2023

Small Retail Business Strategies Used to Prevent Employee Fraud in North Carolina

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Walden University
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Abstract

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MS, Walden University, 2015

BS, North Carolina State University, 2013

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

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Walden University

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Abstract

Fraud could result in adverse business outcomes for small business owners. Small business owners are concerned with preventing fraud to increase the financial stability of small businesses. Grounded in the fraud triangle theory, the purpose of this qualitative multiple-case study was to explore strategies small business owners use to prevent and detect fraud in their businesses. Participants included five small business owners in North Carolina who successfully implemented strategies to prevent and detect fraud. Data were collected using semistructured interviews and a review of company documents. The data were analyzed using thematic analysis, which yielded four themes: monitoring, contractual agreements, contractual disputes, and revisions. A key recommendation for small business owners is to periodically review and update monitoring controls to ensure the proper checks and balances are in place to prevent and detect fraud. The implications for positive social change include the potential financial stability of the small business and the local community.

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Dedication

I dedicate this study to my grandmother, Henrietta Stacks, great-grandmother, Aubrey Mae Rice, grandfather, Albert Gayden, and grandmother, Dardnella Gayden. Thank you for watching over me all this time and hope you’re all proud of my accomplishments so far. I’m not done yet, not by a long shot.

Acknowledgments

To Ryan, 내 소울메이트. I also want to thank my Mom, Dad, Donna Gayden, Lauren Gayden, Tia McNeill, Maggie Cowan, Gwen and Anthony McNeill. I want to also thank the rest of the Gayden/Stacks family for asking “how’s the study going?” and “are you Dr. J yet? You guys kept me motivated to keep pushing forward, I would also like to thank Dr. Daneene Barton for showing me that there is a light at the end of the doctoral journey. I would also like to thank my committee chair members, Dr. David Harris, Dr. Peter Anthony, and, Dr. Walter McCollum for their support and guidance during my doctoral journey. Finally, I would like to thank the small business owners who took the time for the interviews and helped bring this study together. From the bottom of my heart, thank you.

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Section 1: Foundation of the Study

In 2018, business organizations lost $7 billion to fraud (ACFE, 2018). Scholars and organizations have created frameworks and theories to assist business owners in detecting fraud. However, fraudsters and fraudulent schemes are becoming advanced, and companies cannot keep up (Sorunke, 2016). Employee fraud, or occupational fraud, is classified as asset misappropriation, financial statement fraud, and corruption (Mulig, 2018). Weak or lack of internal controls and management override are the main causes fraud goes undetected by business owners. However, some small business owners do not have the cash flow to create and adhere to a robust internal control framework.

Background of the Problem

Employee fraud affects all types of organizations (Wells, 2017). Employee fraud is committed by individuals who have the capability and access to steal without being detected (Simha & Satyanarayan, 2016). Employee fraud includes asset misappropriation and petty theft (Hess & Cottrell, 2016). Machado and Gartner (2018) indicated that drawbacks, such as weak internal controls, management override, and an unclear tone from upper management, are taken advantage of by fraudsters. A set of internal controls that are implemented and updated annually is needed to protect an organization from fraud (Wells, 2017). Overall, employee fraud in small businesses is understudied (Bunn, et al., 2019).

Problem and Purpose

A majority of business owners are victims of fraud (Hess & Cottrell, 2016). The 2018 *Report to the Nations*, a global study conducted by the Association of Certified

Fraud Examiners (ACFE), concluded out of the 2,690 fraud cases reported, 28% originated from small businesses (ACFE, 2018). The general business problem is that fraud affects small business owners. The specific business problem is some small business owners lack strategies to prevent fraud in their businesses.

The purpose of this qualitative multiple case study is to explore strategies retail small business owners use to prevent fraud in their businesses. The population for the research consisted of owners of five small businesses located in Raleigh, North Carolina who have successfully implemented effective strategies to prevent fraud. The implications for social change include the possible increase of strategies to prevent fraud, thus providing small retail business owners the opportunity to improve the operations of their business, which could create additional jobs. Additional jobs could create a positive impact on local communities and other small businesses.

Nature of the Study

To successfully conduct a study, a researcher can use qualitative, quantitative, or mixed-method research. Qualitative research is used to explore the understanding of a subject's attitudes, behavior, and motivation. This is done by asking the subject '*why*' and '*how*' questions (Barnham, 2015). Thus, the method I chose for this study is qualitative. Quantitative research is used to investigate the relationship between independent and dependent variables (Barnham, 2015). Quantitative research was not suitable for this study because I did not use statistical analysis to examine the proposed research question. Mixed methods researchers use qualitative and quantitative research methods to provide a more in-depth understanding of the subject (Johnson et al., 2007). Mixed methods was not used for this study because I only collected the data using a qualitative research method.

Phenomenology, ethnography, narrative theory, and case study are the design approaches was considered for this qualitative research study. Researchers use the case study design approach to create a concise and detailed understanding of individual or multiple cases from multiple perspectives (Kruth, 2015). Therefore, based on my research goals, I chose the case study design approach. A phenomenology study is used by researchers to understand the meaning of an experience (Kruth, 2015). A phenomenology study is not suitable for this study because the research method does not align with the proposed research question. Ethnography research is used by researchers to recount a shared cultural event by a group of people who have the same cultural beliefs (Kruth, 2015). Since the population of the study consists of small business owners with different cultural beliefs, the ethnography research method was not used for this study. Narrative theory is used to recreate events from the viewpoint of the participant (McAloon et al., 2017). With narrative theory, participants discuss events relevant to the study form their perspectives. The goal of the study was not to provide a story of the actual fraudulent act, but instead to learn what strategies were created to prevent future fraudulent incidents. Thus, narrative theory was not suitable for this study.

Research Question

The overarching research question is: What strategies do small retail business owners use to prevent fraud?

Interview Questions

1.What strategies do you use to prevent fraud within your business?

2. What are some of the policies you have incorporated to prevent fraud?

3. What strategies have been most successful for detecting and preventing fraud?

4. How do you assess the effectiveness of the strategies for detecting and preventing fraud?

5. What barriers did you encounter when implementing your strategies for detecting and preventing fraud?

6. How did you address the barriers to implementing the strategies for detecting and preventing fraud?

7. What additional information can you provide regarding strategies to prevent fraud that was not covered in the interview questions?

Conceptual Framework

The conceptual framework for this study is the fraud triangle. The fraud triangle, which was created by Donald Cressey and Edwin Sutherland in 1952, is a model that states three factors must exist for a person to commit fraud (Cressey, 1952). The three factors are pressure, opportunity, and rationalization. The first part of the fraud triangle is pressure, which is what motivates the individual to commit the fraudulent act. The second part of the fraud triangle is an opportunity, which the individual finds a way to fix their financial problem without being caught. The last factor of the fraud triangle is rationalization. The individual perceives themself as an upstanding citizen that has been caught in bad circumstances. The reason for using the fraud triangle for my study is to assist small retail business owners in understanding the rationale their employees have for committing fraudulent acts. The fraud triangle was used to understand why employees commit fraudulent acts and how small businesses can prevent this sort of activity in their organization (Marshall & Cali, 2015).

Operational Definitions

Association of Certified Fraud Examiners: The ACFE is an organization created by Dr. Joseph T. Wells and Dr. Donald Cressey to advance the knowledge of fraud and combat fraud in the workplace (ACFE, 2018).

Fraud triangle: Fraud triangle is a concept created by Donald Cressey in 1973. The fraud triangle identifies three concepts that must exist before an individual committing fraud (Cressey, 1952).

Internal controls: Internal controls are processes and measurements created to ensure accurate financial reporting (Wilford, 2016).

Sarbanes-Oxley Act of 2002: The Sarbanes-Oxley Act of 2002 was passed to decrease corporate mishandling of financial reporting from corporate executives (Alleyne & Elson, 2013).

Assumptions, Limitations, and Delimitations

Assumptions

Assumptions are beliefs or concepts that the researcher believes to be true but have not been proven by past research (Kirkwood & Price, 2013). Qualitative researchers research with the assumption that the participants have prior knowledge of the phenomenon and the possible outcomes (Gallop, 2011). Three assumptions supported this study in my effort to explore strategies small retail business owners use to prevent fraud in their business. First, participants have an overall understanding of fraud and how it could affect their business. Second, participants of the studies have created strategies to prevent fraud before participating in the study. Finally, the participants answered all interview questions honestly and to the best of their ability.

Limitations

Limitations are the weaknesses of the study that are not within the control of the researcher (Brutus et al., 2012). When researchers state the limitations of their study, they should also explain the importance, how they can be minimized, and provide suggestions on how they can be avoided for future research (Connelly, 2013). The first limitation is the participation preconceptions of fraud could influence their response. Because of these preconceptions, participants' responses have the potential of being bias. Another limitation is the possibility of participants withdrawing from the study at any time.

Delimitations

Delimitations are a scope of choices made by the researcher to create the framework for their research (Podsakoff et al., 2012). Unlike limitations, delimitation is controlled by the researcher (Marshall & Rossman, 2016). As the researcher, delimitations assisted in limiting the scope of the study. Participants in this study consisted of small retail business owners in Raleigh, North Carolina. The study was focused on fraud. This study was limited to five small retailed businesses that have all been in business for at least 3 years.

Significance of the Study

Small business owners can create strategies that would best align with their business and reduce the potential threat of employee fraud. Also, the results of this study can benefit society by increasing the financial stability of small businesses. Increasing financial stability can help small businesses contribute to the economy and their local community.

Contribution to Business Practice

Small retail business owners could benefit from the results of this study. Results from this study can provide small retail business owners information on how to protect the business's resources thus, lowering the potential fraud risk. The types of fraud, which can occur in any small business, is employee embezzlement, vendor fraud, consumer fraud, and skimming (Galletta, 2015). It is beneficial for small business owners to be knowledgeable of the potential fraud risks that could affect their business. The findings from this study could provide small retail business owners with the knowledge to create and implement strategies that would best suit their business model and minimize loss associated with the fraud.

Implications for Social Change

Society could benefit from the study by incorporating the strategies small retail business owners can use to prevent fraud. Small businesses have a key economic role in their community due to the ability to give back to their community and the local economy (Ng et al., 2018). It is the small business owner's responsibility to ensure the internal controls they currently use are effectively detecting potential fraudulent activity (Chen et al., 2016). When small business owners effectively and actively enforce their fraud strategies, it could increase the financial stability of the small business and the local community. Increased financial stability could create more job opportunities for the local community (Kulikova & Satdarova, 2016). Increased financial stability could also ensure the business is open for at least 5 years.

A Review of the Professional and Academic Literature

The purpose of this qualitative multiple case study is to explore strategies retail small business owners use to prevent fraud in their businesses. A literature review is a form of study in which new ideas are developed that are related to the proposed research question (Thomas & Hodges, 2010). Included in this section is a review of academic and professional literature on the fraud triangle theory used by previous researchers. To conduct a review of the literature for this study, I used the work of other scholars who studied strategies used by small business owners to prevent fraud in their business. The findings from this study could provide small retail business owners with the knowledge to create and implement strategies that would best suit their business model and minimize loss associated with the fraud.

The databases and library materials I used to search the literature for this study included ABI/INFORM Collection, ProQuest Central, Emerald Insight, SAGE Research Methods, Academic Search Complete, Accounting, Tax & Banking Collection, Business Source Complete, SAGE Journals, ScienceDirect, and Walden University Library. Thomas & Hodges (2010) suggests to find articles relevant to a study, the researcher should use keywords that are expansive.

Keywords I used to locate articles were *fraud triangle, small retail businesses, internal controls, fraud, fraud diamond, fraud scale, occupational fraud, personality traits of fraud, SCORE model, MICE model, limitations of the fraud triangle, employee fraud, case study,* and *qualitative method.* Other keywords included the *Sarbanes-Oxley, Frank-Dodd Act, signs of fraud, whistleblower, antifraud,* and *COSO framework.*

The literature review includes 115 references, with a total of 104 (90.4%) published on or after 2015. The study has 88.2% peer-reviewed references published on or after 2015. Ulrichsweb Global Serials Directory website was used to assure that peer-reviewed journals were appropriately used.

