The capability component allows fraudsters to take advantage of the opened doorway to commit fraud continually (Abdullahi & Mansor, 2015). Abdullahi and Mansor (2015) added that capabilities imply having the necessary traits or skills and abilities to commit fraud. With the opportunity presented, the individual must identify the weakness in the internal control system to commit fraud (Omar et al., 2016). Most workers with critical financial burdens, opportunities, and rationalization would not commit financial fraud if they lack the appropriate capacity (Noble, 2019). Peprah (2018) emphasized the importance of the capabilities in fraudulent activity. According to Wolfe and Hermanson, the four observable traits related to a person's capability to commit fraud include (a) position, (b) intelligence, (c) ego, and (d) cohesion, deceit, and stress. Figure 2 shows the fraud diamond.

Figure 2

The Fraud Diamond



Position

Employees in authoritative positions have the capabilities to create or exploit an opportunity for fraud not available to others (Abdullahi & Mansor, 2015). Wolfe and Hermanson (2004) stated that the position and role owned by the employee may perfect his or her way to breach the organizational trust. Pamungkas et al. (2018) affirmed that many of the world's most prominent organizations have experienced large-scale fraud perpetrated by high-ranking officials, and these frauds have had disturbing effects on the world's economy. Noble (2019) claimed that the CEO might have the ability to influence and perpetrate fraud due to his or her position within the organization. The collapse of Enron was a result of the fraudulent activities carried out by most of its top executives (Dyer et al., 2020). Therefore, organizations must implement sufficient checks and balances to alleviate the top employees' capabilities to influence and commit fraud (Peprah, 2018).

Intelligence

Most fraudsters have the capacity of exploiting any gaps in the internal control systems of an organization (Abdullahi & Mansor, 2015). When employees carry out reoccurring functions, such as setting up customers' accounts, their capability to commit fraud upsurges as their knowledge of the function's processes and controls expands over time (Yendrawati et al., 2019). As per the ACFE (2018), 51% of the culprits of occupational fraud had at least a bachelor's degree, 49% of the fraudsters were over 40 years old, and managers or executives committed 46% of the frauds based on the Association's recent study.

Ego

Fraudulent workers have a strong ego and great confidence that they cannot get caught, and they can easily set themselves free if caught (Noble, 2019). Robertson et al. (2017) posited that the common trait amongst fraudsters is the ego. These authors defined an egoistic person as someone self-assured, narcissistic, and driven to succeed at all costs. Thus, such a trait can affect a person's cost-benefit of engaging in fraudulent activity. Mills and Weisberg (2020) claimed that when fraudsters succeed in fraud crimes, they start believing that they are capable to fool everyone, and they are superior to others. Individuals with narcissistic personality disorder have a pervasive pattern of grandiosity, a need for admiration, and a lack of empathy for others (Crisp & Gabbard, 2020). Therefore, egocentric employees are more likely to commit fraud.

Cohesion, Deceit, and Stress

Several financial reporting frauds are committed by subordinates reacting to a pronouncement from above to "make your numbers at all costs, or else you are fired" (Abdullahi & Mansor, 2015). Wolfe and Hermanson 2004 acknowledged that an individual with a persuasive personality can easily convince others to commit fraud. Committing fraud and managing fraud over a long period can be stressful. Fraudsters would go at any length to avoid fraud detection. Fraudsters are capable of effectively dealing with stress due to the dangers of getting caught (Noble, 2019). The author added that such individuals lie effectively and consistently to avoid any fraud detection, and they persuade others to believe that no fraud activity took place. Fraudsters possess the skill of keeping track of lies.

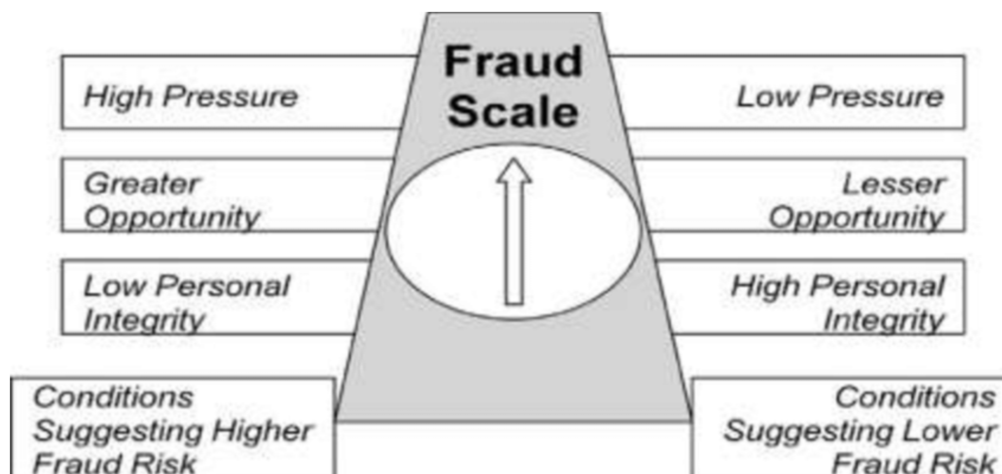
With the aim of further understanding, the fundamental motivations of fraud, Abdullahi and Mansor (2015) analyzed in-depth the convergent and divergent of two classical fraud theories which include a) fraud triangle theory; and b) fraud diamond theory. These authors claimed that the comparison of the two theories is important to assist antigraft bodies and organizations in formulating a practical strategy to prevent and investigate organizational frauds. Pamungkas et al. (2018) analyzed the risk factor of the fraud diamond model towards accounting fraud and corporate governance as a moderating variable concerning the risk factor in the fraud diamond model towards accounting fraud. The finding also revealed that the board of commissioners, independent commissioners, and institutional ownership can weaken the relation of change in direction towards accounting fraud. Pamungkas et al. advised investors to be more careful in investing their funds, especially, in the company that carries out the higher change in direction, because it tends to have accounting frauds.

The Fraud Scale Theory

In 1984, Albrecht et al. invented the fraud scale as a revised version of the fraud triangle. These inventors replaced rationalization with personal integrity. As an alternative for the fraud triangle, Albrecht et al. collected data from 212 internal auditors who have experienced fraud in their organizations. The three elements of the fraud scale include pressure, opportunity, and people’s moral standards (Ergin, 2019). Figure 3 shows the fraud scale.

Figure 3

The Fraud Scale



The individual integrity component is linked to an employee's ethical behavior (Mohd-Sanusi et al., 2015). Albrecht et al. (1984) asserted that a person's decisions and the process of making those decisions could determine their moral standards. According to Albrecht et al., employees with low moral standards are likely to engage in fraud. Workers with high personal integrity can engage in fraud schemes; however, employees with low ethical standards are more likely to commit fraud under the same condition (Widianingsih, 2013).

The Agency Theory

The financial statement is one of the primary mechanisms for employers to monitor the performance and the actions of employees. The agency theory focuses on managing risk by identifying the party who bears that risk (Pepper, 2018). Ross and Mitnick were the theorists who began the creation of the agency theory individually, roughly, and nonconcurrent in 1973 (Politis & Politis, 2018). Jensen and Meckling

advanced the agency theory in 1976. As per Rini (2020), the agency theory is a contractual relationship between two individuals – the principal and the agent. Pepper examined how one organization managed risks during pre and post fraud and chose the agency theory as a lens to consider how the company managed risks. An agent is someone who works for another person or an entity; meanwhile, a principal is a person or an organization on whose behalf the agent works (Teichmann, 2019). In a stock exchange, stockbrokers are agents to investors, and agency relationships go beyond the stockbroker and investor relationship into countless diverse economic relationships. The agent must act in the principal's best interest. Moreover, the agency theory aids companies to understand the principal-agent relationship. The agent acts on behalf of the principal in specific business transactions, and the principal expects the agent to act in the best interest of the principal. When the principal and the agent have conflicting interests, it implies that there is a principle-agent problem (Shi et al., 2017). The agency theory helps parties in a contract to understand the roles each party must play (Rogan & Boaden, 2017). Thus, the purpose of the agency theory is to resolve conflicts arising between the principal and the agent.

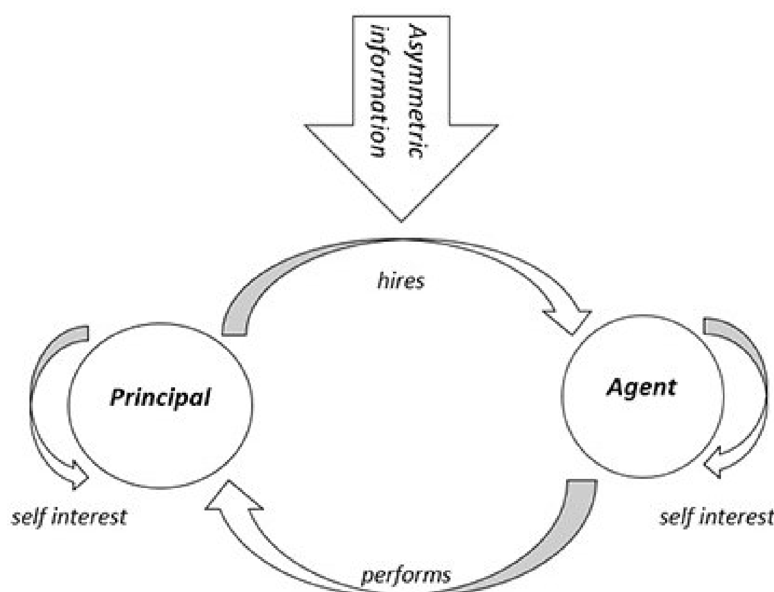
Information asymmetry occurs when one party in a contract has more information than the other party. According to Lofgren et al. (2003), asymmetric information is a common feature of market interactions; the seller of a good often knows more about its quality than the prospective buyer. Husted (2007) affirmed that in the case of a principal-agent relationship the principal is the uninformed party and the agent is the informed party. Most often, the principal does not know how the agent will act. Also, the principal

cannot always ensure that the agent acts in the principal's best interests. Pepper (2018) asserted that agency theory has a self-interest component that agents are motivated toward pursuits that further their desires, and the principals are often not privy to what the agents are doing. In a perfect world, the agent will prioritize the best interest of the principal; however, in the real world, the agent will instead pursue his or her personal goals. Within the agency relationship, several theorists assumed that because of information asymmetry the principal does not the agent (Jensen & Meckling, 1976). Thus, small business owners perceive managers as individuals who act in their interests, which may conflict with the business organization's best interest.

An employee (the agent) and an employer (the principal) is one of the most common examples of the principal-agent relationship. The accounting manager of a small business usually has more knowledge about the financial health of the organization than his employer (the business owner). Consequently, the accounting manager can always act in his interest by siphoning money from the firm's account to his or her account. According to Drew (2018), occupational fraud continues the draw huge amounts of money from small organizations. Workers need to act in the best interest of the employer (Shi et al., 2017). Chidiac El Hajj (2018) specified that accurate financial statements are important for the company's well-being; it indicates that the accounting manager is not using financial reporting malpractices for self-interest. Therefore, to enhance ethical financial reporting in small businesses, employees should act in the best interest of the organization by avoiding or discouraging any form of financial malpractices; thereby avoiding agency problems.

Figure 4

The Agency Theory



Information asymmetry, which is an aspect of the agency theory, has its advantages and disadvantages. Landes and Néron (2018) claimed that information asymmetry has an advantage in the sense that when a buyer is uncertain about a product, the seller can resolve the uncertainty by granting the buyer a comprehensive preview of the product. Likewise, when the employer of a small business needs information regarding the financial state of the firm, the accounting manager can furnish the business owner with the detailed financial records of the firm since the accounting manager is more versed in the financial aspects of the organization. On the other hand, some researchers claim that information asymmetry has several setbacks. Akerlof (1970) acknowledged that information asymmetry can lead to market failure. He added that the

difference in knowledge is the fundamental cause of agency problems. Since the employees usually have more information about the business than the employer, employees can use the information for their gain. Thus, employers should set rules and regulations to foster ethical standards in the organization (Teichmann, 2019).

In conclusion, conflict of interest and information asymmetry is the reason why the principal lacks trust in the agent. No matter how knowledgeable the principal is, the agent will always have an information advantage over the principal. Employees can always override weak internal controls and commit financial fraud. In recent years, senior managers have committed major financial frauds. According to Saunders et al. (2019), senior managers are in the best positions and have the required capabilities to execute fraud by overriding internal controls and involving other employees, which collaborates with the capability's component of Wolfe and Hermanson's fraud diamond theory. Saunders et al. added that the senior management teams of Enron, Olympus, and WorldCom engaged in massive financial frauds, which led to the collapse of some of these companies. Consequently, the best approach to align the interest of the agent and that of the principal is an external audit. Raimo et al. (2020) emphasized that external audit serves as an essential tool to allow the principals to measure and control their agents and reinforce trust between both parties.

The Importance of Fostering Ethical Financial Reporting

Business leaders must adhere to ethical business standards. Webster (2017) asserted that fostering a climate of ethical decision-making in a workplace does not necessarily mean that workers are making unethical decisions; however, promoting

ethical behaviors could minimize the chances of workers making unethical decisions. Honesty fosters good relationships amongst business owners. According to Abidin et al. (2017), management's commitment towards ethics is associated with the financial performance of the organization, and business owners gain trust and loyalty from their stakeholders when they observe ethical business standards. Thus, the advantages of obeying ethical business standards by business owners outweigh the disadvantages, if at all there is any.