The Fraud Triangle

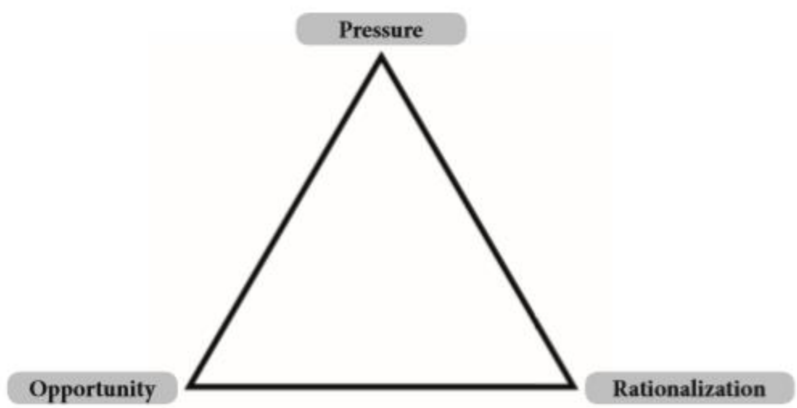
The principal theory for this study is the fraud triangle theory. The reason for using the fraud triangle theory for the conceptual framework for this study is for small business owners to understand the fundamental fraud components (Machado & Gartner, 2018). The fraud triangle theory is used to figure out why employees commit fraud and how it can be detected and how to prevent future fraudulent activity (Fee, 2015; Kapp & Heslop, 2011). Dorminey et al. (2012) suggested the fraud triangle is an adequate model that can be used by small business owners in understanding fraud.

Cressey (1952) created the fraud triangle theory in 1950 to determine the components that could bring an individual to commit fraud. Cressey interviewed 250 inmates, who were serving time for white-collar crimes, located in the United States prison system. From his interviews, Cressey was able to determine the elements of the fraud triangle and concluded the inmates he interviewed all had common characteristics.

Cressey concluded there must be three elements to occur before fraud occurs. These elements include (a) perceived pressure, (b) perceived opportunity, and (c) rationalization (Abdullahi & Mansor, 2015; Kapp & Heslop, 2011; Schuchter & Levi, 2016;). Perceived pressure is the want or desire for additional money (Kapp & Heslop, 2011); perceived opportunity is the ability to commit fraud with a low probability of being caught due to weak internal controls (Abdullahi & Mansor, 2015), and rationalization is the employee justifying their actions as morally acceptable before engaging in fraudulent activity (Schuchter & Levi, 2016). Figure 1 shows the fraud triangle.

Figure 1

The Fraud Triangle



Note. From "How Thinking Like a Crook Can Help Prevent Fraud," by Natalia Mintchik & Jennifer Riley, 2019, *The CPA Journal*, 89(3), p.44-50

Components of the Fraud Triangle

Perceived pressure exists when an individual has unshareable financial troubles and is unwilling to discuss with their peers (Coenen, 2008). Alalehto (2003) suggests the personality of an individual with perceived pressure is an altruist. An individual with an altruist personality is more than likely to accept group pressure, has difficulty saying no, attempts to do what is best for the company, and is motivated by fear of losing their job. Albrecht et al. (2017) argue pressure does not have to be real but can be perceived as real by the individual. Zuberi and Mzenzi (2019) agree with Albrecht's theory, regarding perceived pressure, and identified two types of perceived pressure, financial, and non-financial pressure.

Financial pressure can originate from high costs of medical expenses, the need to maintain a certain lifestyle, recent divorce, and investment losses (Bunn et al., 2019; Conen, 2008). Non-financial pressure is external factors that are not in control by the individual. Examples of non-financial pressure include impossible job performance metrics, feeling undervalued and appreciated by peers and management, and withholding information from peers and management which could cause additional trouble, such as a formal write up, for the employee. Gambling, alcohol, and drug addiction can also be considered financial and non-financial pressure (Tovino, 2016).

Opportunity is the possibility to commit fraud knowing it will not be detected (Schnaterly et al., 2018). Similar to pressure, Alberchet, et al. (2017) suggest an opportunity can be perceived as real or not by an individual at the time fraudulent acts are committed. Opportunity increases for employees when they have access to business resources with no adequate controls in place (Mui & Mailley, 2015; Conen, 2008). Management trust in their employee is also a perceived opportunity to commit fraud (Bunn et al., 2019; Conen, 2008). Bunn, et al. (2019) Suggest small business owners are more likely to have a high level of trust with their employees which increases perceived opportunity for fraud. High level of trust, lack of internal controls, management oversight within a small business increase the perceived opportunity for fraud (Bunn et al., 2019). The same employee should not have the access and capability to create, monitor, and implement the activities of the business (Henry, 2016). Bunn et al. (2019) argue small business owners do not possess the financial knowledge to create effective internal controls to detect fraud. Schucther and Levi (2016) agree with Bunn et al. (2019) and argue small business owners with a lack of financial knowledge will increase the likelihood of the fraud going undetected.

Rationalization is the third component of the fraud triangle. With this component, the individual rationalizes with themselves the fraudulent acts they are committing are okay and are not hurting anyone (Fiolleau et al., 20118; Conen, 2008) Fiolleau et al. (2018) suggest rationalization is a psychological justification of their dysfunctional behavior. Conen (2008) argues rationalization is the most dangerous component of the fraud triangle since companies have little to no control since they cannot control the feelings of their employees. Justifications employees have to rationalize fraudulent acts could include low-performance evaluation, passed up for a promotion, job dissatisfaction, and the individual feeling they are underpaid (Negurita & Ionescu, 2016). Small business owners can address rationalization within their business by offering fraud training for their employees. Small business owners can also try and promote a positive work environment (Schuchter & Levi, 2016; Verschoor, 2015).

Limitations of the Fraud Triangle

The fraud triangle theory has been widely used by auditors, scholars, and businesses since it was first created in 1955 (Boyle et al., 2015). However, since 1955, fraud and fraudsters have become more complex and creative, making it harder for the fraud triangle theory to discover certain elements of fraud (Murphy & Free, 2016; Stone, 2015). Huber (2017) argues fraud cases are unique and the fraud triangle interpretations of fraud are too narrow and do not detect fraud.

Scholars who criticize the fraud triangle argue the theory needs additional elements that could provide more data for the rationalization component of the fraud triangle (Huber, 2017; Mui & Malley, 2015). Dorminey et al. (2012) agrees with critics for additional elements to advance the rationalization component but suggests the fraud triangle only provides data form the fraudster point of view. Mui and Malley (2015) agree with Dorminey et al. (2012) and argue that the fraud triangle should also provide a business point of view.

Critics argue that perceived pressure and rationalization components of the fraud triangle can not be observed by scholars (Stone, 2015). Wolfe and Hermanson (2004) agree with critics and conclude the motivation component of the fraud triangle could be observed. In 2004, Wolfe and Hermanson added a fourth component to the fraud triangle called capability. With this fourth component added, Wolfe and Hermanson concluded the fourth component could be researched and offer additional insight into perceived pressure and rationalization. Albrecht et al. (1984) replaced the rationalization component of the fraud triangle with personal integrity. Unlike rationalization, personal integrity is the individual’s decisions and their decision-making process. Huber (2017) argues the personal integrity component is more observable when compared to the rationalization component.

During their research, scholars have noted the limitations of the fraud triangle (Huber, 2017). Lokanan (2015) suggests the fraud triangle theory is inadequate and outdated. Murphy and Free (2016) ague that not all components of the fraud triangle theory need not be present for fraud to occur. Boyle et al. (2015) argue the fraud triangle theory can not detect all types of occupational fraud. Dorminey et al. (2010) agree with Boyle et al. (2015) argument and further states the fraud triangle can only detect a certain type of fraudster. Rechtman (2019) agrees with Boyle et al. (2015) argument and states the fraud triangle theory can only detect accidental fraudsters. Dorminey et al. (2010) identifies two types of fraudsters. The two other types of fraudsters are predator, and collusion fraudsters.

Accidental or situational fraudsters are individuals who have committed a fraudulent act for the first time. Accidental fraudsters are considered to be a law-abiding citizen that could not break the law under normal circumstances (Suh et al., 2020). Dorminey et al. (2010) provide additional description of an accidental fraudster as a middle-aged, educated, have a high level of trust with upper management, and is considered a good employee by their colleagues. Huber (2017) suggests the fraud triangle theory can only identify accidental fraudsters and not predator and collusion fraudsters.

Predators fraudsters, also known as chronic offenders, are career criminals and have successfully committed fraud without being discovered (Dorminey et al., 2010). Hermanson et al. (2017) describe a predator fraudster as an individual in their late 20s, not in a leadership position, and seeks positions at a small business rather than a large public company. Predator fraudsters are more organized than accidental fraudsters and will begin their fraud scheme as soon as an opportunity is discovered. Predator fraudsters do not require perceived pressure or rationalization to commit fraud. Fraudulent schemes committed by predator fraudsters are short term but have the biggest impact on a business (Hermanson et al., 2017).

Unlike accidental and predator fraudsters, collusion fraudsters are a group of individuals committing a fraudulent act. Collusion fraudulent schemes are more complex and are harder to detect (Dorminey et al., 2010). Huber (2017) suggests collusion fraud on average, schemes steal more money than an accidental fraud scheme and predator fraud combined. ACFE (2018) agrees with Huber's suggestion and found collusion fraud schemes on average are $100,000-366,000 per occurrence. Similar to predator fraudsters, collusion fraudsters do not require pressure or rationalization to commit fraud; they only need to find an opportunity. Collusion and predator fraudsters will not be detected using the fraud triangle since both do not require pressure or rationalization for fraud to occur.

Critics of the fraud triangle theory like Huber (2017) suggest the theory does not take into personality disorders. Epstein and Ramamoorti (2016) agree with Huber's suggestion and further suggest personality disorders, such as narcissists and psychopaths. Individuals with personality disorders are incapable of justifying their actions; thus the rationalization component of the fraud triangle is not present for these individuals (Epstein & Ramamoorti, 2016). Schuchter and Levi (2016) agree with Epstein and

Ramamoorti’s (2016) analysis and further argues that not every fraud case has pressure and rationalization.

Alternative Theories

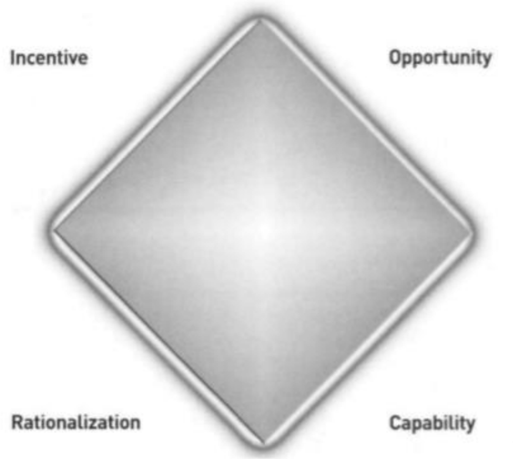
The fraud triangle theory is widely used by scholars and business owners to identify potential fraud activity (Lenz & Graycar, 2016; Ruankaew, 2016). The main disadvantage of the fraud triangle was the theory's inability to identify fraud with more complex fraudulent cases (Fee, 2015; Lokanan, 2015). Alternative theories such as the fraud scale and the fraud diamond were introduced by scholars who believe additional components are needed to identify complex fraudulent cases (Wolfe & Hermanson, 2004). This study used both the fraud diamond and fraud scale as alternative theories for the fraud triangle theory.

The Fraud Diamond Theory

In 2004, Wolfe and Hermanson introduced the fraud diamond theory which added a component to the fraud triangle theory. Wolfe and Hermanson (2004) argue that the fraud triangle was not detecting all possible fraud activity. Lokanan (2018) agrees with Wolfe and Hermanson’s (2004) argument and further states the additional component increases the likelihood of detecting fraud. The fraud diamond theory has the same first three components of the fraud triangle, pressure, opportunity, and rationalization. Capability is the fourth component added by Wolfe and Hermanson (2004). Figure 2 shows the fraud diamond.

Figure 2

The Fraud Diamond



Note. From "The Fraud Diamond: Considering the Four Elements of Fraud," by David T. Wolfe & Dana R. Hermanson, 2004, *The CPA Journal, 74*, p. 38-42.