Several researchers have come up with valuable findings regarding when businesses follow ethical business standards. Agung (2020), in their quantitative research, found out that there is a possibility that by adopting corporate policies to foster ethical performance, a company may be able to mitigate wealth expropriation from bondholders to stockholders, reduce agency problem and agency costs between the firm and its creditors. Furthermore, Webster (2017), discovered that the best ethical practices for accounting managers are internal controls, education of staff, and leaders modeling behaviors that exemplify ethical decision making. Nguyen (2017) affirmed that small business owners often fail because of unnecessary expenditure and high debts level, and emphasized the importance of bringing discipline, a conservative approach to money and finances.

To reduce fraudulent activities in organizations and ensure a controlled business environment, small business owners and managers can employ the fraud triangle and the fraud diamond theories (Noble, 2019). Business owners who successfully implement antifraud strategies substantially reduce fraud crimes within the organization and

safeguard the reputation of both the employees and the organization (Roden et al., 2016). Financial fraud is costly to small business owners (Maragno & Borba, 2017). To mitigate financial risk and financial loss, most business owners encourage ethical behaviors within the organization (Kirsch, 2018). An organization can lose its reputation in the eyes of suppliers, customers, and other stakeholders as a result of occupational fraud (Gottschalk, 2018). An organization's reputation is its major asset (Kennedy, 2018). Fostering ethical financial reporting in an organization could safeguard the reputation of the business and its employees.

Organizational Culture

Business leaders can influence the cultures of the organization in a way to foster ethical behaviors and discourage fraudulent activities. At concerts, sporting events, or wherever people get together, group members convey social expectations by how they dress and act. New members of a group are expected by their leaders to learn what is acceptable to the group by observing the behavior and dress code of the group members and adapting to the situation accordingly. Organizational culture works the same way. Every organization has its own unique culture. Organizational culture is a system of shared assumptions, shared values, and beliefs, which govern how people behave in organizations (Alsaqqa & Akyürek, 2021). Scholars like Juwita and Adzkhiyah (2017) added that organizational culture is the pattern of behavior, beliefs, and values that are shared by its members, as well as what people say, do, and think in the context of the organization. These shared values have a strong influence on the people in the organization and dictate how they dress, act, and perform their jobs. Organizational

culture provides guidelines for members on how to behave within an organization (Pullen & Rhodes, 2017). Enron collapsed as a result of a massive fraud (Dyer et al., 2020). Both the executives and employees of Enron violated the shared values that governed the organization; consequently, leading to the collapse of the company (Dyer et al., 2020). When workers of an organization do not adhere to the unique culture, which provides guidelines and boundaries for the behavior of the members of the organization, it may harm that organization.

In their study, Dierckx de Casterlé et al. (2012) analyzed the relationship between responsiveness and organizational culture, and their results revealed that the combination of entrepreneurial cultural characteristics, planning, and goal-oriented managerial styles suits best successful companies. Management must uphold the culture of the business organization. Moreover, business leaders should teach their subordinates ethical values. Small business owners can encourage ethical behaviors within the workplace when they teach their staff how to respond to pressure to behave unethically (Harvey, 2018). In their study, Pandit and Gupta (2021) found out that applicants fake by adapting their responses to the culture of the hiring organization so that they display the personality profile that best matches the organization's culture. Organizational leaders promote a secured ethical environment when they adhere to the company's culture, equip their workers with ethical values, and ensure that they hire the right candidates (Juwita & Adzkhiyah, 2017).

While fraud cannot be completely eradicated from an organization, management can explore factors that can shape the culture of the organization, and managers can also

assess how the factors may affect the employees' ethical behavior and decision making in the workplace.

Occupational Fraud

Fraud is a deliberate deceitful behavior by a worker or a group of workers towards their employer for personal gain (Pandit & Gupta, 2021). A fraudster intentionally conceals the truth for unlawful gain (ACFE, 2020). Occupational fraud occurs when employees, managers, or business owners behave dishonestly against organizations for personal enrichment (ACFE, 2020). Fraud is a word that no business owner wants to hear, and many business owners choose to ignore the red flags of fraud, despite dedicating their lives to building and protecting their businesses; however, this is a mistake (Schmeisky, 2020). Five common misconceptions small business owners have when it comes to fraud include: I have complete control over my business; my company is so small, so it is not at risk; my loyal employees would not commit fraud; I don't need internal controls; and fraud would not cost my business much (Schmeisky, 2020). No business of any size is safe from fraud (ACFE, 2020).

The two basic categories of fraud are fraudulent financial reporting and asset misappropriation which occurs when a party misuses or steals a company's assets (Bunn et al., 2019). Internal employee fraud is also known as occupational fraud. As per Bunn et al. (2019), the three major factors attributed to fraud include limited controls, too much trust bestowed on employees by the employer, and inadequate employee prescreening. Noble (2019) considered perceived pressure, opportunity, and rationalization as the components that motivate individuals to commit fraud. Vousinas (2019) built the

S.C.O.R.E. fraud model which contains five factors that lead to the commitment of fraud. The five factors comprise stimulus/incentive, capability, opportunity, rationalization, and ego (Vousinas, 2019). Vousinas based the S.C.O.R.E. fraud model on the fraud triangle and the fraud diamond. Moreover, Vousinas introduced the fifth factor to enhance both fraud detection and prevention as well as to broaden our understanding regarding the major determinants of fraudulent activities. According to Raval (2018), the author of the disposition-based fraud model, an individual's disposition colors all aspects of their physical, mental, moral, and spiritual life which makes them either give in or resist temptation (Raval, 2018). Cash and assets that can immediately benefit the employee are easy targets for occupational fraud (Mui & Mailley, 2015). Employee theft is one of the most devastating crimes committed against any business whether large or small (Kennedy, 2018). Fraud affects not only the business partners, employees, and investors; it also affects society and government in a broader sense such as the country's economy (Atagan & Kavak, 2018).

Forensic accountants or fraud investigators conduct research, investigations, audits, and controls to find evidence of fraud (Atagan & Kavak, 2018). These investigations are necessary when fraud is hidden in records and not easy to find. According to Kennedy (2018), examples of employee fraud include theft of cash, time, raw materials finished goods, and intellectual property. Kennedy added that small organizations are more vulnerable to fraud compared to larger businesses due to the lack of antifraud controls. ACFE (2020) published a report on a survey in different industries on occupational fraud and abuse. ACFE reports on how occupational fraud occurs and

how business leaders can detect and prevent losses incurred as a result of occupational fraud. Organizations worldwide lose approximately 5% of annual revenue representing a potential annual occupational fraud loss of $3.7 trillion (ACFE, 2020). Small business owners can fail as a result of occupational fraud (Omar et al., 2016). Business leaders need to understand the various approaches to detect and prevent employee fraud in their organizations (Boyle et al., 2015). Approximately 5.3% of employee fraud criminals have a prior conviction of related crimes (ACFE, 2020). Most workers who commit fraud are first-time criminals (Ilter, 2016; Kramer, 2015). Employees engage in fraudulent activities for various reasons (Woolley, 2016). A fraudster knows the risk involved in their reputations and careers (ACFE, 2018). Management's attitude towards dishonest acts plays an important role in the implementation of antifraud measures within the organization (Baten, 2018). Vandekerckhove (2018) proposed that leaders of small businesses can adopt cultures that discourage fraud, either through, fingerprints, background checks, or policies on whistle-blowers. Workers' training on what constitutes fraud within an organization is an important fraud detection and prevention tool (Taylor, 2018). Bogdanović and Filip (2018) advised that small business owners should create a perception of fraud detection among employees to minimize fraudulent activities. Business leaders need to inform workers that they are watching them through surveillance cameras, audio recordings, or mere monitoring of their movements (Bogdanović & Filip, 2018). Workers are less likely to commit fraud at the workplace because of the repercussions of leadership (Bogdanović & Filip, 2018).

There are three main types of occupational fraud namely asset misappropriation, fraudulent statements, and corruption (ACFE, 2020). Asset misappropriation involves the misuse of business resources (ACFE, 2020; Glodstein, 2017). Occupational fraud related to financial statements involves intentional falsification of business financial statements to mislead users (Glodstein, 2017; Woolley, 2016). Corruption involves the misuse of authority for personal benefit (Kummer et al., 2015; Mustafa Bakri et al., 2017). Financial fraud is a significant problem for small businesses (Kennedy, 2018). With a constant increase in the sophistication of technology, occupational fraud is becoming more difficult to prevent and detect (Mustafa Bakri et al., 2017). Asset misappropriation involves different types of theft of business assets by one or more individuals including employees, management, or even third parties like vendors and customers (ACFE, 2018). Asset misappropriation includes skimming, theft of cash at hand, using business funds for personal purchases, faking receipts, tampering with checks, and creating fictitious suppliers (Glodstein, 2017). Other asset misappropriation schemes include collecting bribes from vendors, Misusing business credit cards for personal purchases, falsifying expense reimbursement, creating ghost employees, faking timesheets, and providing unauthorized discounts to friends and family (Glodstein, 2017; Kramer, 2015). Check tampering schemes and billing schemes are the most common asset misappropriation (ACFE, 2020).

Impact of Occupational Fraud in Small Businesses

A small business is an independently owned and operated organization (SBA, 2017). A small business can either be a sole proprietorship, a partnership, or other legal

forms of business structure in the United States (Anastasia, 2015). There are different statuses used to categorize small businesses based on the industry (ACFE, 2018). The U.S. Small Business Administration (SBA) outlines the criteria used to determine a small business in the United States (Anastasia, 2015). SBA uses the number of employees in the past year and an annual revenue in the past three years to categorize the size of businesses (SBA, 2017). SBA considers a business organization with fewer than 100 employees a small business (Anastasia, 2015). For this study, a small business is a for-profit and privately-owned organization with fewer than 50 employees.

Small businesses are the backbone of the U.S. economy, and they may positively transform the economy (SBA, 2017). On every street corner of the U.S., numerous small business owners strive to succeed by implementing unexpected measures notwithstanding the numerous challenges most small business owners face. Small businesses play a vital role in the United States economy (Bąkiewicz, 2020). Small businesses represent approximately 99.9% of United States businesses and provide 50% of all private-sector employment (Bąkiewicz, 2020; Molotkova et al., 2019). Small businesses contribute 54% of sales in the United States (SBA, 2017). Despite the fast-growing rate of small businesses, small business owners still face several challenges including the fear of business failure (Herbert, 2017). Approximately 50% of new small businesses do not survive beyond 5 years (Oppong, 2017). However, some manage to survive by engaging in some financial reporting malpractices (Webster, 2017). The rate of unethical financial reporting is still on the rise since Enron, with 868 prosecutions confirmed by the Security Exchange Commission attributable to unethical financial reporting (U.S. Securities and

Exchange Commission, 2016). Herbert asserted that small business owners must implement the strategies needed to sustain their organizations. Employee unethical behavior in small business organizations is understudied (Ding & Wu, 2014).

Small businesses struggle to survive in their early stages and may not consider the importance of business ethics seriously (Ding & Wu, 2014; Webster, 2017). Most small businesses focus more on business profitability and less on internal controls (Frischmann et al., 2019). Some small business owners underrate fraud damages to their organizations and other stakeholders (Kirkpatrick, 2020). Almost 66% of small businesses survive the first two years of operation (SBA, 2017). The success of small businesses is necessary for the creation of new jobs and economic growth (Omri et al., 2015; Oppong, 2017). Employee fraud can endanger the sustainability of small businesses (Lokanan & Liu, 2021). An organization can reach a financial edge by losing its assets as a result of fraud (ACFE, 2018). It is costly for small business owners to design, implement and monitor antifraud measures; however, once these measures are in place, there is a reduced loss from fraud risk (Molotkova et al., 2019)

Occupational fraud impacts small businesses in diverse ways. An organization can lose its reputation in the eyes of suppliers, customers, and other stakeholders as a result of occupational fraud (Gottschalk, 2018). An organization's reputation is its major asset (Kennedy, 2018). Small businesses must have strategies in place to detect and prevent occupational fraud ((Jha et al., 2020). Some small business owners end up paying huge penalties to the Internal Revenue Service (IRS) for falsifying business records. The Internal Revenue Code (IRC) defines tax fraud under Title 26 section 7201 as an

individual who purposefully contests any taxes imposed by the IRS or the payment thereof shall face criminal charges (Herbert, 2017). Moreover, the IRS has numerous strategies to detect fraud, and it focuses on areas such as the deliberate omission of income, claiming personal expenses as business expenses, and carrying out false business entries (Herbert, 2017). The impact of occupational fraud is greater in small businesses than larger businesses, although the monetary value might be more in larger businesses (Lokanan & Liu, 2021; Oppong, 2017). The loss suffered by small businesses as a result of occupational fraud is disproportionately more than occupational fraud suffered by large businesses (Mustafa Bakri et al., 2017). Inadequate internal control in small business organizations is one of the reasons for this disproportion (Kramer, 2015). Skimming, check tampering, cash larceny, and payroll fraud are fraud schemes that are more frequent in small businesses compared to larger businesses (ACFE, 2018). Small businesses are also exposed to other fraudulent activities like expense reimbursements, non-cash, corruption, register disbursements, and cash on hand (Kramer, 2015). Unfortunately, small businesses, in contrast to large organizations, lack adequate resources to implement controls to prevent and detect fraud (Kennedy, 2018).

The Role of Management in Mitigating Fraud Opportunities and Fraud Risks

It is impossible to completely eradicate employee fraud from a business organization (Kramer, 2015). Organizational leaders can use fraud prevention strategies to reduce financial loss as a result of fraud (Jha et al., 2020). Establishing a controlled working environment within an organization is vital in the effectiveness of fraud prevention (Harvey, 2018). Business leaders should incorporate antifraud measures in the

everyday activities of the organization and make them visible to workers (Jha et al., 2020). Workers are less likely to carry out unethical activities when they perceive that they are more likely to get caught (Baten, 2018). Management needs to ensure the right tone at the top to implement strong internal controls and minimize occupational fraud (Dyer et al., 2020).

Business leaders should implement fraud prevention measures at various levels within the organization to safeguard business resources (Baten, 2018). Some of these fraud prevention strategies include locking doors, surveillance, asking for proof before signing a check, and assigning different workers to similar tasks, employing checks and balances (Fauzi et al., 2018). Business leaders can create a hotline where employees can report fraudulent activities (Jha et al., 2020). Management should ensure that all workers have a clear understanding of how the business hotline operates (Gunasegaran et al., 2018). In the hiring process, business owners and managers can ensure they recruit the appropriate candidates by conducting background checks, confirming references, or verifying certifications (Jha et al., 2020). Inadequate hiring policies can create opportunities for occupational fraud (Macklin & Mathison, 2018). Organizational leaders should publish and distribute clear business policies and procedures including codes of ethics to employees (Jha et al., 2020). During employee training, small business owners and managers should enforce the understanding of antifraud measures to minimize fraud occurrence (Daigle et al., 2018). To ensure effectiveness, management can include fraud-related training to individual worker’s job responsibilities (Fauzi et al., 2018). When

employees are well-educated about fraud, they can quickly identify potential fraud risks (Gunasegaran et al., 2018).

To lessen fraudulent activities in the organization, management should ensure that no single employee creates, implements, and monitors a process (Jha et al., 2020). Simha and Satyanarayan (2016) emphasized that organizational leaders can use job rotation and compulsory employee vacation to alleviate fraud within the business. Management should ensure the segregation of duties within the organization (Omar et al., 2016; Roden et al., 2016). Unfortunately, segregation of duties may be difficult to implement since small businesses usually have few workers (Lokanan & Liu, 2021). Management can hold periodic meetings with workers to reiterate job descriptions and emphasize the effect of fraud on employee jobs and the organization's reputation (Harvey, 2018). Bogdanović and Filip (2018) emphasized that business owners and managers should have a keen interest in avoiding illegal, immoral, or illegitimate practices (to avoid corporate scandals) by encouraging employees to report unethical conduct internally, so it can be addressed quickly and be prevented from growing into a larger crisis.

The Role of Whistleblowers in Reducing Fraud in an Organization

Business leaders can use whistleblower policies to alleviate fraud occurrence within a business organization (Bogdanović & Filip, 2018). A whistleblower is any current or former worker who discloses unethical behaviors to an organization (Vandekerckhove, 2018). Istiqomah and Anisykurlillah (2020) acknowledged that whistleblowing is the most effective fraud discovery mechanism. Occupational fraud can be detected by tips from other workers (Taylor, 2018). The most common method

business leaders use to detect fraudulent activities is tips (ACFE, 2018). Honest workers, vendors, and customers are great assets in detecting and preventing unethical behavior in an organization (Lewis, 2019). Jha et al. (2020) noted that employees are valuable in achieving organizational goals (Jha et al., 2020). Whistleblowing is a low-cost and effective antifraud strategy that small business owners can use to reduce fraud (Albrecht et al., 2018).

Since whistleblower complaints are the number one detection method, business leaders should always ensure they monitor and test that their whistleblower system is working properly and make sure that employees are educated about how to use the whistleblower system (Albrecht et al., 2018). Business owners and managers can institute anonymous fraud hotlines within the organization to provide employees ways to report unusual behaviors (Jha et al., 2020). Businesses with anonymous fraud hotlines encounter fewer fraud occurrences (Hess & Cottrell, 2016). Businesses lessen median fraud losses by 54% when using whistleblowers through hotline as an antifraud strategy (Stubben & Welch, 2018). Albrecht et al. (2018) claimed that an effective whistleblower system and pro-active antifraud measures can save organizations from financial losses, embarrassment, loss of reputation, and wasted management time. Small business owners and managers can use whistleblowing programs to address ongoing fraudulent activities and reduce future fraud occurrences (Hamrell, 2019). Small business owners and managers should incorporate training programs that cover what constitutes fraud, its effects, and how to report unusual activities (Verschoor, 2015). Individuals who blow the whistle are likely to make fraud reports to their direct supervisor (ACFE, 2018). Albrecht

et al. affirmed that frauds prevented or detected early can save organizations millions of dollars. Nawawi and Salin (2019) posited that retaliation from coworkers and management is the top influencing factor that stops whistle-blowers from reporting malpractices within an organization. Stubben and Welch (2018) suggested that when management fails to address fraudulent activities that could be costly to the organization, whistleblowers should bypass management and report to regulators.

Management can attempt to reduce employee fraud opportunities by encouraging whistleblowing and establish a code of ethics with detailed penalties for violations (Albrecht et al., 2018). Granting financial awards to whistleblowers could increase the number of whistleblowers to come forward and report fraud and violations which will decrease the number of investors affected by the misconduct of the corporations and decreases financial losses (Seitz et al., 2015). Regardless of incentives to encourage whistleblowing, some employees who are aware of unethical behavior are reluctant to blow the whistle (Stubben & Welch, 2018). Managers and employees should have a sense of moral duty to blow the whistle in the case of any perceived unethical behavior, and they should have less fear of the potential consequences (Bogdanović & Filip, 2018).

The Sarbanes-Oxley and Dodd-Frank Acts protect whistleblowers against employer possible retaliation (Lewis, 2019; Mccormac, 2017). According to the Dodd-Frank Act, employers may not discharge, threaten, suspend, intimidate, or discriminate against any whistleblower (Cobb & McKenzie-Harris, 2016; Mccormac, 2017). Examples of retaliation against whistleblowers by management include job stagnation, segregation, acts of intimidation, threats, and blacklisting (Lewis, 2019). It might be

challenging for a worker to blow the whistle and continue to work with the same employer (Bogdanović & Filip, 2018). Some employees are hesitant to blow the whistle for fear that top managers or business owners might not address the fraudulent act ((Jha et al., 2020)). Most honest employees who act as whistleblowers desire an ethical work environment (Vandekerckhove, 2018). Stubben and Welch (2018) advised employees to seek legal advice from an attorney not related to their employer concerning their rights and obligations about unethical workplace behavior (Verschoor, 2015). Retaliation against whistleblowers can result to fear and silence among witnesses (Mccormac, 2017). If fraud witnesses decide to remain silent, fraud will intensify within the organization and go undetected (Hamrell, 2019). Therefore, business owners and managers should have a keen interest in avoiding illegal, immoral, or illegitimate practices (to avoid corporate scandals) by encouraging employees to report unethical conduct internally, so it can be addressed quickly and be prevented from growing into a larger crisis (Bogdanović & Filip, 2018).

Internal Control

Management and other personnel design internal control to provide reasonable assurance concerning the effectiveness and efficiency of operations, the reliability of reporting, and compliance with applicable laws and regulations (Kusumaningtias, 2020). Tak (2014) asserted that internal control is an important part of an organization, and when ignored by management and employees, business leaders may lose power over the governance of the entire entity. Managers play a leading role in developing internal controls for each activity in the organization (Bilgi et al., 2017). Mukhina (2015) posited

those internal controls contribute to the growth and success of businesses. Mustafa Bakri et al. (2017) suggested that inadequate internal controls over company assets may increase the likelihood of asset misappropriation within an organization. Fraudulent employees will exploit internal control weaknesses in carrying out and concealing fraud (Mustafa Bakri et al., 2017). One of the best employee fraud prevention strategies is good internal controls (Campbell et al., 2014). These researchers advised small-business owners to assess the financial statements of the company consistently. Kapp and Heslop (2011) affirmed that internal controls can help prevent or detect fraud even when limited staffing and funding render the proper separation of duties impossible. Also, internal controls can prevent or detect errors that sometimes happen despite a lack of intent to deceive or commit fraud. Small businesses, often unable to have proper separation of duties, are heavily reliant on detection controls, which take the form of reviews by the owner of payroll, cash disbursements, canceled checks, bank statements, and many other important owner oversights (Kapp & Heslop, 2011). These researchers advise small-business owners to assess the financial statements of the organization consistently.

According to Peters and Maniam (2016), occupational fraud affects almost any type of business, and the consequences of fraud affect these organizations for many years. Small businesses lack the resources, expertise, and experience to successfully implement security and control systems making them natural targets for theft and fraud (Stone, 2016). Small businesses have a limited number of employees hindering their ability to implement internal controls such as segregation of duties and independent reconciliation (Ackermann, 2017). In the study by Stone (2016), the median fraud losses

were identical for small and large businesses; however, the impact on the small business was more severe. Small businesses are vulnerable to fraud compared to large businesses because most fraudsters suspect that smaller businesses are incapable of designing and implementing effective internal control systems as compared to large businesses (Ackermann, 2017). Business leaders should always ensure that they have internal controls in place to detect and prevent fraud from occurring in the organization (Ackermann, 2017). Internal control measures are not meant to detect losses after they have already occurred (Ackermann, 2017). Employee theft occurs in many shapes, forms, and any level of associate within the business such as entering excess hours in the payroll system, taking merchandise without paying, and depositing funds into a personal account (Peters & Maniam, 2016).

In their study, Juwita and Adzkhiyah (2017) focused on small businesses and their lack of competition due to the lack of internal controls. These small businesses are necessary for creating jobs and contributing to the local economy, and they will be more competitive if they have internal control systems, collated with the organizational culture (Juwita & Adzkhiyah, 2017). Organizational culture is the pattern of behavior, beliefs, and values that are shared by its members, as well as what people say, do, and think in the context of the organization (Juwita & Adzkhiyah, 2017).

A well-functioning internal control system is essential for a company's ability to initiate, authorize, record, process, and report external financial data reliably following generally accepted accounting principles (Koo & Ki, 2020). Many organizations with scandals in the past years of questionable accounting practices and corporate wrongdoing,

such as Enron, have been attributed to the lack of effective internal controls within the organizations (Dyer et al., 2020). Koo and Ki discussed how the Sarbanes-Oxley Act (SOX) along with related regulations in other countries emphasize internal control. The primary purpose of SOX was to improve the quality of financial reporting by ensuring sound internal control over financial reporting and to achieve financial strength (Kim & Kim, 2017). According to Koo and Ki, SOX requires management to disclose any internal control deficiencies when processing their financial statements.

Fraud Signs Used to Strengthen Internal Control

Small businesses need internal controls to mitigate fraud and financial reporting errors in their organizations (Lee, 2021). Lee (2021) added that managers of small businesses could use internal controls to ensure that policies and procedures are helping the business reach its goals. With inadequate resources, it is challenging for small business owners to appropriately design and implement internal controls (Ackermann, 2017). Identifying internal control weaknesses is the initial and vital stage of detecting and preventing occupational fraud (Reinstein & Taylor, 2017). Fraud red flags are signs of possible fraud (Taylor, 2018). These signs do not necessarily imply the occurrence of fraud; however, they could indicate a weakness in internal control (Ackermann, 2017). Fraud risk cannot be eliminated in a small business with too few people to do everything (Davis & Harris, 2020). There are recommended steps and controls a business can take to help prevent fraud. According to Davis and Harris (2020), knowledge is power, and business owners having this knowledge can identify where their processes and

procedures are lacking and begin to implement preventative measures and controls against fraud.

There are four factors present when fraud occurs (Noble, 2019). These factors include incentive or pressure, opportunity, rationalization, capabilities (Peprah, 2018). Fraud red flags vary with business size, individuals, and the type of organization (ACFE, 2018). Red flags may be different depending on the potential fraud activity (Pamungkas et al., 2018). It is essential for business owners and managers to understand the symptoms and red flags of fraud (Yogi, 2016). There is no perfect system of internal control (Bilgi et al., 2017). However, insufficient ethical policies and procedures can encourage dishonest acts among employees (Dyer et al., 2020). Most often, employees tend to display warning signs before engaging in fraudulent activities (ACFE, 2020). Some of these warning signs include financial difficulties and living beyond their means (ACFE, 2020). Some fraudsters tend to lavishly spend the gain from fraudulent activities, thus indicating signs of fraud (Noble, 2019).

Lack of proper segregation of duties or clear job responsibilities in small businesses is an internal control weakness that can enhance unethical behaviors (Ackermann, 2017). Workers who are unwilling to delegate or share their responsibilities might be creating and concealing fraudulent activities (Stone, 2016). When an employee gets unusually close to customers and suppliers, it might be a fraud red flag (ACFE, 2018). Workers with a criminal history could be a red flag to potential unethical behavior (Dyer et al., 2020). A recent divorce, unexpected medical expenses, and other family problems can cause a trusted employee to act dishonestly (ACFE, 2018). Employees

engaged in fraudulent activities within an organization might tend to be defensive indicating that they have hidden information (Locati, 2017).

In their study, Tschakert et al. (2016) described employee fraud as the most frequent type of fraud against an organization being theft of cash, expense reimbursement, payroll fraud, and kickback scheme. According to Tschakert et al., behavioral red flags that persons who commit fraud exhibit include living beyond one's means, financial difficulties, close association with a vendor or customer, control issues and not sharing duties, wheeler-dealer attitude, irritability, suspiciousness, and defensiveness, addiction problems, refusal to take vacations, lack of authority complaints, excessive gambling, increased smoking, and making excuses for missing documentation, shortages, and finding scapegoats. Tschakert et al. posited that financial statement red flags can be uncovered by; examining the relationship of present-year account balances with nonfinancial information; comparative analysis of account balances from the current year to balances of prior years and expected results from the firm's forecasts and budgets; assessment of the relative amounts of this year's account balances to other present-year balances to tell whether they conform to patterns of predictability based on history; comparative analysis of account balances and ratios to industry benchmarks, and scan for unusual or unexpected balances or transactions in account balances, transactions listings, journals, or senior-level management journal entries.