The fourth component, capability, is the personality traits of the fraudster and their ability to commit fraud with their current position of power within a company (Lokanan, 2015; Sorunke, 2016). Nwanyanwu (2018) argues capability provides additional data for the rationalization and opportunity components because it identifies the personality traits and opportunity of the individual committing fraud. Wolfe and Hermanson (2004) agree with Nwamyanwu's (2018) argument by suggesting there are essential attributes an individual must-have for the individual to commit fraud. The first attribute identified is the individual's position within their company and their primary duties (Mui & Mailley, 2015).

The position and primary duties within the company for the individual provides them with the knowledge and the opportunity to commit fraud (Wolfe & Hermanson, 2004). The second attribute suggests the individual has high intelligence and can readily identify the weakness to their advantage. High confidence and ego is the third attribute of capability. An individual with these personality attributes believes they will not be caught. An individual with the fourth attribute of capacity can convince others to participate to commit and conceal fraud activity actively and lie consistently to avoid the detection of fraudulent activity. The last attribute of the capability component is the ability to maintain high levels of stress. Wole and Hermanson (2004) argue all attributes have to exist for an individual to be capable of committing fraud.

Understanding and assessing the attributes of the capability component is important for business owners to prevent and detect fraud (Sorunke, 2016). Wolfe and Hermanson (2004) provide steps that auditors can utilize to understand capability. Business owners should first assess the capacity and capabilities of their company's top personnel and other key personnel. To assess personnel capabilities, auditors should have frequent interaction with personnel. During this step, auditors should observe if personnel have a habit of cutting corners or refuses to accept failure. Should there be concerns about personnel capabilities, auditors should consider improving the internal controls for the second step. Ramamoorti & Epstein (2016) suggest creating a rotation of access and duties amongst key personnel to strengthen internal controls and minimize fraud. Continuous assessment of the key personnel capabilities is the last step. Wolfe and Hermanson (2004) argue assessments should not be completed on an annual schedule but a quarterly schedule. Lokanan (2015) agrees with Wolfe and Hermanson's statement and adds that too much time between capability assessments would be ineffective and could weaken the internal controls of the company.

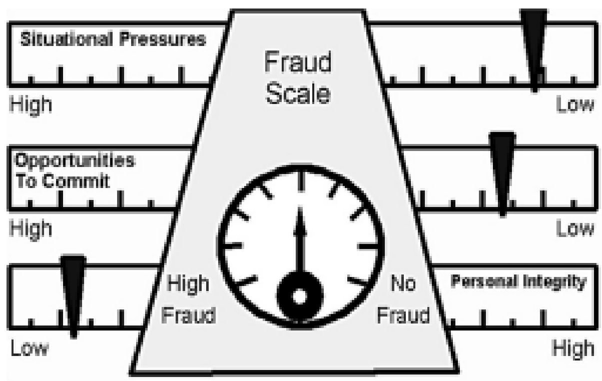
Adding the fourth component to the fraud triangle has helped business owners and auditors detect additional fraudulent activity which would have others gone undetected (Coenen, 2008). With the introduction of the fraud diamond theory and the creation of the personality attributes for the capability component, Wolfe and Hermanson (2004) concluded most fraudulent activity is committed by individuals who are highly creative and intelligent with the knowledge and access to exploit their employer's internal control systems. These individuals also have self-confidence and a strong ego and are certain they will not be caught (Sujana et al., 2019). Wolfe and Hermanson (2004) provide a series of steps for scholars, business owners, and auditors can implement with their internal controls to detect and prevent fraudulent activities.

The Fraud Scale Theory

Albrecht et al. (1984) introduced the fraud scale theory. The fraud scale theory provides its users with the likelihood of fraud occurring. The components of the fraud scale theory, pressure, opportunity, and personal integrity are used to evaluate the likelihood of fraud occurring (Lokanan, 2018). Albrecht et al. (1984) defined personal integrity as the personal code of ethical beliefs an individual adopts. Figure 3 shows the fraud scale.

Figure 3

The Fraud Scale Theory



Note. From "Deterring Fraud: The Internal Auditor's Perspective," by Steve W. Albrecht, Keith R. Howe, & Marshall B. Romney, 1984, *The Institute of the In*
Research Foundation.

The personal integrity component is the ethical beliefs and behavior of an individual (Modh-Sanusi et al., 2015). Vousinas (2019a) argues personal integrity is a better replacement for rationalization because an individual decision-making process can be easily researched and analyzed. If pressure and opportunity are high and individual personal integrity is low, there is a high possibility of fraud. However, if pressure and opportunity are low and personal integrity is high, no fraud is occurring. Albrecht and his colleagues suggested without a reliable profile of the fraudster's integrity, the detection of the prevention of fraud would be challenging (Andon et al., 2015; Dorminey et al., 2012).

Model Extensions of Fraud Theories

The S.C.O.R.E model was created by Horwath Crowe in 2011. The S.C.O.R.E model is also known as the fraud pentagon model (Vousinas, 2019b). Four out of the five components are an extension of the Fraud Triangle and Fraud Diamond theory (Nindito, 2018). The four components are (a) stimulus (incentive), (b) capability, (c) opportunity, and (d) ego. The fifth component, ego, was added by Crowe when he created the Fraud Pentagon (Dorminey et al., 2012). The fraud triangle theory can only predict the fraudulent activity of an individual and does not consider the personality of the fraudster (Vousiunas, 2012). The ego component of the fraud pentagon theory analyzes the personality of the fraudster. The common personality trait among fraudsters is egotism (Allan, 2003). The ego component was added to the fraud pentagon theory since personality is important for understanding fraud.

Kranacher and Riley Jr (2019) agree with Haycock (2017) suggestion of the importance of personality as it relates to fraud and further suggests a model should be created to review the motivation of the fraudster. Kranacher and Riley Jr (2019) created the MICE model. The MICE model is used by researchers to understand the motivation of the fraudster and does not focus on the personality of the fraudster. Similar to the SCORE model, the MICE model has an ego component. The other components of the MICE Model are (a) money, (b) ideology, (c) corruption, and (d) ego. The money component of the MICE model focuses on the motivation of the fraudster and not perceived pressure (Dorminey et al., 2012). The ideology motivation component is fraudsters who believe they are entitled to the money they are stealing (Dorminey et al., 2012). Scholars argue the MICE model is oversimplified and not all motivation reasoning can be identified (Vousiunas, 2012). Dorminey et al. (2012) agree with Vousiunas (2012) and suggest the MICE model is easy to remember and could have a larger framework, unlike the fraud triangle theory.

Occupational Fraud

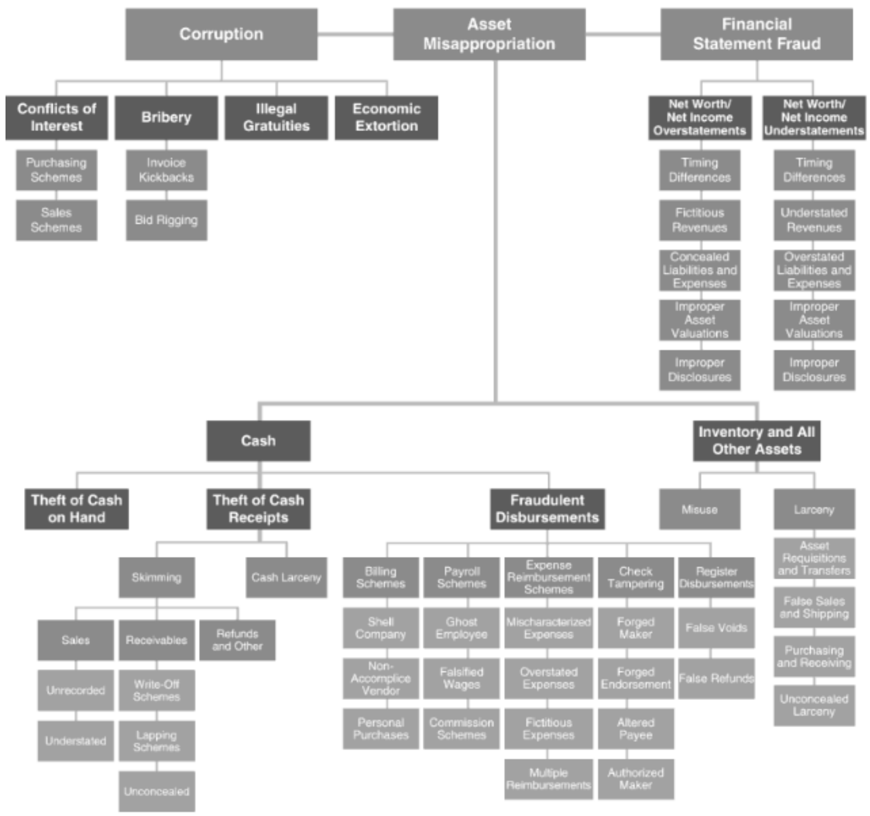
Occupational fraud is defined as the use of an individual occupation to intentionally misuse their company assets for their gain (Daigle, 2017; Denham, 2019; Petersen et al., 2018). The ACFE publishes a report every 2 years which provides the results of a survey they conduct on occupational fraud and abuse. Worldwide, the average loss per occupational fraud case is $130,000 which amounts to $7 billion in total losses (ACFE, 2018; Denham, 2019).

An occupational fraud scheme could last, on average, 16 months and is more likely to be committed by a person in a management position or higher (Kazemian et al., 2019). Over half of the fraud cases used in the ACFE (2018) were a result of weak internal controls. Kranaacher and Riley (2019) argue the initial detection of occupational fraud schemes is from tips. The ACFE report agrees with Kranacher & Riley's argument, 40% of occupational fraud cases were initially discovered by tips. Whereas 15% were discovered by an internal audit and 13% were discovered by management review (ACFE, 2018).

Corruption, asset misappropriation, and financial statement fraud are the three types of occupational fraud. 89% of occupational fraud is asset misappropriation, 38% is corruption, and 10% of occupational fraud is financial statement fraud (ACFE, 2018). There are several types of occupational fraud within the three categories (Bunn et al., 2019). The fraud tree was created by the ACFE in 1996. The goal of the fraud tree is to assist users to identify the category and sub-category of occupational fraud. Figure 4 (ACFE, 2018) shows the fraud tree.

Figure 4

The Fraud Tree



Note. From “2018 Report to the Nations,” by ACFE, 2018.

Asset Misappropriation

Asset misappropriation occurs when an employee intentionally misuses or steal assets from their employer (ACFE, 2018; Kazemian et al., 2019). Asset misappropriation has two categories, cash, and inventory and other assets (ACFE, 2018). There are three sub-categories within the cash categories. The three subcategories of the cash category are (a) theft of cash on hand, (b) theft of cash receipts, and (c) fraudulent disbursements. There are two types of theft of cash receipts, skimming, and cash larceny. Skimming is the theft of cash before an organization can record the transaction (Kennedy, 2018). In 2018, skimming was 14% of the occupational fraud cases for the United States (ACFE, 2018). Cash stolen after it is recorded in a company's books is considered cash larceny (Kennedy, 2018).

Fraudulent disbursements are the most common form of asset misappropriation (Locati, 2017). There are five types of fraudulent disbursements which are (a) billing schemes, (b) payroll schemes, (c) expense reimbursements scheme, (d) check tampering, and (e) register disbursements (ACFE, 2018). Billing, expense reimbursements, and register tampering schemes were 58% of the occupational fraud cases reported in the United States in 2018 (ACFE, 2018). Fraudulent disbursements last for 12 months before they are discovered (Kennedy, 2018). Fraudulent disbursements are carried out by predators and accidental fraudsters (Denman, 2019). Whereas, corruption and financial statement fraud are carried out by collusion (Dorminey et al., 2012). Before fraud can be committed, an opportunity must first be identified by the fraudster (Machado & Gartner, 2018; Puspasari, 2016; Sujana et al., 2018). Lack of internal controls, management review were the two most common opportunities fraudsters identified for asset misappropriation.