Inadequate or no managerial supervision is an internal control weakness in a small business that can lead to employee fraud (Ackermann, 2017). Ngwenya and Munyanyi (2015) asserted that most organizations excel because of sound financial resource

management and significant losses are incurred when poor cash management processes are implemented by accounting managers exposing the organization to fraud and theft. Ngwenya and Munyanyi emphasized that measures business leaders can use to prevent fraud include segregation of duties, authorization, and approval of transactions, the establishment of responsibilities, documentation procedures, independent verification, and access restriction.

The procure-to-pay process is very common and extremely difficult to prevent and detect when it comes to fraud (Locati, 2017). Some examples of this type of fraud include fake invoices, bank accounts belonging to friends and family, and over-billings. Missing supplier invoices could be an indication of fraudulent activities (Stone, 2016). Suppliers and customers without traceable phone numbers and addresses could be fictitious and a sign of fraudulent activities (Noble, 2019). If these schemes are not caught over a long period, the amount lost can be devastating to a small business (Locati, 2017). One of the main internal controls to help detect and prevent this type of fraud is the segregation of duties which requires the responsibilities of the financial transactions to be divided amongst several employees and to have oversight of all entries (Locati, 2017). Vendor selection is crucial to a business and having a strong selection process will ensure there is no conflict of interest (Locati, 2017). Locati (2017) stated that the tighter the controls, the greater the chance of spotting fraud, meaning less opportunity for fraudsters to take advantage. Insufficient evaluation of information systems can also be an internal control weakness used by workers as an opportunity to commit fraud (Taylor, 2018). Other fraud red flags include missing checks, cash flow discrepancies, and

untraceable expenses (Pamungkas et al., 2018). Most fraudsters will make excuses for a lavish lifestyle to rationalize their source of money (Dyer et al., 2020). Sources of income commonly used by dishonest employees include inheritance, withdrawal from retirement plans, and gifts (Kramer, 2015).

Internal Auditors

Internal auditors play a vital role in detecting early fraudulent activities in organizations. Internal auditors need to recognize fraud red flags. Red flags do not necessarily indicate fraud is taking place—they constitute warning signs that it could occur. Anyone in an organization can engage in unethical behavior. Since occupational fraud is the most common type of fraud in an organization, internal auditors should consider that even the most trusted employee could be quite capable of organizational misconduct. Internal auditors should identify deficiencies and recommend policy and process improvements to reduce the risk of fraud. Internal auditors should support management's efforts to establish a culture that embraces integrity. According to Barahim et al. (2019), auditors need to understand the psychology of individuals' behavior as well as the environment in which they operate to control fraud.

Kohlbeck and Mayhew (2017) used case studies to illustrate common methods used to commit various frauds. Bailey (2019) asserted that employees who use their positions to secretly benefit themselves at the expense of their employers betray the trust of the organizations that employ them. Most often, according to Bailey, workers who engage in fraudulent activities take the form of undisclosed related-party transactions, where the individuals who approve the transactions for their organizations also benefit

personally from them. Bailey added that internal auditors need to identify the red flags of related-party loans, sales, and purchase transactions that indicate fraud Kohlbeck and Mayhew (2017). Furthermore, the author asserted that by identifying the red flags in these cases, internal auditors can improve their ability to recognize related-party fraud risks.

Kohlbeck and Mayhew (2017) affirmed that internal auditors can uncover undisclosed conflicts of interest by recognizing red flags associated with related-party relationships and transactions. Where red flags exist, according to Bailey (2019), internal auditors should assess the nature of the transactions and ascertain whether the related-party transactions were authorized appropriately. By discovering unauthorized related-party transactions and assessing related-party policies and processes, internal auditors can identify deficiencies and recommend policy and process improvements to reduce the risk of future unauthorized related-party transactions and relationships.

Chamber and Sullivan (2018) explained that individuals who have been exposed to employee fraud know how unsettling it can be to learn that an employee known and trusted by management and by other employees has betrayed co-workers and the organization itself. Shocked employees wander the office halls, whispering to each other, “I would never have suspected him of doing something like that.” The perpetrator may, indeed, be a likable friendly person who maintained cordial relationships with colleagues (Chamber & Sullivan, 2018). Chamber and Sullivan asserted that internal auditors have the expertise to recognize and assess the red flags that may indicate that fraud has occurred. Proactive recognition and response can go a long way toward protecting the

enterprise from the financial and reputational damage a successful fraud can create (Chamber & Sullivan, 2018).

Chamber and Sullivan (2018) acknowledged that instituting a program that ultimately places fraud recognition and awareness on the front burner does not require an overhaul in the way internal auditors approach their work. They added that it does, however, require an understanding of the red flags associated with fraud and an acknowledgment that, in every audit, opportunities for fraud, past or present, may exist. And critically, it requires internal auditors to hold on to their inherent trust in people, while recognizing that even those who raise the least suspicion may be quite capable of organizational wrongdoing.

Tschakert et al. (2016) affirmed that the longer a fraud occurs, the greater the financial damage to the organization. These authors added that the findings from the ACFE (2020) report specified that the median loss and median duration of fraud schemes are lower when management uncovers them through active detection methods, such as surveillance and monitoring and active management review, unlike passive methods, like accidental discovery or confession. Tschakert et al. suggested that by improving the ability of ACFE to recognize fraud red flags, internal auditors can better safeguard company assets, reduce inefficiencies and litigation risk, and aid in satisfying increasing regulatory scrutiny. Internal auditors should consider a red flag analysis customized to the risks and circumstances of their organization.

Moreover, Tschakert et al. (2016) confirmed that fraud investigators often state that there are no small frauds; only frauds that are caught early as perpetrators rarely stop

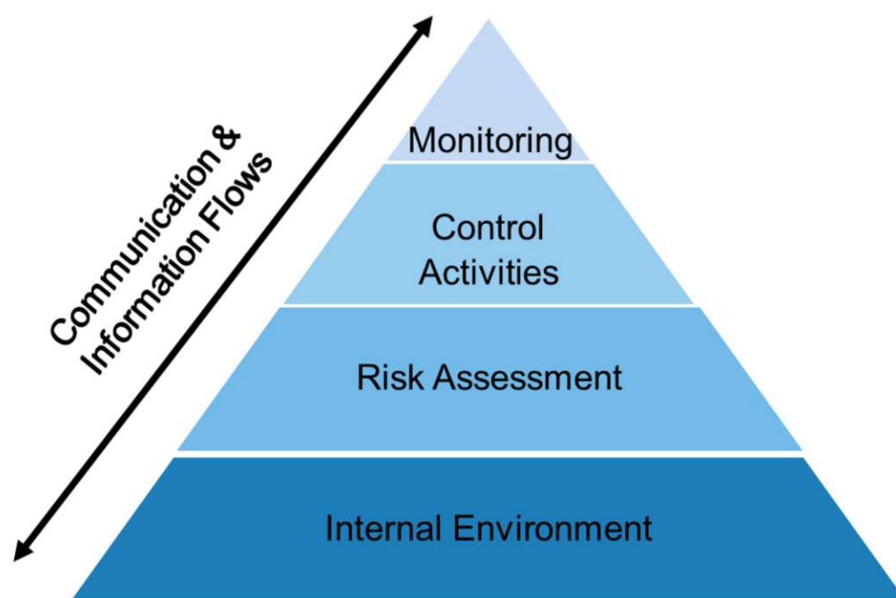
and will continue to exploit a successful scheme. As recoverability is often difficult, prevention and early detection are critical to prevent frauds from growing and to avoid time-intensive, disruptive, and expensive investigations that could lead to reputational damage. Because of their knowledge of the organization, internal auditors are in a unique position to detect fraud early and help lessen the consequences by supporting management's efforts to establish a culture that embraces honesty, ethics, and integrity.

The COSO Framework

The Committee of Sponsoring Organizations of the Treadway (COSO) is an independent private sector initiative devoted to assisting organizations to develop effective internal control, deter fraud, and improve the performance of organizations (Kimbell, 2017). This model has been adopted as the generally accepted framework for internal control and is widely recognized as the ultimate standard against which organizations measure the effectiveness of their systems of internal control (Rae et al., 201). The five sponsoring organizations of the COSO include Financial Executives International (FEI), American Institute of Certified Public Commission Accountants (AICPA), the American Accounting Association (AAA), the Institute of Management Accountants (IMA), and the Institute of Internal Auditors (IIA) (Kimbell, 2017). In 1992, COSO issued an integrated framework for internal controls which constituted five components (Kimbell, 2017). COSO components of internal control include control environment or internal environment, risk assessment, control activities, information and communication systems, and monitoring (Mukhina, 2015).

Figure 5

The COSO Components of Internal Control



The control environment component of internal controls within an organization is the tone at the top concerning the effectiveness of internal control (Northouse, 2019). The tone at the top establishes a significant influence on business ethical practices (Dyer et al., 2020). Business leaders must act as role models to mitigate unethical behaviors in their organizations. The control environment component consists of (a) the organizational structure, (b) authority and responsibility assignment, (c) the integrity and ethical values, (d) human resources policies and procedures, (e) the financial reporting competencies, (f) management's philosophy and operating style, and (g) the board of directors' oversight (Raimo et al., 2020). Musarapasi and Garanti (2020) emphasized the importance of control the environment in business to prevent employee fraud successfully. In assessing risk, business leaders need to examine the effectiveness of internal controls and ensure

the proper use of organizational resources (Brent, 2019). Conducting fraud risk assessment upsurges organizational leaders' awareness of internal control weaknesses and possible fraud opportunities (Goyal, 2018). Management can consider an individual's opportunity, rationalization, and perceived pressure to commit fraud concerning fraud policies when assessing fraud risk (Sabatian & Hutabarat, 2020). The information and communication component of COSO describes the importance of generating and sharing quality information to improve the effectiveness of internal control (Northouse, 2019). Most small businesses with internal control weaknesses have less information precision (Dyer et al., 2020). Management can use open communication and regular meetings to strengthen internal controls (Ackermann, 2017; Rae et al., 2017).

Managers should continuously monitor the effectiveness of internal control to ensure that all five elements of internal control are functioning as expected (Sabatian & Hutabarat, 2020). The control activities component of COSO represents the organizational policies and procedures used by management to implement internal controls and ensure the achievement of business goals (Verschoor, 2015). Business leaders should ensure the deployment, modification, and replacement of control activities at all stages of the organization to mitigate risks and achieve organizational goals (Urbanik, 2016).

Evaluation of Internal Controls

Small business owners and managers can use the COSO framework to evaluate the effectiveness of an organization's internal controls (Länsiluoto et al., 2016). Management uses monitoring, which is one of the components of COSO, to assess the

quality and the effectiveness of internal control (Länsiluoto et al., 2016). Business owners and managers should periodically evaluate their internal controls to ensure the effectiveness of internal controls (Sabatian & Hutabarat, 2020). Management evaluates the effectiveness of internal control to ensure compliance with laws and regulations (Wang, 2015). Business leaders can safeguard the effectiveness of internal controls by continual revision of controls and employee ethical training (Schillermann, 2018). There are several ways business leaders can use to evaluate internal controls in their businesses. First, management should have a clear understanding of current internal controls and how the procedures should function before planning internal control evaluation (Mustafa Bakri et al., 2017). Subsequently, business leaders should evaluate the internal controls of the business as a whole, and then focus on evaluating specific process internal control (Schillermann, 2018). Management will hold workers accountable by business leaders if they violate measures put in place to alleviate fraud risk (Dawson, 2015). A fraud risk register is a tool used within a business organization to record fraud risk and occurrence during business operations (Kummer et al., 2015). Business owners should implement fraud policies and fraud assessment instruments to mitigate fraud occurrences, increase fraud detection, and revise internal controls (Schillermann, 2018). The implementation of fraud assessment tools could allow management to identify fraud and vulnerable reads of fraud in the organization (Dawson, 2015).

There are several measures management can use in evaluating internal controls. Business leaders can evaluate internal controls by inquiring about well-informed workers, observing how procedures are applied, inspecting business documents, and walking

through the whole organization's facility (Jha et al., 2020). Management assesses internal control assessments to gain insight into the effectiveness of policies and procedures in achieving organizational goals (Schillermann, 2018). Business leaders can lessen fraud occurrence by supervising the implementation of organizational internal controls to approve they work as intended (Loishyna et al., 2019). Business owners can provide workers with surveys can provide to evaluate the effectiveness of internal controls (Esgin & Karagoz, 2021). Workers' participation in fraud-risk evaluation can mitigate unethical conduct and upsurge employee fraud awareness (Jha et al., 2020). Management should implement and assess internal controls in all departments of the organization (Esgin & Karagoz, 2021). Business owners' continual monitor of employees' integrity could lessen employee fraud and financial loss (Dawson, 2015).

To effectively manage and lessen fraud risk, management should be role models by observing all policies and procedures put in place to manage fraud risk (Dyer et al., 2020). Effective internal controls can only alleviate fraud risk, but cannot eliminate immoral behavior (Ackermann, 2017). Business leaders can override internal controls put in place in the organization (Sabatian & Hutabarat, 2020). Management should put in place internal controls that are less likely to be overridden (Schillermann, 2018). Even in the presence of strong internal controls, two or more employees can conspire to evade strong controls (Jha et al., 2020). In small businesses, it is sometimes difficult for management to segregate duties because of limited resources to employ more workers (Ackermann, 2017).