Corruption

When one individual give and/or offer something of value to another to influence their conduct or judgment is considered corruption (Nigrini, 2019). The ACFE (2018) concluded of the cases they studied for their report, 70% of the perpetrators were in a position of authority, 32% was the owner of the company or an executive, and 38% were in a management position. In the United States, 30% of occupational fraud cases were identified as corruption (ACFE, 2018). Corruption fraud schemes are committed by collusion fraudsters rather than accidental and predator fraudsters. Corruption fraud schemes are the longest schemes since they are harder to detect and typically involves more than one person (ACFE, 2018; Denham, 2019;).

There are four types of corruption fraud, which include (a) conflicts of interest, (b) bribery, (c) illegal gratuities, and (d) economic extortion. Small businesses with 100 employees and more have reported 43% of occupational fraud cases were corruption (ACFE, 2018; Denham, 2019;). Whereas, small businesses with less than 100 employees report 32% of occupational fraud cases were corruption (ACFE, 2018; Denham, 2019;). 50% of corruption occupational fraud schemes were discovered by tips (Nigrini, 2019). The lack of internal controls and a lack of leadership from upper management are the two primary opportunities for corruption schemes (ACFE, 2018; Denham, 2019; Nigrini, 2019).

Financial Statement Fraud

The least common type of occupational fraud is financial statement fraud. Changing the financial statements to mislead investors, the board of directors, auditors, and analysts to hide the true financial state of a company is considered financial statement fraud (Hasan et al., 2018; Wells, 2017). According to ACFE (2018), even though financial statement fraud is the least common type of fraud it is the costliest. On average, financial statement fraud loss is $800,000 per year (ACFE, 2018). In the United States, 9% of occupational fraud cases were identified as financial statement fraud (ACFE, 2018). The two types of financial statement fraud are the overstatements of net worth and/or net income and the understatement of net worth and/or net income. Financial statement fraud will more than likely be committed by a group of fraudsters, such as a collusion group, rather than a predator fraudster and accidental fraudster. Twenty-three percent of financial statement fraud was due to a poor tone from upper management (ACFE, 2018).

Impact of Occupational Fraud in Small Businesses

According to the U.S. Small Business Administration (SBA), there are 30.7 million small businesses in the United States and which consists of 47.3% of the U.S. workforce (2019). A small business can either be a sole proprietorship, limited liability company, corporation, or a partnership (Kapp & Heslop, 2011). Small businesses are defined differently for each industry. (SBA, 2019) For-profit businesses are classified by the number of employees and the annual revenue. Whereas non-profit organizations are classified by just the number of employees. Retail trade business is considered a small business if the business has 100 to 500 employees and has an average annual revenue of $7.5 million (SBA, 2019). For this study, small businesses are privately operated and owned for-profit businesses with 100 employees and less.

Small business plays an important role in the U.S. economy (Mulig, 2018). Small businesses account for 44% of the U.S. economy (SBA, 2019). However, even though the number of small businesses has increased U.S. gross domestic production (GDP) has decreased from 48% to 43.5% (SBA, 2019). Even though the number of small businesses is increasing, the number of small businesses closing is also gradually increasing. According to the SBA (2019), 20% of small businesses fail within their first year. Lack of management, cash flow issues, occupational fraud are of the causes of business failure.

Small businesses that fail within the first 2 years are mostly due to occupational fraud (Kummer et al., 2017). Small business is more likely to experience fraud due to fewer resources, weak internal controls, and a high level of trust in their employees (ACFE, 2018; Egrin & Erturan, 2019). 42% of occupational fraud for small businesses was caused by the lack of internal controls (Mulig, 2019). According to the ACFE (2018), small businesses lose an average of $200,000 from occupational fraud. When compared to a larger organization, small businesses have to face different risks that would not occur in a larger organization. Asset misappropriation is typically occurring in small businesses (Huerta et al., 2017). Billing, check, and payment tampering and expense reimbursement are frequently discovered in small businesses (ACFE, 2018). Cash on hand, skimming, payroll, and cash larceny occurs in small business but not as much as other asset misappropriation methods.

Unlike large companies, small business does not have the same requirement for a system of internal controls (Mulig, 2018). Small business owners typically have a high level of trust of their employees, do not have a strong set of internal controls, and fail to follow up on suspicious financial activity (Kapardis & Papastergiou, 2016). Besides the monetary loss due to occupational fraud, a small business could have their reputation ruined, lose vendors and customers, have to close their business because of the monetary losses. Kummer et al. (2015) argue that small businesses should have a strong set of internal controls, conduct annual external audits, and have key roles within their company on rotation. Ergin and Erturan (2019) agree with Kummer et al. (2015) argument and proposes small business should promote a positive work environment and offer training on occupational fraud in the workplace.

The Role of Management in Minimizing Fraud Opportunities and Risk

Management has an important role in the prevention and detection of fraud (Osemeke & Osemeke, 2017). Batae (2018) argues that even with strong internal controls, small businesses will not be able to detect and prevent all fraud. However, small business owners should understand the importance of internal controls and their ability to detect and prevent fraud. Henry (2016) suggests business with an adequate control environment is an important and key component in how fraud is effectively prevented. Henry (2016) further suggests businesses should incorporate anti-fraud measures in the workplace. This can be done by posting antifraud measures in an area with heavy foot traffic.

Osemeke and Osemeke (2017) suggest corporate governance and culture can determine if fraud will occur or not. Batae (2018) agrees with Osemeke and Osemeke's (2017) suggestions and adds a business with a negative culture and ineffective corporate governance will more than likely have fraudulent activity. Osemeke and Osemeke (2017) further suggest a positive company culture with adequate corporate governance, which consists of a diversified management team, and the management team follows and adheres to the company's internal controls.

Unlike corporations, family-owned businesses will not have a diversified management team. Family-owned businesses involve individuals who are linked by familial ties. (Huerta et al., 2017). Along with challenges any business has to handle, family-owned businesses also have to handle family-related issues. Internal controls and the role of management for family-owned businesses are different from a non-owned family business. According to Huerta et al. (2017), family-owned businesses will only update its internal controls if the recommendation is coming from a person with extended knowledge of internal controls or a family employee. Additionally, Huerta et al. (2017) concluded non-family employees have little to no influence in a family-owned business.

During the hiring process, management and business owners should properly vet any potential employees by conducting interviews, reference checks, and background checks (Zuberi & Mzenzi, 2019). Inadequate hiring procedures could lead to a negative work environment, potential fraudulent activity, and low morale amongst employees (Anastasia, 2015; Miller et al., 2019;). Private family-owned businesses who only have family members employed face additional challenges during their hiring process. Private family-owned businesses are more than likely to hire individuals recommended by another family member who is employed by the family-owned business. Huerta et al. (2017) argue hiring an individual without properly vetting the individual has the potential to weaken the businesses' internal controls.

Rotation of internal controls for key roles and the management team is important to ensure the effectiveness of a company's internal controls (Mintchik & Riley, 2019). An individual, regardless of the type of business, should have the capability to create, implement, and monitor processes within the business (Miller et al., 2019). With 100 employees and less, small business has issues with properly segregating duties to properly enforce internal controls (Glodstein, 2015).

Small businesses, with a smaller workforce, should rotate their duties more frequently to prevent fraudulent activity (Wells, 2017). Businesses should offer annual training on the importance of internal controls for their employees. Kramer (2015) suggests reviewing an employee's job description during an annual performance review to discuss how their role can create potential fraudulent activity. Businesses that exhibits a positive work environment and promotes an open-door policy will more than likely discover fraudulent behavior than a company that has a negative work environment and does not promote an open-door policy (Huerta et al., 2017).

The Role of Whistleblowers in Mitigating Occupational Fraud

A whistleblower is an individual who reports corruption, fraud, or waste to someone who is in a position of power to rectify the behavior (Alleyne et al., 2017). Archanambeault and Webber (2015) argue employee fraud is more likely to be discovered from tips than any method of discovery. ACFE (2018) agree with Archanambeault and Webber's (2015) argument and concluded 40% of fraud cases are detected from tips. An employee will more than likely report fraudulent cases to their direct supervisor. If a hotline is an available option for employees, employees will more than likely report the fraudulent activity via the hotline to remain anonymous (ACFE, 2018; Gordon & Nazari, 2018).

The Sarbanes-Oxley Act (SOX) and the Dodd-Frank Act protects whistleblowers against any employer retaliation (Lee & Xiao, 2018; McCormac, 2017). A study conducted in 2010 found that 82% of whistleblowers were either fired, resigned from their position while under duress, or had their work duties changed following reporting fraudulent activity (Klein, 2015; Pirrone & Tranior, 2015). The Sarbanes-Oxley Act protects employees who provide information that can assist a federal regulatory agency, law enforcement agency, a member of Congress, or an internal investigation (Pirrone & Tranior, 2015; Turpan, 2016).

Under the SOX Act, whistleblowers can file a complaint with the U.S. Department of Labor if any retaliation acts occurred. If the complaint submitted to the U.S. Department of Labor is in favor of the whistleblower, their employer is responsible to pay the whistleblower for any damages (Lee & Xiao, 2018). The Dodd-Frank Act expanded and strengthened the whistleblower program introduced in the SOX act (Rose et al., 2018). The Dodd-Frank Act introduced a bounty program under which whistleblowers could receive up to 10%-30% of the litigation settlement.

Scholars suggest the SOX Act and the Dodd-Frank Act do no protect the whistleblowers (Archambeault & Webber, 2015; Hurwitz & Kovacs, 2016;). Neier (2019) argue protection for a whistleblower is weak, patchy, and unenforced. Rose et al. (2018) suggest many individuals are whistleblowers for the possibility of a payout from the government. Teichmann (2019) agrees with Rose et al. (2018) argument. However, he suggests that payment should only be made to whistleblowers involved in major fraudulent cases.

Despite the monetary awards introduced in the SOX and the Dodd-Frank Act, individuals are apprehensive about reporting fraudulent activity due to possible retaliation from their employer (Teichmann, 2019). Employers should create and promote a positive work environment to encourage their employees to report fraudulent activity without fear of retaliation (Henry, 2016). For anonymity, companies can introduce a hotline. Kral (2018) argues a fraud hotline is the most effective method for whistleblowers to report fraudulent activity. Company hotlines are more likely to uncover fraudulent activity than companies without a hotline (Kral, 2018)

Committee of Sponsoring Organizations of the Treadway Commission

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) was established in 1985 by five U.S. based accounting associations the Institute of Management Accountants (IMA), the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), and the Financial Executives International (FEI) (Golick et al., 2018). COSO was created to assist the National Commission on Fraudulent Financial Reporting Agency in researching fraudulent financial reporting (Wang et al., 2019). COSO's vision is to guide organizations to ensure proper corporate governance and reduce fraudulent activity (Golick et al., 2018).

COSO published the *Internal Control-Integrated Framework* in 1992. Internal controls were created to ensure companies create their framework based on their findings

(Cho et al., 2015). Wang et al. (2019) argues the 1992 internal control framework is outdated and requires updates to meet the changing business environment. COSO updates its *Internal Control-Integrated Framework study*. However, the updates are sporadic, and there no set schedule of updates (Cho et al., 2015). The internal control framework has helped companies create internal controls (Pernsteiner et al., 2017; Wang et al., 2019). However, there is a limitation of the COSO internal control framework.

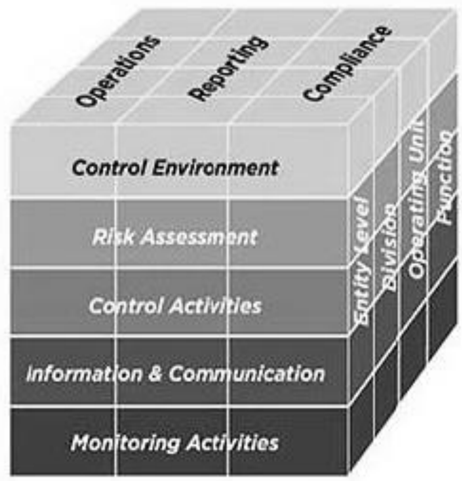
The internal control framework, published by COSO in 1992, was praised by academics as a comprehensive guide on internal controls needed to detect and prevent fraud (Littan, 2019; Wang et al., 2019). However, there are limitations to the internal control framework which has not been addressed by COSO (Pernsteiner et al., 2017). When business owners are creating new internal controls to protect their business for possible fraudulent acts, they will not review the current risks or weaknesses currently in their business practices. Rae et al. (2017) argue small business owners are likely to create internal controls for potential risks that are considered low risk for the business' industry.

Internal Control Framework

Internal controls are the rules and procedures created and implemented by a company to protect the integrity of their financial statements and to detect fraud (Le & Tran, 2018). The model created by COSO is used by companies and is considered a definitive model to measure the effectiveness of a company's internal controls (Rae et al., 2017). There are five components to create the foundation for effective internal controls. Figure 5 shows the five components of an effective internal controls system.

Figure 5

COSO Internal Control Framework



Note. From "The COSO Internal Control Framework and Sustainability Reporting, by Shari Littan, 2019, *The CPA Journal.*

The first component of effective internal controls is the control environment. The control environment consists of the overall values of the company's executives (Littan, 2019). The control environment component includes the organization's structure and the ethical values of the company. Scholars consider the control environment component the foundation of internal controls (Littan, 2019). Rae et al. (2017) suggest a weak control environment will always have weak internal controls. Gramling and Schneider (2018) agree with Rae et al. (2017) argument and further states to ensure a strong control environment, upper management should have a strong leadership team.

Before risk assessments can be conducted, objectives must be created (Frazer, 2016). Businesses should create objectives that are interconnected and consistent at every level within the organization (Littan, 2019). The identification and analysis of risk related to business objectives are considered a risk assessment. Objectives of the company, policies, and how a company identifies risk is the second component of effective internal controls. The business environment is constantly changing and introducing new risks (Chen et al., 2017; Frazer, 2016). Business owners and upper management should continuously revise and update their risk assessments to identify new risks that could affect their business.

The third component, control activities, contains the policies and procedures. Pernsteiner et al. (2017) argue the third component is the most important of effective internal controls. Littan (2019) agrees with Pernsteiner et al. (2017) argument and further argues that weakness with internal controls can be the first identified with the third component. Internal controls such as segregation of duties, operating performance reviews, levels of approvals, and authorization are internal controls used by small business owners (Frazer, 2016).

The quality of information and the level of effectiveness of communication is the fourth component. Frazer (2016) argues pertinent information should be readily identified and should be communicated efficiently within an organization to ensure employees can carry out their responsibilities efficiently. Reinstein and Taylor (2017) agree with Frazer's (2016) argument and further state an unclear and chaotic tone from the top will cause a lack of communication. Gramling and Schneider (2018) agrees with Frazer (2016) and Taylor (2017) and suggests internal communication should be clear and concise. Clear and concise communication from upper management should stress the importance of internal controls and the importance of an employee's role with internal controls (Frazer, 2016).

The last component of the internal control framework is monitoring. Monitoring is the quality of the internal controls over a period of time (Margaret, 2019). The monitoring of internal controls should be ongoing and not occur periodically (Chen et al., 2017; Frazer, 2016). Cram and Gallupe (2016) suggests monitoring processes should be included in daily business operations. Reinstein and Taylor (2017) agree with Cram & Gallupe's (2016) suggestion and further suggests monitoring activities should include managerial, supervisory, and personnel actions. Internal control weaknesses discovered should be reported to upper management.

Evaluation of Internal Controls

Creating and implementing a set of internal controls is needed for small business owners to prevent and detect fraud (Margaret, 2019). Small business owners can use the COSO framework when creating their system of internal controls (Gramling & Schneider, 2018). Certain internal controls introduced by the COSO framework is not financially possible for some small business owners (Margaret, 2019). Chen et al. (2017) suggests small business owners are likely to use the monitoring controls from the COSO framework because it is the cheapest component out of the five. Monitoring is the least expensive component of the internal control framework because it can be easily integrated with daily operations (Maragret, 2019). Reinstein & Taylor (2017) agree with Chen et al. (2017) suggestion and further suggest small business owners have limited resources to implement a robust internal controls framework. Limited resources and not understanding the importance of internal controls, can lead to weak internal controls (Chen et al., 2017).

Weak internal controls are the first red flag of possible fraud (Chen et al., 2017; Kramer, 2015). Burch et al. (2019) disagree with Chen et al. (2017) and Kramer (2015) and suggest weak internal controls are not the first red flag of potential fraud. Instead, small business owners will likely not realized the internal controls are weak until after the fraudulent activity is detected (Burch et al., 2019; Machado & Gartner, 2018). Small business owners should have processes that assess and update internal controls as necessary (Loishyn et al., 2019).

Small business owner conducts internal control assessments to find out how effective their policies are and to identify where to improve (Cram & Gallupe, 2016). Losishyn et al. (2019) suggest internal controls should be reviewed by small business owners and/or leadership annually. When assessing internal controls, small business owners can use a fraud risk register (Mazza & Azzali, 2018). A fraud risk register is a document used within an organization to identify possible fraud risks (Kummer et al., 2015). Potential internal control weaknesses can be identified with a fraud risk register. Internal control weaknesses that are identified by the fraud risk register are measured by their level of risk (Grajales-Gaviria & Castellanos-Polo, 2018). The use of a suitable fraud assessment tool, such as the fraud risk register, enables small business owners to identify weak internal controls (Murthy & Wheeler, 2018).

Assessing the control environment is necessary when assessing the internal controls (Murthy & Wheeler, 2018). An ethical tone from upper management is important for the control environment (Musaeva et al., 2019). A strong ethical tone is needed to ensure the control environment for internal control is strong. Assessing the control environment includes evaluating the duties of employees and to provide training and education to their employees. Musaeva et al. (2019) suggest small business owners can include their employees in assessing the control environment. Employee involvement with assessments can improve fraud awareness and prevention (Musaeva et al., 2019; Henry, 2015). Sending out surveys and questionnaires is a method small business owners can use to include employees in improving the control environment.

Once a weakness in internal controls or the environment is identified, small business owners should create a plan on how to improve internal controls and the control environment (Saputra et al., 2016). Small business owners can either assess each weakness identified individually or by department (Burch et al., 2019). New policies created from the weaknesses identified by the fraud register should be followed by all employees of the business. Kramer (2015) argues policies that enforce the internal controls should be followed and short cuts should not be used by owners, management, and other employees. Frazer (2016) agrees with Kramer's (2015) suggestion and further suggests short cuts conducted by upper management will create a negative tone within the company and will further weaken the internal controls.

Fraud Signs Used to Strengthen Internal Controls

Unlike corporations and large companies, small businesses have limited resources available to detect and prevent fraud (Burch et al., 2019). Even with limited resources, small business needs internal controls. Fraud signs, or red flags, could be possible signs of fraudulent activity or weakness in internal controls. Kramer (2015) suggests some fraud signs do not imply fraud is occurring. Kramer (2015) also suggests there is no perfect set of internal controls for every company. Moyes et al. (2019) agree with Kramer's suggestion and further argue the importance of being ready to identify fraud red flags.

For fraud to occur, three factors must be present (Machado & Gartner, 2018; Kramer, 2015). The factors are perceived as pressure, opportunity, and rationalization. Red flags that can be gained from the three factors are weak internal controls, weak corporate governance, and lack of segregation of duties for key personnel (Kapp & Heslop, 2011). A difference in an individual behavior or routine is considered a key red flag (Moyes et al., 2019). Additional red flags can also include, an individual is living beyond their means, inquiries about suspicious activity that is never solved, or written off as an isolated incident (ACFE, 2018).

The lack of segregation of duties and/or clear and defined responsibilities is an internal control weakness (Frazer, 2016). Having one individual implement and monitor internal controls is ineffective and could lead to potentitally fraudulent activity(Moyes et al., 2019). Little to no management oversight is another internal control weakness that can lead to fraudulent behavior (Frazer, 2016). Lack of management oversight could cause an individual to create fake buinesses, missing vendor invoices, and a close relationship between employee and vendors or customers (ACFE, 2018). Weak evaluation methods of business information systems are the least common weakness for internal controls. Red flags that are considered weak evaluation of information systems include missing checks, payments made to fake companies, and cash flow discrepanices (Kramer, 2015).

Transition

In Section 1, I provide the background of the problem, problem statement, purpose statement, nature of the study, research questions, interview questions, and conceptual framework. Operational definitions, assumptions, limitations, and delimitations were provided in Section 1. In Section 1, I discuss the significance of the study and the review of the professional and academic literature on strategies used by small retail business owners to detect and prevent fraud.

In Section 2, I discuss the role of the researcher, participants, and restate the purpose statement initially presented in Section 1 of the study. The research method, research design, population and sampling, and ethics researcher are presented in Section 2. Additionally, I discuss the data collection instruments and techniques, data organization techniques, data analysis, and reliability and validity of the study. In Section 3, I will provide a presentation of the findings, an application to professional practice, implications for social change. I will also provide recommendations for action, further study, and my reflections on my experience as a researcher.

Section 2: The Project

In Section 2, I will discuss the methodology used to explore strategies used by small retail business owners to detect and prevent fraud. In this section, the purpose statement, the role of the researcher, participants, qualitative research method, and case study research design will be further explained. Section 2 also includes the population and sampling, data collection and techniques, 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 strategies retail small business owners use to prevent fraud in their businesses. The population for the research consisted of owners of five small businesses located in Raleigh, North Carolina who had successfully implemented effective strategies to prevent fraud. The implications on social change of this study include the possible increase of strategies to prevent fraud, thus providing small retail business owners the opportunity to improve the operations of their business, which could create additional jobs. Additional jobs could create a positive impact on local communities and other small businesses.

Role of the Researcher

The role of a researcher includes the creation of a research question, selecting an appropriate research method, data collection, and the analysis of data (Khankeh et al., 2015). As a qualitative case study researcher, my role for this study included every stage of the study, selecting the participants, selecting a research method, data collection, data analysis, and drafting a report on the results from the data.

Before data collection, researchers contemplate on prior experience of the proposed business problem (Moser & Korstjens, 2018). Through my education and professional experience, I became interested in the strategies retail small business owners use to prevent fraud in their businesses. My professional experiences include 5 years in accounting. My colleagues have told me of the struggles of fraudulent acts within their business and how it decreases profitability.

Researchers must maintain a level of ethical behavior to ensure the study is a complete success (Ngozwana, 2018). The Belmont Report (U.S. Department of Health and Human Services, 1979) discusses principles of ethics for researchers that are using humans as participants for their study. The principles consist of justice, beneficence, and respect. The Belmont Report protocols include obtaining informed consent from participants and maintain the confidentiality of the participants.

Bias in research is difficult to avoid due to the research method used and the personal interests of the researcher (Nair, 2018). Researchers that have chosen a case study research method should not have previous knowledge of the proposed research question, which could alter the analysis of the evidence (Yin, 2017). To mitigate bias, researchers must be cognizant of bias during every phase of the study (Sheppard, 2015). In my role as a researcher, I reduced bias by having the participants of the study review the data collected during their interview, review the findings with my academic peers, and verify the data collection using more than one source. I also maintained a high level of ethical standards by being professional and honest.

Interview protocol assists the researcher during the data collection process and improves the reliability of the study (Yin, 2017). An interview protocol is used during a case study to create an adequate procedure and to create interview questions that are aligned with the proposed research question. By using the interview protocol as research, I maintained a level of consistency and treated each participant of the study the same, which reduced bias.

Participants

Participants are screened before a study is conducted to ensure they are meet the eligibility criteria (Korstjens & Moser, 2017). Participants who are eligible for a qualitative study are used by the researcher to obtain data to answer their proposed research question (Wolgemuth et al., 2015; Yin, 2017). The eligibility criteria for participants in this study are owners of small retail businesses opened at least 5 years or more with experience implementing strategies to detect and prevent fraud.

Qualitative researchers should use trade and professional associations to identify and locate potential participants (Meutia & Ismail, 2015). I used the North Carolina Retail Merchants Association (NCRMA) to identify a small business for this qualitative study. For qualitative researchers to gain access to their perspective and eligible participants, they must first have the approval of the organization's gatekeeper (Marks, 2016). A gatekeeper is a person within an organization who has control over a researcher's access to their eligible participants. The gatekeeper for this study is the auditor of the small retail business. Yin (2017) suggested sending a letter is an effective method to invite eligible participants to a study. Upon identifying the gatekeeper of eligible participants to gain access, I contacted the individuals to participate in the study.