Transition

In Section 1, I discussed the background of the problem, the problem statement, the purpose statement, the nature of the study, the research question, interview questions, and the conceptual framework. I also provided in Section 1, operations of definitions, assumptions, limitations, and delimitations. The information in section one included the significance of the study and the review of the professional and academic literature in the strategies small businesses can use to enhance ethical financial reporting.

In Section 2, I describe the role of the research, participants, and restate the purpose statement presented in Section 1. Section 2 also includes the research method, research design, population and sampling, and ethical research, as well as the data collection instruments and techniques, data organization techniques, and data analysis. I complete Section 2 with the reliability and validity component of the study. In Section 3, I will discuss the presentation of the findings, application to professional practice, the implication to social change, recommendations for action, further study, and reflections on my experience as a researcher.

Section 2: The Project

In Section 1, I provided the foundation of the study and outlined the methodology to explore strategies used by small business owners to enhance ethical financial reporting. Section 2 provides details of the purpose statement, the role of the researcher, participants, qualitative research method, case study research design, and population sampling. Moreover, Section 2 elaborates on data collection and technique, data organization techniques, data analysis, and reliability and validity of the study.

Purpose Statement

The purpose of this qualitative multiple case study was to explore the strategies small business owners use to enhance ethical financial reporting. The target population consisted of small business owners from four small businesses located in Massachusetts. The participants demonstrated success in addressing strategies to enhance ethical financial reporting. Accounting managers and owners of small businesses could benefit from the results of this study by gaining awareness of the need to enhance ethical financial reporting strategies. The implications for positive social change include the potential increase of appropriate measures of control over financial reporting and to enable small businesses to succeed, which could increase employment opportunities. Increased employment opportunities could allow local communities to prosper.

Role of the Researcher

Researchers use the qualitative research method to convey why people have thoughts and feelings to impact the way they behave (Guetterman, 2020). The researcher must attempt to access these thoughts and feelings of study participants. Therefore, the

role of the researcher in a qualitative study involves the formulation of a research question, the selection of an appropriate research method, the collection of data, and data analysis (Yin, 2018). The researcher is highly dependent on the participants' knowledge about the phenomena under study (Råheim et al., 2016); consequently, a researcher should maintain a clear understanding of the phenomena under study (Sutton & Austin, 2015). As the primary data collection instrument, my role involves taking part in every phase of the study. Notwithstanding the philosophical stance, the researcher decides to take and whatever the data collection method, the process comprises the generation of large amounts of data (Sutton & Austin, 2015)

The professional experience I have acquired as an accountant has increased my interest in exploring a better understanding of the strategies used by small business owners to enhance ethical financial reporting. I have observed small business owners struggle with a decrease in profitability, file for bankruptcy, and eventually go out of business caused by unethical financial reporting.

A researcher should minimize bias by outlining potential sources of bias that enable a critical evaluation of the research findings and conclusions (Smith & Noble, 2014). Accordingly, to alleviate errors and bias, I maintained an understanding of the research topic and the expectations of a researcher. Furthermore, I have no personal relationship with the participants of this study. I searched and interviewed small business owners with whom I have no affiliations. I chose an appropriate research design to meet the study aims and to reduce common pitfalls concerning bias. An interview protocol guides the researcher in the data collection procedure and increases the reliability of the

study (Yin, 2018). Consequently, I used an interview protocol (see Appendix A) to establish trustworthiness within this study. A researcher should attempt to mitigate bias (Saunders et al., 2019). By using the interview protocol as a researcher, I stayed on track and treat each participant the same, thus reducing bias.

A researcher needs to adhere to ethical norms in research because norms promote the aims of the research, such as knowledge, truth, and avoidance of errors (Krom & van den Hoven, 2021). Therefore, a prohibition against the misrepresentation of data promotes the truth and reduces errors. Furthermore, *The Belmont Report* provides a summary of the three unifying ethical principles and guidelines for the protection of humans: (a) respect of persons, (b) beneficence, and (c) justice (U.S. Department of Health and Human Services, 1979). The use of *The Belmont Report* protocol includes obtaining informed consent from willing participants and maintaining participant confidentiality. A primary responsibility of the researcher is to safeguard participants and their data (Sutton & Austin, 2015). Hence, I did not disclose the personal information of the participant and the data collected to third parties. In my role as a researcher, I reduced bias by maintaining a high ethical standard through honesty, professional competence, and reading articles related to the study.

Participants

Researchers should ensure that participants meet a specified criterion (Powell et al., 2016). The researcher in a qualitative study should determine the choice of the participants by the focus of the research (Saunders et al., 2019). Qualified participants of qualitative research are individuals who are willing to participate in the study and can

provide relevant data, which is related to the research question (Yin, 2018). Moreover, Yirdaw (2016) asserted that the researcher should seek participants who are versed and capable to explore the phenomenon of the study exclusively. Consequently, it is vital for researchers to carefully consider how they choose the research participants from whom they will collect data to answer the central research question and meet the research aim. Also, a qualitative researcher needs to use a more homogenous population of participants to find similarities (Palinkas et al., 2015). Therefore, the eligibility criteria for participants in this study included owners and managers of small business organizations who have successfully implemented strategies to enhance ethical financial reporting.

A qualitative researcher uses specified methods to gain access to qualified participants (Ismail & Ummi, 2019). Singh and Wassenaar (2016) emphasized that a researcher must obtain permission from a gatekeeper within an organization to conduct research. According to Lund et al. (2016), a gatekeeper is an institution or person within an organization that controls a researcher's access to potential participants. A gatekeeper may also have the power to grant or deny permission for access to potential research participants. Gatekeepers should adhere to ethical standards by respecting the interest of the potential participants and the organization they represent. Singh and Wassenaar added that it is unethical if the gatekeeper is coercive in influencing participant involvement in the research; contrarily, refusal of access under the researcher's relationship with the gatekeepers is also a critical issue to consider when planning to collect data. I emailed invitation letters to gatekeepers of small businesses as part of the Institutional Review Board (IRB) approval process from Walden University. I used managers and owners of

small business organizations as gatekeepers to gain access to eligible participants. When researchers have identified qualified participants, they can send a letter inviting these individuals to participate in the study (Kolb, 2018). Fortunately, the gatekeepers of the businesses were also eligible participants of this study. I also emailed the informed consent form to eligible participants, which protects their privacy.

Research Method and Design

The purpose of this multiple case study was the explore strategies used by small business owners to enhance ethical financial reporting. Researchers can use either a qualitative, a quantitative, or a mixed method to understand a phenomenon (Saunders et al., 2019). I chose a qualitative multiple case study design as an appropriate method and design for this study to explore and understand human experience (Yin, 2018).

Research Method

The research question determines the research method (Yin, 2018); therefore, a researcher needs to select the appropriate research method once they know the research question (Sanip, 2020). To explore strategies used by small business owners to enhance ethical financial reporting, I chose the qualitative research method. Researchers use the qualitative research method to explore the *what, why,* and *how* of social events involving human experiences (Guetterman, 2020). Furthermore, Sanip (2020) emphasized that the qualitative research method involves systematic textual data collection and interpretations for interviews and observation. Babbie (2013) added that the qualitative method allows researchers to explore participants' experiences in the research problem to develop shared meaning. Implementing the qualitative method enabled me to gain a better understanding

of the issue studied from the experiences of participants. Researchers using qualitative inquiry in an organizational setting can share study findings by reporting a first-hand understanding of social dynamics (Luxton & Sbicca, 2020).

By contrast, researchers choose the quantitative method when asking the question of *what* and *how* (Guetterman, 2020). The quantitative method involves the use of numerical data for statistical inferences and hypothesis testing to examine relationships (Thamhain, 2014). Sergis et al. (2018) affirmed that quantitative researchers attempt to prove or disapprove of a theory. A quantitative method was not appropriate for this study because I did not plan to use numerical data for statistical inferences and hypothesis testing to examine relationships. The goal of this study was not to test a theory or investigate relationships but to explore human experiences and understand a social phenomenon from the participant's point of view.

A mixed-method research method is a combination of quantitative and qualitative research methods (Saunders et al., 2019). Yin (2018) asserted that the mixed method is more complex to perform. Researchers use the mixed method to gain a complex understanding of a phenomenon (Wester & McKibben, 2019). I rejected the mixed method in this study because I did not test hypothesis, and I did not include numeric data in the study. Instead, I used the qualitative method to explore and interpret the experiences of the participants.

Research Design

Researchers select a research design based on the research method. The purpose of a research design is to guide the researcher in the process of data collection, analysis,

and interpretation (Yin, 2018). Yin (2018) added that a rigorous design is important to guide a researcher throughout the study. I reviewed three research designs: (a) narrative, (b) phenomenology, and (c) case study.

Qualitative researchers use a narrative research design to focus on the life history of an individual (Ford, 2020). Wąsikiewicz-Firlej (2020) added that qualitative researchers use narrative research design to collect stories of individuals. Furthermore, narrative research allows a researcher to comprehend the dynamics of social and human processes (Anna-Maija et al., 2018). Narratives provide researchers with an in-depth understanding of the complexity of participants' detailed lived stories. Narrative inquiry was not suitable for my study since I did not focus on individuals' stories.

Researchers using phenomenology design seek to understand the meaning of lived experiences of participants through interviews and observations (Bower, 2019). Alase (2017) affirmed that the researcher in a phenomenological study focuses on what and how all participants experience a phenomenon. Moreover, qualitative researchers chose the phenomenological design to describe the perspective and interpretation of all participants (Knapp, 2017). My goal was to explore strategies used by small business owners to enhance ethical financial reporting, not to explore participants' lived experiences. Consequently, a phenomenological research design was not appropriate for this study.

A qualitative researcher uses a case study design to conduct an in-depth exploration and description of a participant's experiences and perceptions (Harrison et al., 2017). Furthermore, researchers choose a qualitative case study to address *how* and

why questions in a study (Sanders, 2018). A case study design might provide a more vivid and richer picture of the research problem than other qualitative research designs (Knapp, 2017). Therefore, the case study research design was most appropriate for my study. I used semistructured interviews with open-ended questions to explore strategies small business owners can use to enhance ethical financial reporting. Interviews are one technique that helped to confirm data saturation. Yin (2018) asserted that a researcher uses participant interviews, documentation, observation, and archived records during case study research.

A qualitative researcher reaches data saturation when no new or relevant information emerges during the data collection process (Viet-Thi et al., 2016). Gugiu et al. (2020) added that data saturation occurs when the data collected does not add new information to the phenomenon explored, and the coding is no longer realistic. Moreover, researchers achieve data saturation when they can duplicate the results of the study by conducting the study with different subjects and different situations, to determine whether the basis findings can repeat itself (Yin, 2018). Qualitative researchers use data saturation to evaluate the reliability and validity of the study (Vogl, 2018). When a researcher fails to attain data saturation in a study, the quality and the content validity of the study may not be authentic (Gugiu et al., 2020). To reach data saturation, I interviewed small business owners and accounting managers until there was adequate data and information to replicate the phenomenon studied.

Triangulation entails the collection of data from multiple sources to confirm the findings and increase understanding (Moon, 2019). The four types of triangulation

include data source, theory, investigator, and method (Noble & Heale, 2019). Triangulation is a good practice in conducting case study research, and offers validity through a convergence of findings, sources, or methods (Farquhar et al., 2020). Smith (2018) added that researchers use triangulation to increase the credibility and validity of the study results. Also, Mullet (2018) affirmed that data saturation is successful when no new evidence is available during the research. I ensured data saturation by collecting financial information archived records and participant interviews. I reached data saturation when the interview data becomes redundant, and no new additional data emerge.

Population and Sampling

The purpose of this qualitative multiple case study was to explore strategies small business owners use to enhance ethical financial reporting. The sample population for this study consisted of accounting managers and small business owners in Massachusetts. Moser and Korstjens (2017) asserted that it is important to select the right sample that can adequately answer the research question. Moser and Korstjens added that the study participants should be able to generate appropriate information that is valid and focused on the issue of the study.

To select participants for this study, I used both purposeful sampling and snowball sampling. Qualitative researchers use purposeful sampling to achieve appropriateness (Creswell & Poth, 2018; Liao & Hitchcock, 2018). In contrast to quantitative researchers, who use random sampling to generate data from the sample to the population (Palinkas et al., 2015), qualitative researchers deliberately search for

participants that can best answer the research question (Creswell & Poth, 2018). Consequently, purposeful sampling implies selecting information, rich, and relevant cases (Efrosyni et al., 2018). Creswell and Poth (2018) added that purposeful sampling implies intentionally choosing participants for data collection because they will inform understanding of the research problem and phenomenon under study.

According to Weller et al. (2018), there is no specific sample size in qualitative research; therefore, the requirement of the study determines the sample size. Snowball sampling is a recruitment technique where participants or potential participants of a research study help identify potential participants (Everitt & Skrondal, 2010). Researchers use snowball sampling where potential participants are hard to find (Levine, 2014). Initially, I used only purposeful sampling to recruit potential participants; unfortunately, it was difficult to identify enough eligible participants for the study, so I used snowball sampling. With snowball sampling, I expanded the sample size by asking initial and potential participants to identify others that could participate in the study. The use of purposeful sampling and snowball sampling in this study fostered the selection of experienced and knowledgeable accounting managers and small business owners who have implemented strategies to enhance ethical financial reporting.

The target population for this qualitative multiple case study included small business owners in the United States who have successfully implemented strategies to enhance financial reporting. Qualitative researchers should select a sample size that would provide relevant information to reach data saturation when identifying the appropriate population size (Sherif, 2018). Furthermore, Ames et al. (2019) asserted that

researchers should select participants by their capacity to provide richly textured information, relevant to the phenomenon under investigation. The sample size for this research study was four small business owners and accounting managers in Massachusetts who have succeeded in implementing strategies to enhance ethical financial reporting.