Once a researcher has identified and obtained approval from the gatekeeper, they must next create a working relationship with the participants (Marks, 2016). The relationship between the participant and the research should not be ambiguous (Elliott et al., 2017). Qualitative researchers are recommended to use an interview protocol to establish a working relationship with participants (Meutia & Ismail, 2015). To create and maintain a positive working relationship with the participant, I sent a welcome email and set up a pre-interview call with all participants.

Research Method and Design

The purpose of this qualitative multiple case study was to explore strategies used by small retail business owners to detect and prevent fraud. Researchers can choose a qualitative, quantitative, or mixed-method research method to examine and understand their proposed research question (Makrakis & Kostoulas-Makrakis, 2016). I chose a qualitative multiple case study as a suitable research method and design for this study to understand my proposed research question (Yin, 2017).

Research Method

To begin a qualitative research method, the research must first select a question about society (Choy, 2014). To examine the strategies used by small retail business owners to detect and prevent fraud, I chose a qualitative research method. Qualitative research explores the understanding of a subject’s attitudes, behavior, and motivation. This is done by asking the subject ‘*why*’ and ‘*how*’ questions (Barnham, 2015). By using a qualitative research method, I expanded my current knowledge of the issues discussed by the participants for this study. Qualitative research, a type of social science research, investigates an individual's interpretation of experiences to understand their social reality (Mohajan, 2018). Qualitative research is the only research method that can occur in a natural setting and allows the researcher details and insight into the proposed research question (Mohajan, 2018).

Quantitative research investigates a relationship between an independent and dependent variable (Barnham, 2015). Quantitative data can assist researchers with understanding the correlation between the dependent and independent variables (Choy, 2014). Data collecting for quantitative research is usually in the form of numerical values and imputed into a computer software program. A quantitative research method was not suitable for this study because no variables or hypothesis were tested.

Mixed methods research uses qualitative and quantitative research methods to provide a more in-depth understanding of the subject (Creswell & Creswell, 2017). Researchers using a mixed-method research method collect both quantitative and qualitative data to answer their proposed research question. Mixed methods research was not feasible for this study because it was only possible to collect the data using a qualitative research method.

Research Design

Research designs assist the researcher in the data collection, analysis, and interpretation stage of a study (Yin, 2017). The research design chosen by the research must be suitable and able to answer the proposed research question (Khankeh et al., 2015). Qualitative research can use design methods such as ethnography, case study, and phenomenology to assist in answering the proposed research question (Kruth, 2015).

Researchers use the case study design approach to create a concise and detailed understanding of individual or multiple cases from multiple perspectives (Kruth, 2015). Researchers using a qualitative case study research design to answer the ‘how’ and ‘why’ questions proposed in a qualitative study (McCusker & Gunaydin, 2015; Robson et al., 2020). I used a qualitative case study to explore small retail businesses to prevent and detect fraud.

Researchers using phenomenological research design are focused on the lived experiences of participants in the study (Saunders et al., 2015). Unlike a case study research design, a phenomenological design is to answer *what* and *how* questions about a phenomenon that the participants of the study have experienced (Dowden et al., 2014). The goal of this study is to explore strategies used by small retail businesses to prevent and detect fraud. Exploring the participants’ lived experiences as it relates to fraud was not the goal of this study, so a phenomenological design was not suitable for the study.

Ethnography research designs explore the shared patterns of a cultural group. Researchers that choose the ethnography research design explore a selected cultural group to answer their proposed research question (Saunders et al., 2015). Researchers using this design spend an extensive amount of time observing and interviewing the selected cultural group (Miller, 2019; Symons & Maggio, 2014). My intention for the study was not to research a certain cultural group, so an ethnography design was not suitable for the study.

Narrative theory is a qualitative case design in which participants stories is the raw data (Butina, 2015). Narrative theory focuses on individual experiences rather than a collective experience. Researchers using narrative theory for their qualitative research spend an extensive amount of time collaborating with participants and gathering their stories (Wang & Geale, 2015). My intention for the study was not to research a participant personal history, so narrative theory was not suitable for this study.

Data saturation is an accepted qualitative research methodological principle to indicate that further data collection is no longer needed (Saunders et al., 2018). Researchers use data saturation to evaluate the quality of their qualitative research. The quality of research decreases if data saturation is not met by researchers (Wray et al., 2007). To reach data saturation, I interviewed small retail business owners until there was enough data to replicate the proposed research question.

Population and Sampling

The purpose of this qualitative multiple case study was to explore strategies retail small business owners use to prevent fraud in their businesses. The sample population for this study consisted of five small business owners located in Raleigh, North Carolina. A thorough decision-making process is required to avoid the risk of producing a high volume of data or unsatisfactory results (Cleary et al., 2014). Researchers should justify the number of participants used for their study (Deakin & Wakefield, 2014). Only five small business owners were used for this study to avoid unmanageable loads of data. Thus, the sample population aligned with the research question because the research question is as follows: What strategies do small retail business owners use to prevent fraud?

Purposive sampling was used to select participants for the study. Purposive sampling is the selection of participants based on desired characteristics (Kegler et al. 2019). Using purposive sampling improved the likelihood of selecting small retail business owners who have the experience and knowledge of implementing strategies to prevent and detect fraud. Data saturation occurs in a study when the data collected will not lead to new information that is related to the research question (Lowe et al., 2018). When no new ideas emerged from the sample population after conducting initial interviews, I stopped collecting additional data.

Interviews are a vital instrument when conducting qualitative research since they create opportunities to gain a more in-depth understanding of the participant’s perspective (Coad et al., 2018). I conducted a face-to-face interview and one Skype interview with all participants. To ensure the participant was comfortable and to build rapport, it was up to the participant to select the location of the interview. When a participant is in a comfortable environment of their choice, they are more likely to be focused on the current task and free of distractions (Deakin & Wakefield, 2014).

Ethical Research

Ethics consists of a combination of values, character traits, and principles that helps the researcher to behave appropriately while conducting a study (Sabar & Ben-Yehoshua, 2017). Informed consent in a research study must be voluntary and have a foundation of understanding of the purpose and possible risk of the research (Glegg, 2019). Informed consent forms provided a brief description of the study, the procedure of the study, privacy, advantages, and disadvantages of participating in the study, and my contact information should the participant need to contact me. All participants read and signed the informed consent form before the interview is conducted.

If a participant chooses to withdraw from the research, a researcher must honor and respect their decision (Ngozwana, 2018). When the participant signed the informed consent form, I informed them that they are free to withdraw from the study at any point without any consequences. Participants could withdraw from the study by contacting me by phone, by email, or in person. Researchers have given their participants incentives because participants conveyed the point that their time is of value and they left their important tasks to assist the researcher in their study (Ngozwana, 2018). Therefore, I gave all participants a $30 Visa gift card 60 days after the conclusion of the study to show gratitude for participating in the study.

To create confidentiality and anonymity, a researcher must ensure the setting and the participants of the study are not easily identifiable (Sabar & Ben-Yehoshua, 2017). To protect the names and keep the participants confidential, I named the participants as RDU1, RDU2, RDU3, RDU4, and RDU5 and ensured that I have sole access to the interview information. I will store the data in a locked file cabinet in my home for 5 years to ensure the confidentiality of the interviewees is protected. After 5 years, I intend on shredding all paper copies and deleting all electronic copies to ensure I adhere to the requirements of Walden’s University Institutional Review Board (07-25-17-0438356) guidelines.

Data Collection Instruments

A researcher is always the primary data collection instrument for qualitative studies (Yin, 2017). Hamilton and Finley (2019) propose the researcher is the primary data collection instrument since the researcher collects data themselves throughout the study. As a qualitative researcher, I will be the primary data collection instrument for this research study with the use of semistructured interviews.

Semistructured interviews are used by qualitative researchers when they will have 1-2 interviews or when there is more than one participant for the study (Dadzie, Runeson, Ding, & Bondinuba, 2018; Hawkins, 2018; Kallio et al., 2016). A semistructured interview can provide researchers with comparable and reliable data (Cridland et al., 2015; DeJonckheere & Vaughn, 2019). I conducted face-to-face semistructured interviews using open-ended questions to collect data for the study. The researcher creates and uses an interview protocol that has the questions or topics that are needed to discuss during the interview (Walker et al., 2018). The semistructured interviews for the study consisted of seven open-ended questions that will provide additional insight into the proposed research question. All semistructured interviews had a scheduled duration of 60 minutes and I recorded all interviews.

Triangulation is used by qualitative researchers to further understand data through additional analytic methods (Marwa et al., 2019). Triangulation of multiple data collection methods is used by qualitative researchers to improve the accuracy and validity of their data findings (Flick, 2018; Heesen et al., 2019; Yin, 2017). Triangulation can be used to analyze qualitative data by using different analytic approaches to the same data

(Flick, 2018). I used the data triangulation method to improve the accuracy and validity of the study. The data collection methods I used are observations, documents, and records. Documents and records included internal documents and human resource files.

A qualitative researcher is the primary data collection instrument for qualitative studies. Since the researcher is the primary data collection instrument, they must try to avoid researcher bias (Delserieys et al., 2019). Qualitative researchers create and use interview protocols to assist them through the interview process (Castillo-Montoya, 2016). I used a semistructured interview method with open-ended questions to promote discussion with the participants. By using an interview protocol (Appendix A), I was able to standardize all interviews and remove the possibility of research bias.

Data Organization Technique

Data collection techniques are step-by-step methods, used by researchers, to gather information related to the proposed research question (Eltabakh, 2017). Researchers should utilize multiple data collection techniques for the same study (Umar & Hasan, 2019). Data collection techniques for this study included virtual semistructured interviews, documentary evidence, and casual observations. Semistructured interviews were audio recorded using a digital audio recorder.

Semistructured interviews are a type of interview that does not adhere to a list of questions, instead, has open-ended questions to promote discussion with the participants. (Li et al., 2019). The advantages of semistructured interviews include, (1) preparations of questions ahead of time, (2) promote two-way communication, and (3) allows in-depth information from open-ended questions (Peesker et al., 2019). Time-consuming interviews and creating leading questions that could lead to bias are the disadvantages of semistructured interviews (Umar & Hasan, 2019).

Documentary evidence is the analysis of electronic and hard documents (Bowen, 2009). The analysis is required to interpret the data and gain additional understanding (Bowen, 2009; Umar & Hasan, 2019). Readily available data, inexpensive, and saving time are the advantages of documentary evidence (Ahmed, 2010). The disadvantages of documentary evidence are (1) limited availability of data, (2) the possibility of bias, and (3) potential inaccuracies. Casual observations are used by qualitative researchers to observe participants in a natural situation. The advantages of casual observations are (1) provides researchers with the opportunity to observe situation which could not be manipulated, (2) the potential for a more genuine reaction from participants, and (3) allows a researcher to observes participants in their natural setting. Unable to control external variables, possibly of generation inaccurate data, and the possibility of creating subjective data are the disadvantages of casual observations.

Member checking is a data collection technique used by researchers to explore the credibility of the data (Carlson, 2010). There is no defined process for member checking and each researcher utilizes member checking differently (Simpson & Quigley, 2016; Varpio et al., 2017). To improve credibility and validity of a study, researchers use member checking (Varpio et al., 2017). To improve the credibility and validity of this study, I presented the interview transcript and my notes to participate to provide them the opportunity to validate the accuracy of the interview transcripts and my notes.

Data Analysis

The data analysis process includes preparing and organizing data into small subsections of data for the researcher to analyze (Castleberry & Nolen, 2018). Data analysis is challenging for first-time qualitative researchers since they do not know what to look for (Yin, 2017). Yin (2017) identified four types of triangulations which include data, methodological, investigator, and theory triangulation. The data analysis method I used is methodological triangulation. Methodological triangulation is used to improve the validity of a study by using a combination of data collection techniques. Therefore, I used multiple sources of data collection which included virtual semistructured interviews for all participants using open-ended questions (see Appendix A), casual observations, and documentary evidence to improve the validity of the findings for this study.

Before analyzing data, researchers should have a detailed process listing out all the steps of the data analysis process (Yin, 2017). The data analysis process I used included the following steps after completing all my interviews and collecting data: (a) transcribe the interviews using audio recordings, (b) organize the data and identify overarching themes found in the study, (c) member check themes with participants, (d) based off feedback from participants, adjust themes as necessary, (e) review data and revisions, and (f) draft the final results.

Researchers use data analysis software to organize and collect data. Data analysis software is also used to retrieve data based on the themes and codes identified by the researcher (Melgar-Estrada & Koolen, 2018; Oswald, 2017). Qualitative software such as NVivo, HyperResearch, ATLAS.ti, and MAXQDA (Yin, 2017). I used the NVivo software during the data analysis phase to organize and retrieve data based on themes and coding to save time while drafting the results.

Identifying and discussing patterns during the data analysis stage is known as thematic analysis (Nowell et al., 2017). Researchers must review their data on numerous occasions to identify the theme for the study (Roberts et al., 2019). I used thematic analysis to organize and assist to identify themes related to the study. Researchers can identify key themes by thoroughly analyzing interview transcripts for repetitions of words and statements (Read et al., 2020). Identifying linguistic concepts, such as metaphors and connector words, is another method used by researchers to identify key themes (Ma et al., 2019). I will identify key themes by identifying word and statements and linguistic concepts.

Reliability and Validity

Reliability

Reliability is based on the consistent and repeated application of research practices stated by the researcher (Cypress, 2017). The more often research practices are repeated, the more reliable a study is (Korstjens & Moser, 2018). Reliability is measured by the dependability of the study (Leung, 2015). Qualitative researchers can identify reliability by using methods such as member checking, interview protocol, and reviewing interview transcripts. To improve reliability, I used member checking and present my interview transcripts to the participants to validate the interpretation of the data.

Dependability

Korstjens and Moser (2018) define dependability as the consistency of the researcher's analysis process. For a study to be dependable, a researcher must be consistent during data collection (Friginal et al., 2016). Multiple data collection methods should be used to further improve the dependability of a qualitative study (Ye et al., 2020). I used multiple data collection methods, such as member checking and virtual semistructured interviews to improve the dependability of the study. To further assess dependability, researchers use an audit trail (Johnson et al., 2020). To improve the dependability of the study, I will create and maintain an audit trail from the reflective journal notes for the duration of the study.

Validity

To avoid research being classified as unreliable or invalid, researchers must provide proof of the study's reliability and validity (Amankwaa, 2016). However, researchers do not agree on using the terms reliability and validity (Amin et al., 2020; Amankwaa, 2016). Instead, to confirm, the reliability and validity, researchers should use terms such as credibility, transferability, and confirmability to ensure the trustworthiness of their data (Noble & Smith, 2015). Validity for this qualitative study is the credibility, transferability, and confirmability of the data presented in the study.

Credibility

Amankwaa (2016) suggests to improve the trustworthiness of a qualitative study, the research must show confidence in the truth of their findings. This can be done by utilizing methods such as member checking. Member checking is the most effective method for qualitative researchers can use to prove the credibility of their study

(Mackiewicz et al., 2016). Member checking is effective for the credibility of the study because the data is reviewed by the participants of the study (Birt et al., 2016). Besides member checking, qualitative researchers could keep a reflective journal. Reflective journals should contain information about the participants and observations, such as facial expressions, during interviews (Wamsiedel, 2016). To add credibility to this study, I will present the write-ups to the participants with my interpretation notes of their interview. This will allow the participants to validate the credibility of the data.

Transferability

A study is considered transferable if the findings of the study apply to another study with different parameters (FitzPatrick, 2019). Amankwaa (2016) suggests researchers should provide ample descriptions of their data collection process, to ensure the transferability of their study. Details such as locations of the interviews, participant's attitudes, and casual observations. Triangulation can be used to ensure the transferability of a study since multiple methods are used to collect data (Korstjens & Moser, 2018). descriptions should also be in the reflective journal. For the reflective journal, I will provide ample description for all participants involved with the study to ensure the findings of the results are transferable. I will also use triangulation methods of face-to-face semistructured interviews and casual observations to further improve the transferability of the study.

Conformability

The accuracy of a study’s findings from the participants should have a level of neutrality and not have researcher bias (Hadi & Closs, 2016). To create conformability, researchers can create an audit trail and methodological triangulation (Korstjen & Moser, 2017; Amankwaa, 2016). I used methodological triangulation to ensure conformability. Methodological triangulation such as virtual semistructured interviews and casual observations was used. Data saturation occurs when qualitative research concludes data collection since no new phenomenon or ideas are identified (Saunders et al., 2018). The researcher will know when they reach data saturation and should stop collecting data (Hadi & Closs, 2016). To ensure data saturation, I continued to interview participants until there is enough data available to duplicate the study. Data saturation was reached for this study until was enough data to replicate the proposed research question.

Transition and Summary

Section 2 includes a restatement of the purpose section, which is also located in Section 1 of the study. The role of the researcher, participants' research method, research design, population, and sampling are discussed in Section 2. I also discussed ethical research, data collection instruments, data collection techniques, and data analysis. I also explained the reliability and validity of the study and address data saturation.

In Section 3, I will present the findings of the study, the applications to professional practice, the implications of social change, recommendations for action and further research, reflections, and the conclusion of the study.

Section 3: Application to Professional Practice and Implications for Change

Introduction

The purpose of this qualitative multiple case study was to explore strategies used by small business owners to prevent and detect fraud. I interviewed five business owners using semistructured interviews. All interviews were virtual Zoom to abide by COVID-19 regulations. All five participants were small business owners (RDU1, RDU2, RDU3, RDU4, RDU5). All participants signed an informed consent form that indicated their interest and willingness to participate in the study. To protect the names and keep participant confidentiality of the participants, I identified each participant as RDU1, RDU2, RDU3, RDU4, and RDU5. The triangulation method was used by including documentary evidence and causal observations to supplement other data collected during the interviews. Documentary evidence included contractual agreements and financial records.

The semistructured interviews consisted of seven interview questions, they lasted between 45 to 60 minutes, and the audio was recorded. I used NVivo Pro software to analyze, manage, and organize themes found in the collected data. As the researcher, I maintained a high ethical standard through professional honesty and competence. Once all interviews were completed, I reviewed all audio files and transcribed the data, and organized the data into thematic groups. Next, I identified themes from the thematic groups and presented the data to the participant in our 2nd virtual call. After the follow-up call, revisions were made based on the feedback from the participants. This was done to ensure accuracy with the data before drafting the results of the findings of the study.

The themes were (a) monitoring, (b) contractual agreements, (c) communication, (d) contractual revisions and disputes, and (e) peer-to-peer payment app customers' chargebacks.

Presentation of the Findings

The overarching research question for this study was as follow: "What strategies do small business owners use to detect and prevent fraud?" The population for this study consisted of small business owners located in Raleigh, North Carolina. All participants had unique codes (RDU1, RDU2, etc.) to ensure participant confidentiality.

I conducted virtual semistructured interviews, and one follow up virtual interview with participants. I used the triangulation method by including casual observations and documentary evidence, such as service agreement contracts and employee handbooks. The conceptual framework for this qualitative multiple case study was the fraud triangle which was developed by Cressey and Sutherland in 1952. The fraud triangle was created by Cressey and Sutherland to understand why fraudsters commit fraud (Cressey, 1952).

The five primary themes identified through data analysis were (a) monitoring, (b) contractual agreements, (c) communication, (d) contractual revisions and disputes, and (e) peer-to-peer payment app customers chargebacks. The interview questions presented similar responses from the participants. The themes that came from the participant interviews are relevant in exploring the strategies small business owners to detect and prevent fraud. Table 1 shows the interview questions, themes, and the percentage of participant reference.

Table 1

Interview Questions, Themes, and Percentage of Participant Reference

Interview questions	Identified themes	% of participant reference
1. What strategies do you use to prevent fraud in your business?	Monitoring	80%
2. What are some of the policies you have incorporated to prevent fraud?	Contractual Agreements & Communication	100%
3. What strategies have been most successful for detecting and preventing fraud?	Contractual Agreements	40%
4. How do you assess the effectiveness of the strategies for detecting and preventing fraud?	Monitoring	20%
5. What barriers did you encounter when implementing your strategies for detecting and preventing fraud?	Contractual Revisions & Disputes	60%
6. How did you address the barriers to implementing the strategies for detecting and preventing fraud?	Contractual Agreements	40%
7. What additional information can you provide regarding strategies to prevent fraud that was not covered in the interview questions?	Peer-to-peer payment app and chargebacks	100%

Theme 1: Monitoring

Monitoring is an important step in ensuring a business's strategies are effectively protecting the business from fraud (Lachney, 2018). RDU2, RDU3, RDU4, and RDU5 identified monitoring methods to protect their business from fraud. Participants acknowledge the importance of the monitoring and agree it has protected their business from potentially fraudulent activity. All participants reconcile their bank statements and had financial software, such as QuickBooks, tracking invoices for customers. RDU2 stated, "I check after each transaction…I go in and check the [payment processing] system, I check emails and confirm the exact amount was paid. Next, I confirm the processing fees and then at the end of the month I cross check payments on the bank statement." Gonzalez and Hoffman (2018) stress the importance of multiple monitoring methods to further improve the effectiveness of the strategies used to prevent and detect fraud within a business.

RDU5 also reviews their hired contractors' time cards to ensure their salary is within budget. Because of this additional monitoring, they discovered a contractor had billed their small business for work completed that was not actually completed. RDU5 stated, "The contractor refused to use the time tracking program and claimed they had their own time tracking system." The court ruled in the contractor favor and stated, "The contractor could track their time however they wanted to since I didn't have something in my contract." RDU4 uses a CPA firm to also check their financial statements as an additional monitoring method. The findings revealed that when small business owners monitor their internal controls, they are more likely to discover fraudulent occurring within their business.

RDU4 was the only participant that was measuring the effectiveness of the strategies used to detect and prevent fraud within their business. The remaining participants agreed they only measure the effectiveness of their strategies when a dispute occurs which could potentially weaken the internal controls. Kamaliah et al. (2018) noted that small business owners will most likely not assess the internal controls due on a periodic basis due to time and potential additional cost. The findings revealed that even though small business owners use different strategies to prevent and detect fraud, periodic assessments measuring their effectiveness will most likely not be completed by small business owners.

Theme 2: Contractual Agreements and Communication

All participants use a consumer contract to protect their businesses from fraud. A consumer contract is a legally binding agreement, verbally or in writing, between the business and the consumer (Becher & Benoliel, 2021). RDU1, RDU2, RDU3, and RDU4 use the contract to detail the level of service, expectations of the service, disputes, refunds, cancellations, and no-shows. Upon casual observation, each participant's consumer contract was last revised within the last 6 months and earlier due to disputes not included in the consumer contract. Love and Trowbridge (2017) noted that consumer contracts are revised and updated numerous times a year to keep pace with consumers and the changing market.

All participants stated consumers do not fully read the contract provided to them before services are rendered. RDU2 mentioned they have lost customers due to disputes resolved in the business favor. RDU3 and RDU4 had the same experiences as RDU2 and incorporated a consultation to review the consumer contract with customer prior to services rendered. D'Onfro (2021) stated consumers sometimes do not read a contract in full and sometimes only reviews a contract, when a dispute arises with the business. RDU3 and RDU4 have had no new disputes since they have started revising their own consumer contract without legal counsel.

Theme 3: Contractual Revisions and Disputes

All participants for the study have had disputes with their customers. Upon casual observation, all participants only drafted a consumer contract after their first customer dispute. Participants have had disputes such as final cost disputes, service packages, and date of service. Another challenge the participants had with consumer contracts was the legal cost associated with constantly updating the legal contract. Upon review of the participants' financial statements, on average, the participants had $7,500 of legal costs during the calendar year. RDU1 stated "…it cost a big chunk of money because it's not a one and done you're always going to have to revise your contract." Each participant stressed the hassle of updating their consumer contract and the effect it was having on the revenue. RDU1 stated, "Someone always finds a new loophole, and I must revise the contract again. But I'm still learning and still evolving."

RDU3 and RDU4 stated they only had their consumer contract revised twice by their attorney because of cost, and they completed any additional revisions without a review from an attorney. D'Onfro (2021) noted that consumer contracts completed by small business owners are usually incomplete or inaccurate because it was not completed by someone with a legal background. Due to the potential inaccuracy of consumer contracts, small business owners are likely to have disputes from loopholes discovered by customers.