Data saturation implies the data collected does not add new information to the phenomenon explored, and the coding is no longer realistic (Gugiu et al., 2020). Yin (2018) added that qualitative researchers should continue to collect data to data saturation. Researchers use data saturation to increase the reliability and the validity of the findings of the study (Gugiu et al., 2020). Researchers should cease collecting data when additional information does not generate new insight into a phenomenon (Staller, 2021). I refrained from collecting more data when no new additional ideas emerged from participants' interviews. I needed two additional interviews to attain data saturation.

During the interviews, participants answered seven semistructured, open-ended questions (see Appendix B), which allowed for flexibility in participants' responses. I recorded communication with each participant. I conducted interviews by telephone and through the videoconferencing platform Zoom. Participants for my study chose a safe and comfortable environment for the interviews. Lee-Potter (2017) acknowledged that participants are more focused in an environment with no distractions, for it also provides a higher quality audio recording.

Ethical Research

The purpose of this study was to explore strategies small business owners use to enhance ethical financial reporting. Before the start of data collection, I adhered to the rules of Walden University and obtained permission from the IRB and the four businesses operating in Massachusetts. The Walden University's approval number for this study is 04-30-21-0979266. Researchers must obtain approvals from the ethics committee before performing the study (Greenwood, 2016). Upon receiving IRB approval, I started collecting data. Informed consent is an essential aspect of ethics in research (Sanjari et al., 2014). The primary purpose of informed consent is to allow qualified participants to decide to participate in the study (Hartlev, 2020).

All participants received an email inviting them for the interview Before the start of each interview session, participants had already replied to my email consenting to the interview indicating their approval to participate in the research study. The informed consent form provided a brief description of the study, the discomforts, and benefits of being in the study, and my contact information as the researcher. Besides, I ensured that the informed consent form included policies and procedures to protect the privacy and confidentiality of participants. Sil and Das (2017) affirmed that the informed consent process will uphold the basic ethical principle of autonomy in human research. I ensured each participant understood that any participation in this study was voluntary by requesting a reply to my email consenting to the interview. I informed the participants that they had the option to withdraw from the study at any time by contacting me via

email. Fortunately, no participant withdrew. I offered no incentives for participating in the study.

Participants' personal information provided to the researcher should remain confidential (Resseguier & Rodrigues, 2021). Yin (2018) asserted that researchers must protect the rights of the participants, data analysis, and data storage. I will use the collected data for the sole purpose of the research study. I used alphanumeric codes such as FR1, FR2, FR3, and FR4 to identify the participants and their responses. I will maintain the data on a flash drive for 5 years in a locked safe. Moreover, I will destroy all documents about this study after 5 years. I will discard documents by shredding papers and erasing electronic data containing information related to this study. The Walden University IRB approval number for this study is 04-30-21-0979266.

Data Collection Instruments

The purpose of this study was to explore strategies small business owners use to enhance ethical financial reporting. Yin (2018) acknowledged that in qualitative studies, the researcher is the primary data collection instrument. Furthermore, a qualitative researcher interacts directly with participants (Prins, 2017). Kmita (2017) claimed that the four main methods of data collection include focus groups, individual interviews, observation, and action research. As a qualitative researcher, I was the primary data collection instrument for this research study and used semistructured interviews (see Appendix B) to collect data.

In qualitative studies, a researcher can use semistructured interviews to collect data (Rice et al., 2018). Researchers use semistructured interviews to engage in in-depth

conversations with participants (Lawrence, 2020).). As a result of the COVID-19, participants were not comfortable with face-to-face interviews. Although Farooq and de Villiers (2017) claimed that a telephone interview is not appropriate as a data collection instrument since it does not allow access to visible body language, I still performed interviews via telephone and Zoom to fully observe the safety guidelines for COVID-19. I reviewed business remote policies for each of the four organizations. Paananen et al. (2020) affirmed that in qualitative studies, a researcher using semistructured interviews has a predefined list of questions. The semistructured interviews for this study consisted of seven predetermined open-ended questions (see Appendix B) that explored the central phenomenon of this study. Each interview lasted for not more than 45 minutes and I recorded the interviews. Furthermore, during the semistructured interviews, I asked the participants valuable questions, and I avoided biases by using the interview protocol.

Triangulation is vital in qualitative studies. Triangulation entails the collection of data from multiple sources to confirm the findings and increase understanding (Moon, 2019). Triangulation is the use of two or more data collection methods in the same study to offset the limitations of using one data collection method (Flick, 2018). Yin (2018) stated that researchers use the triangulation of multiple data collection methods to enhance the validity, confidence, and accuracy of data findings. Researchers should specify the goal they need to attain from triangulation based on the research question (Natow, 2019). I used triangulation to strengthen the validity, reliability, accuracy, and credibility of data. According to Yin (2018), a qualitative researcher can use triangulation to overcome the bias resulting from a single source of data in a study; thus, enhancing

validity and reliability. I used triangulation by including documentary evidence to supplement the data collected through interviews. The data collection methods I used included semi-structured interviews using open-ended questions, a review of documentary evidence, and casual observation. Documentary evidence included financial statements, business policies, and external records, such as local business news, for any possible fraud scandals.

During the study, the data collected by the researcher should be available for the participants to review (Lester & Allison, 2018). Qualitative researchers use member checking to allow the participant to confirm the researcher's interpretations and to allow the researcher to make corrections if they disagree with the interpretation (Gaikwad, 2018). Member checking enhances accuracy, clarity, and the discovery of new information (Knapp, 2017). Le Roy (2013) added that member checking ensures that the researcher has captures the participant's responses. I used member checking to ensure accuracy for my data collection. After analyzing the reviewed interview transcripts, I sent a summary to each participant. I requested participants to verify or update the summary of their interview data.

The researcher in qualitative studies is the primary data collection instrument and should alleviate researcher bias (Brænder, 2020). Most qualitative researchers use interview protocols to guide them through the interview process (Grimes, 2021). Yeong et al. (2018) affirmed that researchers can use interview protocols to mitigate the risk of researcher bias. I used semistructured interviews with open-ended questions to prompt

comprehensive responses from participants. By using an interview protocol, I standardized each interview and therefore reduce researcher bias.

Data Collection Technique

Data collection techniques involve a sequence of interrelated activities to gather valuable information related to the phenomenon of interest (Mali & Datta, 2018). Qualitative researchers can choose several sources to collect data for the same study (Wilson, 2014). Data collection techniques for this study included semistructured interviews and documentary evidence. Researchers use semistructured interviews to explore the perspectives and experiences of participants related to the research question (Agran et al., 2016). A qualitative researcher uses semistructured interviews to allow participants to contribute to the study (Tweedie & Kim, 2015). As a qualitative researcher, I used open-ended questions in semistructured interviews and documentary evidence to explore the strategies needed by accounting managers and small business owners to enhance ethical financial reporting. Sibbald et al. (2018) claimed that open-ended questions allow participants to answer with their experiences without suggesting an answer. Before interviewing participants, I ensured that I obtained an appropriate informed consent form that included a brief description of the study, procedures, privacy, discomforts, benefits of being in the study, and the right to decline at any point during the process. All the participants who were willing to participate in the study read and sign the informed consent form by replying to my email consenting to the interview. Before conducting the interviews, I requested that participants decide whether they preferred

Zoom or telephone interviews. Furthermore, I took down notes during the interview, and I asked the permission of participants to record the interview.

Researchers use semistructured interviews to stimulate familiarity with participants and gain a unique understanding of the phenomenon studied (Lawrence, 2020). Furthermore, semistructured interviews have a high response rate than other data collection techniques like online, mail, and surveys (Bernard, 2013). Agran et al. (2016) added that a qualitative researcher uses semi-structured interviews to gather reliable data. Researchers using semistructured interviews have a predetermined list of questions with no uniform established answer option (Yurdakul, 2015). Although a semistructured interview has several advantages, it could affect a research study negatively. Agran et al., (2016) affirmed that a researcher's knowledge on how to conduct a research study and the type of questions used in a semistructured interview could affect the quality of data collected either positively or negatively. Also, semistructured interviews are labor-intensive and time-consuming (Knapp, 2017). Zhang et al. (2017) supported that face-to-face interviews are more expensive with high transport costs for the interviewer. I collected data using semistructured interview questions. Also, I made notes during the interviews.

The interview protocol involved the two most main factors, introduction to the interviewee and the interview questions (Husband, 2020). I reconfirmed the consent of the participants, and I reminded them that they had the right to stop at any time during the interview. At the end of the interview, I outlined the next steps for the interviewee. The first step involved making a transcript of the interview available to the participants for

review. I also prepared a summary of the interview as a form of member checking. Qualitative researchers use member checking to obtain the feedback of participants and enhance the validity of findings (Andraski et al., 2014). Moreover, researchers use member checking to ensure credibility (Knapp, 2017). To add credibility to this study, I presented my write-up to the interviewees with my interpretations of the interview to allow them to validate the accuracy of my interpretation of the data collected. I conducted additional interviews until no new information emerged.

Data Organization Technique

Researchers use data organization techniques to distinguish between the raw data collected from participants and the researcher's interpretation of data (Yin, 2018). Researchers can use a reflective journal to help organize collected data (Draissi et al., 2021). After every interview, I documented my comments in a reflective journal. The notes helped me as I organized my collected data. Rajesh and Ramesh (2016) suggested that a researcher can use a software application to organize and store electronic data for quick and easy retrieval of information. I used NVivo software to organize and keep track of data. A researcher can use codes to organize the data collected (Babey, 2019). Furthermore, I used coding to simplify the organization and the retrieval of data.

Data security in a research study is of paramount importance in protecting participant confidentiality. Researchers can securely store electronic data files in a password-protected computer and keep hardcopy files in a locked cabinet (Knapp, 2017). The essential aspect of privacy is to keep data secured and protected from unauthorized access (Ruivo et al., 2014). Additionally, Knapp (2017) emphasized that a researcher

must keep data files confidential, securely, and responsibly. To maintain the confidentiality of the participants, I stored electronic data in a password-protected computer and kept hard copies in a locked file cabinet at my home. Ruivo et al. (2014) stated that all data must have a retention time limit. After 5 years of securely storing participants' information, I intend to shred paper copies and permanently delete electronic copies from my computer.

Data Analysis

Qualitative data analysis encompasses preparing, organizing, and condensing data into manageable and meaningful segments (Ziskin, 2019). Yin (2018) acknowledged that data analysis is one of the most challenging stages of research for a novice. The data analysis process suitable for this case study research is methodological triangulation. The four different types of triangulations include data, methodological, investigator, and theory triangulation (Yin, 2018). With methodological triangulation, a qualitative researcher employs several data collection methods and analyses to explore a phenomenon and increase the validation of data collected (Gugiu et al., 2020). Consequently, I used several sources of data collection including telephone interviews, Zoom interviews using open-ended questions, documentary evidence, and casual observation to increase the validity of findings in this study. Documentary evidence included financial statements, other relevant internal documents, and external sources for possible financial fraud scandals. Before the interviews, I visited three of the organizations to speak with small business owners or managers, and casually observed the activities of the business organization. After conducting the interviews via Zoom and

telephone, I requested their financial records. I also sought external sources, such as the local business news, regarding the businesses for any financial fraud scandals.

De Massis and Kotlar (2014) emphasized that a researcher should provide a logical and sequential process for data analysis. Furthermore, a qualitative researcher should start the data analysis process immediately after conducting the first interview (Dierckx de Casterlé et al., 2012). The data analysis process I employed involved the subsequent steps after completing my interviews and collecting additional data: (a) transcribe interviews, (b) review interview transcripts with the participants and adjust transcripts based on participants' comments, (c) write a summary of the reviewed transcript and sent to participants as part of member checking; adjust summary based upon on participants' comments, (d) code narrative segments into themes, and (e) write my final results.

I immediately transcribed each interview after collecting data from participants using semistructured Zoom interviews, telephone interviews, and documentary evidence. Furthermore, I used NVivo to group the collected data into themes. Riera et al. (2015) recommended that researchers should organized data into thematic groups. After coding narrative segments into themes, I presented my write-up to participants to validate themes as part of member checking. According to Riera et al., coding comprises the combination of related concepts into categories. A researcher interprets data to make the data meaningful (Lynch et al., 2016). Finally, I made the necessary modifications to my interpretation of themes based on the remarks from participants to ensure accuracy, and I concluded with a final write-up of the findings.

A researcher can use a computer application in the data analysis phase of a study to locate and retrieve material related to themes and codes (De Massis & Kotlar, 2014). Yin (2018) also suggested that qualitative researchers use NVivo, Hyper Research, Atlasti, and MAXQDA for data analysis. Most Researchers use NVivo to analyze data because it increases the speed for organizing qualitative themes, and it is less time-consuming (Delaney & Simpson, 2017). Consequently, I used NVivo software and Microsoft Excel in the data analysis phase to easily retrieve material and save time. Qualitative researchers use thematic analysis to classify and focus on key themes (Pascoal et al., 2014). In linking key themes with the literature, qualitative researchers can use thematic analysis to detect recurrent concepts (Teruel et al., 2016). I used thematic analysis to identify and organize themes related to this study.

Reliability and Validity

Researchers use the reliability and validity of a study to establish the quality of findings (Yin, 2018). Yin (2018) added that the main objective of reliability in a study is to reduce biases. In arbitrating the reliability and validity of a qualitative study, a researcher can employ the following similar criteria (a) dependability, (b) credibility, (c) transferability, (d) confirmability, and (e) data saturation (Lodhia, 2017; Yin, 2018). A qualitative researcher uses member checking to foster the validity and reliability of findings in a study (Andraski et al., 2014). I will establish reliability and validity by using member checking as a system to improve credibility.

Reliability

Qualitative researchers can use reliability to ensure consistency in a research result (Skinner et al., 2020). Dependability involves the stability of data over time under different settings (Lemon & Hayes, 2020). A qualitative researcher establishes dependability to upsurge the confidence in the results of a qualitative study (Munn et al., 2014). Munn et al. (2014), claimed that there exists a correlation between the quality and dependability of a research study. To improve the quality of findings, I established member checking by presenting my write-up to participants to validate my interpretation of the data collected during interviews. According to Theron (2015), qualitative researchers should use member checking to guarantee accurate interpretation of participants' accounts and increase the reliability of results. Furthermore, a researcher can use several data collection methods in a research study to increase the reliability and validation of findings (Natow, 2019). Consequently, to increase the reliability and validity of results in this study, I also used various sources of data collection including telephone interviews, Zoom interviews, documentary evidence, and casual observation. Documentary evidence involves written policies, financial statements, and other relevant internal documents.

Validity

Reliability and validity are the most significant standards for a study. Validity involves the accuracy of the data (Skinner et al., 2020). According to Jones et al. (2018), qualitative researchers can establish the validity of research results by maintaining consistency. Furthermore, researchers can employ the validity of a study by ensuring data

saturation, transferability, credibility, and confirmability, and data saturation (Yin, 2018). Knapp (2017) emphasized that a researcher can foster the credibility of results in a research study by establishing validity from the participant's viewpoint. Moreover, a qualitative researcher can employ reflective journaling and member checking and recommended member checking and establish credibility in the findings of a study (Cloutier & Ravasi, 2020). Researchers establish member checking to gain additional insight into a phenomenon of study (Amin et al., 2020). To add credibility to this study, I presented my interpretation of the interviews to participants to allow them to confirm the accuracy of my interpretation of the collected data.

Transferability

Transferability refers to the possibility of extrapolation (Yin, 2018). Lemon and Hayes (2020) added that transferability refers to the point where a qualitative researcher can transmit the results of a study to different settings. Additionally, researchers can employ transferability to apply the findings of a study to allied research (Lemon & Hayes, 2020). Transferability is useful to readers and future researchers (Eiser, 2017). The transferability of a study is the burden of a reader or future researcher to establish that the results of a study apply to another context (Knapp, 2017). Lemon and Hayes (2020) emphasized that to augment transferability, it is vital for a researcher to present a clear description of the context of findings. I presented the detailed results of this study to provide readers and future researchers with transferable findings to their study.

Conformability

Conformability connotes the data epitomize the participant's responses rather than the researchers' viewpoints or biases (Brænder, 2020). According to Lodhia (2017), confirmability implies the neutrality of findings in a study and not the researcher's point of view. Cloutier and Ravasi (2020) asserted that qualitative researchers can establish conformability in a research study by auditing the research method employed. I used methodological triangulation to ensure conformability. As per Gugiu et al. (2020), methodological triangulation implies using multiple data collection methods to explore a phenomenon I used multiple sources of data collection including telephone interviews, Zoom interviews, documentary evidence, and casual observation

Gugiu et al. (2020) posited that qualitative researchers reach data saturation when additional data collected does not generate new ideas for the phenomenon of study. Data saturation is vital in a study since it improves the reliability and validity of the results of a study (Vogl, 2018). After attaining data saturation, a qualitative researcher stops interviewing more participants (Staller, 2021). To ensure data saturation, I continued to interview participants until there was sufficient data to reproduce the phenomenon of the study.

Transition and Summary

Section 2 included a detailed description of this study. I started this section by restating the purpose statement as presented in Section 1. Furthermore, I included the role of the researcher, data collection techniques, and data analysis. In Section 2, I also described the research method, research design, and population, and sampling. Moreover,

I discussed how I established the reliability and validity of this study. In Section 3, I present the results and the application of professional practice. I address the implications for social change, recommendations for action, further research, and reflections on the research process.

Section 3 Application to Professional Practice and Implication for Change

Introduction

The purpose of this qualitative multiple case study was to explore strategies used by small business owners to enhance ethical financial reporting. I interviewed four participants using Zoom and telephone semistructured interviews. Participants read and signed an informed consent form indicating their willingness to participate in the research study prior to the interviews. To avoid any disclosure of names and keep participants' information confidential, I named participants FR1, FR2, FR3, and FR4. Furthermore, I used method triangulation to include documentary evidence and casual observations to supplement my data collected through interviews. Documentary evidence included financial statements and other pertinent financial records.

The semistructured interviews consisted of seven interview questions, lasted for no more than 45 minutes, and were recorded. I sent interview transcripts to interviewees for validation. Once participants approved of the transcripts, I summarized the reviewed transcripts and sent them to participants for member checking. Subsequently, I coded narrative segments into themes. I used the NVivo software to code, analyze, manage, and organize themes. I then proceeded to the final write-up of the findings of this research study. Five themes emerged: (a) ethical behavior, (b) internal control and communication, (c) segregation of duties, (d) monitoring, and (e) actions against fraudsters. In this section, I provide the presentation of findings, the application of professional practice, the implications for social change. Further, I state the recommendations for actions, further research, and reflections on the research process.

Presentation of the Findings

The overarching research question for this study was: What strategies do small business owners use to enhance financial reporting? The population for this study comprised small business owners located in Massachusetts. Participants had unique codes (FR1, FR2, FR3, and FR4) to ensure confidentiality.

I conducted semistructured interviews with participants via Zoom and telephone. I used methodological triangulation by including documentary evidence and casual observations to add to my data collected through interviews and to fortify the accuracy and credibility of data. The conceptual framework for this qualitative multiple case study was the fraud diamond theory developed by Wolfe and Hermanson (2004). The fraud diamond, a revised version of Cressey's (1953) fraud triangle, illustrates the components that cause an individual to commit fraud (Wolfe & Hermanson, 2004). Accounting managers and small business owners who use the fraud diamond as a tool to disclose fraudulent activities promote ethical cultures within the organization and mitigate unethical behavior (Rodgers et al., 2015; Verschoor, 2015). The reason for using the fraud diamond theory as a conceptual framework for this study is that small business owners can use the theory to understand key financial fraud factors (see Pedneault & Kramer, 2015).

The five main themes that emerged were (a) ethical behavior, (b) internal control and communication, (c) monitoring, (d) segregation of duties, and (e) action against fraudsters. The same interviews question responses revealed different themes during the interviews. These themes are applicable in exploring strategies needed by small business

owners and accounting managers to enhance ethical financial reporting. Table 1 shows the interview questions and themes.

Table 1

Interview Questions, Themes, and Percentage of Participants

Interview questions	Themes	% of participants references
1. What strategies do you use to enhance ethical financial reporting in your business?	Internal control and communication Segregation of duties	100%
2. What are some of the policies you have incorporated to promote ethical financial reporting?	Ethical behavior Internal control and communication	100%
3. What strategies have been most successful for fostering ethical financial reporting?	Internal control and communication	100%
4. How do you assess the effectiveness of the strategies for enhancing ethical financial reporting?	Internal control and communication	100%
5. What principal barriers did you encounter when implementing your strategies for enhancing ethical financial reporting?	Ethical behavior Internal control and communication Action against fraudsters Segregation of duties	75%
6. How did you address the principal barriers to implementing your strategies for enhancing ethical financial reporting?	Monitoring Internal control and communication	100%
7. What additional information can you provide regarding strategies to enhance ethical financial reporting?	Action against fraudsters Monitor	75%

Theme 1: Ethical Behavior

FR2 and FR3 expressed that they hold regular meetings with employees to teach them ethical values, and they encourage their employees to behave ethically within the organization. Harvey (2018) acknowledged that small business owners can encourage ethical behaviors within the workplace when they teach their staff how to respond to pressure to behave unethically. To alleviate financial risk and financial loss, business

leaders should encourage ethical behaviors within the organization (Kirsch, 2018). FR2 and FR3 noted that monitoring and observing their employees helped them to easily identify any unethical behavior which collaborated with the findings of Tokmak (2020) who asserted that the ethical climate of an organization has a positive impact on employees; thus, management should work closely with workers to promote an ethical atmosphere. Machado and Gartner (2018) added that employees often demonstrate certain behavioral traits before engaging in fraudulent activities, and management can use those traits to recognize their intentions (Machado & Gartner, 2018). Sabatian and Hutabarat (2020) suggested that small business owners administer the fraud diamond to proactively address the fraud risk components in their businesses. The research findings of this study revealed that when business owners educate their staff on ethical values and also work closely with their workers, then employees are less likely to engage in fraudulent activities.

The use of the phrase "tone from the top" has been the emphasis of numerous research studies. The power in the tone from the top can yield both positive and negative results. Nevertheless, business leaders can use the tone from the top in a positive manner, as outlined in the findings of this research study. A strong ethical culture within the organization will safeguard business assets (Grabowski et al., 2019). FR3 explained, "to mitigate unethical behaviors in our organizations, we carry out checks and balances monthly." FR3 added that when management adheres to the policies, procedures, the culture of the organization, employees would likely follow suit. FR2 and FR3 expressed that employees perceive this tone to imply that management promotes an ethical culture

in the organization. The findings of this study indicated when business leaders behave ethically, employees would like to act ethically thereby minimizing the fraudulent activities in the business organization. This result aligns with all four components of the fraud diamond theory; thus, employees with strong ethical values may neither be easily pressured (the pressure component) to commit fraud nor seize opportunities (the opportunity component) to engage in fraudulent activities. Further, a worker with strong ethical behavior will not justify (the rationalization component) fraudulent behaviors. Senior managers who behave ethically and promote ethical behaviors within the organization may not use their position (the capability component) to commit fraud.

Theme 2: Internal Control and Communication

All four participants emphasized the use of internal controls in their respective business organizations to detect and prevent financial fraud. Management should safeguard business assets by employing strong internal controls to encourage ethical behaviors, detect, and prevent fraudulent activities (Fish et al., 2021). All participants stressed the need for business owners to constantly communicate to employees on what constitutes fraud and how it can be detected and prevented. Davis and Harris (2020) emphasized that management has to teach its employees what fraud is and how to protect the organization's resources. Donelson et al. (2017) asserted that weak internal controls increase the risk of financial reporting fraud.

All the participants I interviewed expressed that they have preventive and detective measures to alleviate fraud. Business leaders should implement preventive and detective controls to investigate errors or irregularities (Nasir et al., 2021). The findings

of this study indicated that when business owners and accounting managers establish proper internal controls, there is a reduction in the probability for employees to commit and conceal a fraud. Internal controls are important in reducing fraud within an organization notwithstanding the size of the business.

FR2 and FR3 emphasized the importance of communicating and teaching workers about the internal control measures put in place in the organization. FR3 noted that they adjust internal control procedures regularly due to the changing fraud strategies. FR3 added that they hold regular meetings with employees to remind them of the internal control measures put in place in the organization. All participants expressed that one of the ways to inform employees of business policies is to place copies in visible areas and ensure that every worker also has a hard copy. I visited some of the small businesses, and I casually observed policies posted on the walls stating activities that are considered fraudulent by the organizations.

Business leaders need to ensure the right tone at the top to implement strong internal controls and mitigate financial fraud (Dyer et al., 2020). Bilgi et al. (2017) added that managers play a leading role in developing internal controls for each activity in the organization. FR1, FR2, FR3, and FR4 acknowledged that they assess the financial statements of their organizations consistently and regularly which collaborated with the findings of Kim et al. (2020), who affirmed that managers who often are unable to have proper separation of duties can rely on detection controls, which take the form of reviews of payroll, cash disbursements, canceled checks, bank statements, and many other important owner oversights. FR3 noted that dishonest employees would take advantage

of internal control weaknesses in carrying out and concealing fraudulent activities, which supports the claims of Nasir et al. (2021), who asserted that the absence of business leaders' oversight is an internal control weakness in a small business that can create opportunities for workers to engage in fraudulent activities.

Theme 3: Monitoring

All participants emphasized the use of surveillance cameras to monitor workers' activities. Further, all participants asserted that it is important to inform employees that they are being watched through a surveillance camera. Reh (2019) affirmed that when workers are aware that their supervisors watch their activities in the business organization, they are less likely to engage in fraudulent activities. Findings from this study revealed that small business owners could alleviate fraud within their organizations when they are diligent in observing closely employees' activities. FR3 acknowledged that management verifies employees' timesheets to ensure that workers are not overpaid or underpaid. Before conducting interviews with participants, I visited the businesses of F1, FR2, and FR4, and I observed that cameras were in different places to monitor activities and mitigate fraud. FR2 acknowledged, "we have placed surveillance cameras at strategic locations throughout our business to monitor the activities within the organization."

Managers and small business leaders could implement whistleblowing measures to address unethical activities and minimize future fraudulent activities (Yusuf, 2019). Bogdanović and Filip (2018) added that management can use whistleblower policies to alleviate fraud occurrence within a business organization. FR3 stated that whistleblowing is one of the most effective tools used in the organization to minimize dishonest

activities. FR2 and FR3 explained that at the end of each week, management visits all departments to verify business financial records. Also, FR2 and FR3 expressed that it is costly to put in place antifraud strategies. However, according to Albrecht et al. (2018), whistleblowing is a low-cost and effective antifraud strategy that small business owners can use to reduce fraud. The results of this research study revealed that workers will be more likely to report fraud if the organizational leaders made reporting easy and unidentifiable. The conceptual framework for this study was the fraud diamond, with the fraud scale and the fraud triangle as alternative theories. Small business owners and accounting managers could use these theories to understand why workers engage in financial fraud and how to detect and prevent dishonest activities within the business. Management can install surveillance cameras to monitor the activities of employees, thus reducing fraudulent activities within the organization. Business leaders can also implement antifraud measures to promote ethical behaviors and lessen fraud schemes.