RDU2, RDU3, RDU4, and RDU5 have also had a dispute with customers that have found loopholes in the contracts. RDU1 stated, "People try to manipulate, rush you, basically try to run the business for you to suit their needs." Upon casual observation, RDU4 and RDU5 was annoyed about the loopholes their customers were finding in their contracts. RDU2 goes on to explain the hassle they have to go through while trying to resolve the dispute. Love and Trowbridge (2017) noted that business owners lose revenue of up to 20% while dealing with disputes. Occasionally, customers will willfully create a dispute with small business owners to intentionally have the business owner use man hours to resolve the dispute (Beecher & Benoliel, 2021; Love & Trowbridge, 2017).

Theme 4: Peer-to-Peer Payment Apps and Chargebacks

Many small business owners use peer-to-peer payment as a form of payment (Matzkin & Sommers, 2020). All participants use some form of peer-to-peer payment apps. Peer-to-peer payment apps allow users to send money to another user using their cell phone (Li et al., 2021). One feature of peer-to-peer apps is the chargeback feature. The chargeback feature allows the payer to withdraw the money from the payee peer-to-peer payment account. RDU2 stated, "I've had to deal with chargebacks, which means that if I complete a service for a customer and pay in full. They can request their money back in full from the payment processing company." A payer can initiate a chargeback up until 12 months from the initial transaction date (BHIM, 2019).

Upon causal observation, I noticed the stress and annoyance participants showed in regards to chargebacks. RDU3 mentioned the frustration with chargebacks and the feeling of being powerless in the situation. They went on to explain the money earned from services rendered have already been spent, and chargebacks were hurting the bottom line. All participants mentioned during their interviews they were switching to cash, credit card from peer-to-peer credit card payments due to chargebacks.

The conceptual framework for this study was the fraud triangle created by Cressey in 1954. The fraud triangle has three concepts (pressure, opportunity, and rationalization) which helps the user understand the reason why individuals commit fraud. Customers that hired the small business owners were satisfied with the services provided at the time payment was provided. However, after a period of time, customers dispute the charge and receive a refund for the services. RDU1 mentioned in their follow up interview she received most chargebacks during the COVID-19 pandemic. Household finances were tight during the pandemic and a lot of families had to make tough choices to make ends meet (Bin Nasharuddin & Wong, 2021). The pressure of chargebacks could be the effect COVID-19 had on household finances and the need to acquire money at any means necessary. The opportunity is the ease customers have requested a refund from peer-to-peer payment apps such as Venmo and PayPal with little to no investigation from the payment service. RDU3 mentioned in their interview the customer is "always right with chargebacks and there is no process for the business to dispute the chargebacks and get the money back for services rendered." The rationalization for chargebacks is the needed to stay afloat during the unprecedent time. The pandemic affected everyone financially, and people did everything they could to maintain a stable household (Bin Nasharuddin & Wong, 2021).

Applications to Professional Practice

The findings from this study are relevant to the improvement of business practices in that this study provides additional information on the strategies used by small business owners to prevent and detect fraud. The specific business problem is some small business owners lack strategies to prevent fraud in their businesses. Small business owners should have a variety of methods to protect their businesses from fraud (Denman, 2019). The results of the study could provide small business owners with additional information on how to protect and detect fraud in their business.

Having organized financial recordkeeping is an important tool when preventing fraud in a small business (Huerta et al., 2017). Small business owners should consider a financial system to track their expenses and create bank alerts for the business bank account. The majority of small business owners use some form of contract to protect their business from potentially fraudulent activity (Love & Trowbridge, 2017). Small business owners should have a clear and concise contract in place to protect the business from potential fraudsters. However, small business owners should consult the necessary professional instead of attempting to do everything themselves. Kazemian et al. (2019) suggested small business owners have to wear a lot of "hats," such as lawyer and accountant, even when it is not the business owner's specialty. This causes unintentional gaps in certain aspects in the financial recordkeeping or contract. This in turn could cause fraudsters to find the gaps and exploit the business. The findings from this study concurred with the fraud triangle theory because small business owners can understand the rationalization for the fraud and can create additional methods to prevent and detect fraud.

Implications for Social Change

The results from this study could benefit small business owners and society by adding to the current strategies used by small business owners to detect and prevent fraud. Creating, maintaining, and implementing internal controls with additional oversight on monitoring will help small business owners prevent and detect fraud. Having strong internal controls with additional monitoring oversight can protect the revenue for a small business. When small business owners effectively and actively enforce their fraud strategies, it will increase the financial stability of the small business and the local community. Increased financial stability could create more job opportunities, additional funding for local community programs, and potentially improving the standard of living for individuals in the local community

Some small business owners could benefit from the findings of this study and adopt effective communication skills for their business and customers. Effective communication skills with customers and employees could potentially avoid disputes and lose revenue. With small business owners spending less time disputes and more time with new customers will bring in new revenue.

Recommendations for Action

The findings of this study noted some recommendations for action for small business owners to prevent and detect fraud. Other stakeholders who need to pay attention to the results of this study will be individuals starting their own small businesses and are not sure on how to protect their business from fraudsters. Some of the recommendations include effective communication training, creating effective monitoring controls, understanding peer-to-peer payment applications, and ensuring the small business has a clear and concise contract to prevent and detect fraud for the small business.

Small business owners should consider as part of the foundation of the small business to create a concise contract. A contract that details the expectations of services, disputes, and resolutions of disputes will more likely protect the business rather than an unclear and confusing contract (Beecher & Benoliel, 2021). Small business owners should consider hiring legal counsel to create a service and/or consumer contract for small business owners. Contracts created by individuals without a legal background are more likely to be a detriment to a small business owner (D'Onfro, 2021). When a small business owner has a clear, detailed, and concise consumer contract, disputes are less likely to occur.

Another recommendation is for small business owners to create additional monitoring internal controls to further assist small business owners from preventing and detecting fraud. Small business owners do not have the manpower or the income to invest in expensive financial software (Vicky & Hoffman. 2018). Instead, small business owners can set up bank alerts with their banking institution, monthly bank reconciliations, and annual external audits completed by a CPA.

A lot of small business owners utilize peer to peer payment apps, such as Venmo, Zelle, and PayPal (D'Onfro, 2021). However, many small business owners are not aware of peer-to-peer payment apps chargebacks. There are no classes or seminars available for small business owners regards how to maximize the use of peer-to-peer payment applications (BHIM, 2019). A class or seminar should be conducted for small business owners regarding peer-to-peer payments and how to resolve chargebacks in a timely manner.

The Bharat Interface for Money (BHIM) could be used to disseminate the results of the study on strategies used by small business owners to prevent and detect fraud. BHIM will occasionally release articles regarding peer-to-peer payment apps and what small business owners should do if a dispute is submitted on the app. To disseminate the results of this study on strategies used by small business owners to prevent and detect fraud, I plan to use scholarly articles. Small business owners should consider reading the material released by BHIM to have a better understanding of peer-to-peer payment apps. Small business owners should attend conferences and seminars that provide additional in-depth knowledge on how to effectively monitoring their financial transactions to prevent and detect fraud. Finally, the local and state legal organizations should consider creating a training or seminar for small business owners on how to draft an effective contract to prevent and detect fraud in their business.

Recommendations for Further Research

The purpose of this qualitative multiple case study was to explore strategies used by small business owners to prevent and detect fraud. The findings from this study will provide researchers with the data needed for future research in exploring other strategies not covered in this study. Other small business owners and individuals creating their own small business could also benefit from further research on how to prevent and detect fraud in their business.

Limitations identified in section 1.12b were not a concern while conducting participant interviews. All participants were aware of fraud; however, their previous knowledge did not bias their opinion of fraudulent activity they had experience. There was an issue with participants not showing up to the scheduled interview time and not responding to follow up communication. Fraud is a sensitive topic for some small business owners and probably aren't ready to discuss. Additional future research could focus on the psychological effects fraudulent activity had on a business owner and how it affected their personal life.

Reflections

During the process of completing this study, I have grown academically and mentally and have gained a worldwide view of fraud and the strategies used by small business owners to prevent and detect fraud. To reduce the likelihood of personal bias, I was cognizant of potential bias during data collection and the analysis stage. The interview protocol was a handy tool during the study was used as a constant guide while interviewing and following up with all participants.

It was great to speak with participants that took a risk to start their own business and trying to combat fraudsters. All participants were pleased to be a part of the story and hope other small business owners learn from events that have happened to their business. With the completion of the study, I learned so much in regards to fraud, the personality of a fraudster, and how fraudulent activity can potentially close a business for good. The findings from this study could provide small business owners additional information on how to create and implement strategies to prevent and detect fraud.

Conclusion

Some small business owners lack strategies needed to prevent and detect fraud. The purpose of this study was to explore successful strategies used by small business owners to prevent and detect fraud. The conceptual framework for this study was based on the fraud triangle. The data collection methods I used were casual observation, semistructured interviews using open-ended questions, and documentary evidence. Documentary evidence included consumer contracts and financial statements.

The five primary themes identified through data analysis was (a) monitoring, (b) contractual agreements, (c) communication, (d) contractual revisions and disputes, (e) and peer-to-peer payment app customers chargebacks. The implications of social change are improved monitoring of financial transactions. The primary findings from this study showed that there are some successful strategies used by small business owners to prevent and detect fraud. The findings from this study could also help potential small business owners create strategies to prevent and detect fraud. The findings from this study could also help potential and current small business owners understand the importance of creating and implementing successful strategies to prevent and detect fraud for their business.

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Appendix: Interview Protocol

What you will do	What you will say - Script

Introduction:
• Greet the participant and thank the participant for accepting my invitation of participation
• Ask participant if they have reviewed the consent form beforehand
    ○ If not, review the informed consent with participant and answer any questions the participant may have.
• Inform participant of the Visa gift card they will receive at the conclusion of the study Remind participant audio will only be recorded for both interviews.
• Answer any final questions before starting the interview
• Start recording device
	Introduction:
	Good morning/afternoon! Thank you so much for taking the time to participate in my study.
	Have you’ve had an opportunity to review the informed consent form I sent over?
	If participant answers yes:
	    Great! Do you have any questions?
	If the participants answer no:
	    No worries! Let’s review before we begin. [Review informed consent]
	After reviewing informed consent form/answering questions:
	As a thank you, I’ll be sending a $30 Visa gift card. Before we begin, do you have any more questions? Great! Starting the audio recording device now.

During the interview:	During the interview:

• Watch for non-verbal queues • Paraphrase as needed • Ask follow-up probing questions	1. What strategies do you use to prevent fraud within your business? 2. What are some of the policies you have incorporated to prevent fraud? 3. What strategies have been most successful for detecting and preventing fraud? 4. How do you assess the effectiveness of the strategies for detecting and preventing fraud? 5. What barriers did you encounter when implementing your strategies for detecting and preventing fraud? 6. How did you address the barriers to implementing the strategies for detecting and preventing fraud? 7. What additional information can you provide regarding strategies to prevent fraud that was not covered in the interview questions?
Post interview: • Stop recording device	Post interview:

• Wrap up the interview and thank the participant • Schedule follow-up member checking interview • Send the participant the interview recording and notes taken during the interview	Thank you so much once again for participating. What's your availability for next week? I would like for you to review the interview recording and my notes before our next meeting.
Member Checking Session Introduction: • Thank the participant for attending the member checking session • Remind participant audio will only be recorded for both interviews. • Ask if the participant has any questions before beginning.	Member Checking Session Introduction: Hello! It's so good to see you again. Thank you so much for seeing me again. I want the review recording and my notes from your first interview. But before we begin. Do you have any questions? Starting the audio recording device now.
Member Checking Session: • Share your screen so the participant they can view your interview transcript. • Start recording device.	Member Checking Session: Let me share my screen. Let me know when you see it. *wait until participant confirms they can see your screen Great! We'll be going over the interview questions

• Walk through each interview question with participant and ask probing questions, ○ Did I miss anything? ○ Is there anything you would like	*review each question and ask probing questions: • Did I miss anything? • Is there anything you would like to add?
Post Member Checking Session: • Thank participant for participating in the study • Confirm with participant the address to deliver the gift card	Post Member Checking Session: Thank you so much again for participating. I'll be sending your gift card in the next day or so. Where would you like me to send the gift card?