Theme 4: Segregation of Duties

Insufficient segregation of duties within small business organizations is one of the leading causes of fraudulent activities among workers (Ackermann, 2017). FR1, FR2, and FR4 emphasized that segregation of duties seems to be a challenge since their businesses have a limited number of employees and limited resources. FR2 asserted that for the business to save money, it is convenient to train fewer workers to carry out several functions. FR2 added that before the COVID-19 pandemic, their business used to have several workers; unfortunately, they had to let some of their employees go during the pandemic because they wanted to cut down costs. I visited FR1, FR2, and FR4 at their

respective businesses, and I observed them carrying out multiple functions. F1 was creating a customer order and also attending to the cash register. F2 was counting inventory and also was in charge of the cash register. F4 had two employees attending to the cash register. There was a lack of segregation of duties in all those three businesses, which created opportunities for errors and fraud.

Fraudulent activities take place in small businesses when there is a limited number of employees carrying out multiple functions. Locati (2017) asserted that to achieve appropriate segregation of duties and prevent fraud within small businesses, the responsibilities for processing cash disbursements and cash receipts should be handled by different persons from the beginning to the end. FR3 emphasized that it is important for every business owner to carry out checks and balances in their businesses regularly. FR3 was 30 minutes late for the Zoom interview because of a meeting with the payroll department to review financial records. FR3 asserted, "the way to overcome the challenges of segregation of duties is to be actively involved in some employee duties like cash expenditure and invoice approval to mitigate unauthorized expenses."

The result of this research study revealed that inadequate segregation of employees could result in mistakes and allow employees to commit and conceal unethical practices. A small business owner can segregate duties in the payroll department by assigning an employee to calculate and compile the gross and net pay information and another employee verifies the information; this would prevent the payroll clerk from creating and paying fake employees. Small business owners lack adequate resources to employ specialized workers (Kim et al., 2020). All participants recognized the

importance of assigning a specific employee to a particular task by defining the responsibilities and job descriptions of each employee to ensure accountability. To alleviate fraudulent activities among employees, small business owners should actively engage in internal control (Tucker, 2018). The results of this study revealed that the segregation of duties would promote ethical behaviors among employees and would lessen opportunities for workers to engage in fraudulent activities.

Theme 5. Action against Fraudsters

A business organization can lose its reputation in the eyes of suppliers, customers, and other stakeholders as a result of financial fraud (Gottschalk, 2018). Business leaders can hold periodic meetings with employees to reiterate job descriptions and emphasize the effect of fraud on employee jobs and the organization's reputation (Harvey, 2018). All participants expressed the importance of the organization's reputation to customers, suppliers, future workers, and the community as a whole which collaborated with the findings of Kennedy (2018) who affirmed that an organization's reputation is its major asset. FR3 noted that workers adhere to ethical standards and take internal control seriously when they are held responsible for their actions. Further, all participants expressed the importance of business leaders setting an ethical tone for employees to follow and abide by the business policies and procedures. Senior managers should act as role models to lessen fraudulent behaviors in their organization since the tone at the top establishes a significant influence on business ethical practices (Braumann et al., 2020). All participants noted that complaints regarding employees' dishonest behaviors are

thoroughly investigated and addressed immediately to save the business organization's reputation.

FR3 acknowledged that when a worker exhibits signs of unethical behavior or when individuals report suspected fraudulent behaviors, management conducts an investigation immediately to mitigate fraud loss. FR3 pointed that when employees falsify their timesheets for the first time, they would receive a warning; however, if they repeated the same misbehavior the second time, money would be deducted from their paychecks, and management would terminate their employment if such behavior continued. FR3 asserted that they begin legal proceedings with employees who fail to follow business policies and procedures and commit fraud. FR3 added that before accusing a worker of committing fraud, thorough investigation and evidence must be in place to back the allegation. All participants emphasized that it is vital to take actions against workers who engage in dishonest behaviors so that other workers would seriously adhere to the policies and the procedures of the organization. Findings from this research study revealed that when action is taken against perpetrators, there is a reduced chance for workers to engage in dishonest behaviors and cover their tracks.

Applications to Professional Practice

The results from the study are relevant to improved business practices; thus, this study provides additional information on the strategies used by accounting managers and small business owners to enhance ethical financial reporting. The specific business problem was that some small business owners lack the strategies to enhance ethical financial reporting. Small business owners and accounting managers should enforce

ethical behavior and evaluate financial statements frequently to safeguard the organization's resources (Kirsch, 2018). The findings of this study could provide business owners and accounting managers with information on how to enforce controls and safeguard organization assets. Implementing strategies to safeguard the organization's assets may reduce fraud risk and financial loss.

Small business owners and accounting managers can adopt cultures that encourage ethical behavior and discourage fraudulent activities. The results of this study aligned with the four components of the fraud diamond theory because when small business owners and accounting managers implement antifraud measures, such as segregating duties, promoting ethical behaviors, punishing fraudsters, monitoring the actions of employees, workers would not easily engage in fraudulent activities. Davis and Harris (2020) affirmed that small business owners can use the fraud triangle and fraud diamond to understand why employees commit fraud and how to protect and detect fraud in an organization Vousinas (2018) acknowledge that components of the fraud diamond are dynamic, and small business owners could take them into considerations when determining why workers engage in fraudulent activities. Business leaders can use segregation of duties to prevent fraud because when work duties are divided among workers, it would lessen financial risks, mitigate financial loss, and alleviate inappropriate actions. Small business owners can implement a monitoring strategy by installing surveillance cameras in the organizations; when employees are aware that management observes their actions, they might not easily engage in fraudulent activities. Small business owners and accounting managers with relevant information on financial

fraud could design and implement sound systems of internal controls to alleviate the opportunities for workers to commit and conceal financial fraud.

Implications for Social Change

The findings from this study benefit small business owners and society by adding to the strategies small business owners and accounting managers can use to enhance ethical financial reporting. Employing effective internal controls could increase the probability of small business success and improve the economic well-being of the community. The successful operation of small businesses could create a positive effect on other small business organizations in the community thereby ensuring individual job security and creating employment opportunities. The results of this study could provide small business owners with awareness of the importance of educating workers on what constitutes fraud within the business, its effects, and how to report dishonest behaviors.

Small business owners and accounting managers could benefit from the results of this study if they implement cultures the encourage ethical behaviors within the organization and discourages fraudulent behaviors. Small business owners may gain insight into the importance of employing anti-financial fraud strategies in the business to mitigate fraud incidences. Encourage ethical behavior might minimize fraud loss and upsurge profitability in small businesses. With augmented profitability, small business owners could increase employment opportunities. Increased employment opportunities could allow local communities to grow economically. Moreover, an increase in the success rate of small businesses could generate economic contributions to the U.S. economy.

Recommendations for Action

The results of this study revealed some recommendations for accounting managers and business owners to enhance ethical financial reporting. Other individuals who need to pay attention to the findings of this study include potential small business owners. Some recommendations include employing sound internal controls, implementing strategies that encourage ethical behaviors and discourage dishonest behaviors, offering obligatory personalized fraud-related training to individual employee job descriptions.

A recommendation for action for accounting managers and small business owners from the results of this study comprises appropriating, employing, and upholding internal control to protect the resources of the organization. Internal controls that would benefit small business owners and managers include transaction and activity reviews, information processing controls, segregation of duties, reconciliations, physical controls, and checks and balances. Small business owners should put in place internal control strategies that alleviate the opportunities for workers to engage in fraudulent activities. Small business owners with weak internal controls over the organization will upsurge the probability of workers committing financial fraud. Accounting managers and small business owners should ensure appropriate segregation of duties to mitigate chances for employees to engage in unethical behaviors. Small business owners need to get involved in the oversight of internal controls to reduce fraud.

Accounting managers and business owners should employ strategies that encourage honest behaviors and discourage unethical behaviors to minimized fraud loss

and fraud risk. Small business owners and accounting managers can adopt cultures that promote ethical behaviors. Business owners should hold regular meetings with employees to teach them ethical values and the consequences of engaging in fraudulent activities. Monitoring and observing their employees is a strategy small business owners should adopt to easily identify any unethical behaviors. Small business owners should act as role models by behaving ethically so that employees could emulate.

Another recommendation includes owners of small businesses should organizing compulsory training for workers on fraud awareness as an important financial fraud mitigation tool. Small business owners and accounting manager should educate their employees on what constitutes financial fraud, its effects, and how to report unethical behaviors. Small business owners and accounting managers should train their workers on how to use whistleblowing policies. Since whistleblowing is fraud detection and a fraud prevention tool, small business owners should implement strategies that protect whistleblowers.

I plan to enlighten small business owners in Massachusetts on ethical financial reporting strategies by conducting training sessions. Also, I plan to organize seminars to create fraud awareness among small business owners and business managers. To disseminate the results of this study, I plan to submit articles for publication in scholarly journals. Insufficient information on enhancing ethical financial reporting can increase financial loss, fraud risk and decrease business profitability. Accounting managers and small business owners should attend seminars that provide training related to financial fraud. Small business owners and accounting managers should read reports journals

measures to alleviate financial fraud within the business. One of the reports comprises of Report to the Nations on Occupational Fraud and Abuse. It provides information on how businesses can detect and prevent losses incurred from employee fraud.

Recommendations for Further Research

The purpose of this qualitative multiple case study was to explore strategies used by small business owners to enhance financial reporting. The results from this study provide researchers with the foundation for future research in exploring other strategies not covered in this study that small business owners could use to fight financial fraud. In addition, owners of small businesses and accounting managers can benefit from a further study on how to mitigate financial loss and fraud risk.

Participants in this study consisted of owners of small businesses in Massachusetts. Further research may expand the geographical location outside the state of Massachusetts. I would recommend researchers expand geographical location outside the state of Massachusetts because they may explore other strategies not covered in this study. During the data collection phase of this study, all participants were more enlightened on the consequences of financial fraud on small business organizations. Future research could focus on increasing awareness of the impact of financial fraud on small businesses.

Reflections

In the process of completing this study, I experienced academic growth and gained a better understanding of strategies accounting managers and small business owners used to enhance ethical financial reporting. In my attempt to alleviate personal

bias or preconceived ideas and values, I was watchful in all collection of data and analysis processes of the study of possible bias. Consequently, I used interview protocol to stay on track and ensure that I treated all participants equally.

During the data collection phase, it was remarkable to see how owners of small businesses work to expand their businesses and remain successful. The participants in this study were passionate about what they do and they were willing to take part in this study and share their experiences on implementing strategies to enhance financial reporting. I acquired substantial knowledge of the viewpoint on financial fraud. The results of this study could provide small business owners and accounting managers with additional information on how to develop and implement strategies to promote ethical financial reporting.

Conclusion

Some small business owners and accounting managers lack the strategies to foster ethical financial reporting. The purpose of this study was to explore strategies used by accounting managers and owners of small businesses to enhance ethical financial reporting. The conceptual framework of this study was based on the fraud diamond theory. The data collection method I used included semistructured interviews, a review of documentary evidence, and casual observation. Documentary evidence included financial records, tax documents, and other relevant internal documents.

The five main emerging themes from the collection of data comprised (a) ethical behavior, (b) internal control and communication, (c) monitoring, (d) segregation of duties, and (e) action against fraudsters. The implication of positive social change

includes the possible proper internal controls over financial fraud and allow small businesses an opportunity to function effectively and efficiently, which could upsurge employment opportunities. The results from this study indicated the need for small business owners and accounting managers to implement strategies to enhance ethical financial reporting. The findings of this study could also help potential and existing small business owners and accounting managers comprehend the necessity of implementing antifraud measures within the organization. These strategies are important because adequate information on enhancing ethical financial reporting can decrease financial loss, alleviate fraud risk, increase business profitability, safeguard an organization’s assets, protect the reputation of the business, and prevent the organization from going out of business.

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Appendix A: Interview Protocol

Interview: Exploring the strategies accounting managers and small business owners use to enhance ethical financial reporting.

1. I will start with greetings and a brief introduction.
2. I will thank the participant for accepting my invitation to participate in the interview.
3. I will inform participants that the interview will last no more than 45 minutes, and the interviews will be audio recorded.
4. I will begin interviewing
5. I will explain to participants that to help ensure the accuracy of the information, I will invite the participant to review the interview transcript. I will further explain that after the interviews, I will transcribe the interview recording and send via email a copy of the interview transcript to the participant. I will request each participant to verify and update the verbatim transcript of their interview. Interview transcription and transcript review will take approximately 1 – 5 business days.
6. I will inform the participant that after analyzing the reviewed interview transcript, I will send a summary to each participant via email. I will request participants to verify or update the summary of their interview data.
7. I will conclude the interview, stop the audio recording, and thank the interviewee again for taking part in the interview.

Appendix B: Interview Questions

1. What strategies do you use to enhance ethical financial reporting in your business?
2. What are some of the policies you have incorporated to promote ethical financial reporting?
3. What strategies have been most successful for fostering ethical financial reporting?
4. How do you assess the effectiveness of the strategies for enhancing ethical financial reporting?
5. What principal barriers did you encounter when implementing your strategies for enhancing ethical financial reporting?
6. How did you address the principal barriers to implementing your strategies for enhancing ethical financial reporting?
7. What additional information can you provide regarding strategies to enhance ethical financial reporting?