Strategies to Reduce Occupational Fraud in Small Restaurants

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ABSTRACT

Occupational fraud is a growing business risk that is causing greater financial losses in small businesses than large businesses. Business owners lose approximately 5% of their revenues due to occupational fraud. The purpose of this multiple case study was to explore the strategies used by some business owners of small restaurants to reduce occupational fraud. The fraud triangle theory was the conceptual framework for this study. Three small restaurant owners from Puerto Rico participated in face-to-face, semi-structured interviews to reveal their successful strategies to minimize fraud. The data collection process also included business documents and researcher observations that assisted in establishing methodological triangulation. Using Yin's 5-step process, data were coded and analyzed to identify emergent themes. The primary emergent themes obtained from data analysis revealed that owner monitoring, analytical procedures, and segregation of duties are effective strategies to minimize employee fraud. Participants revealed that implementing these strategies may reduce organizational losses associated with the fraud. The findings of this study may contribute to social change by reducing fraud activities, business failures, unemployment level, and criminality rate while promoting trust between community members and their institutions.

Key Words: Occupational Fraud, Restaurants, Small Businesses, Business Risk

JEL Classification Code: J24, L83, D81

INTRODUCTION

Occupational or employee fraud is a global business risk that reduces organizations' profitability (Morales et al., 2014). In 2014, the estimated global losses related to employee fraud were $3.7 trillion (Association of Certified Fraud Examiners, 2014). Business leaders lose approximately 5% of their revenues due to employee fraud (Kramer, 2015). With the implementation of effective internal controls, business leaders can reduce occupational fraud and avoid financial losses (Roden, Cox, & Joung-Yeon, 2016). However, business owners have minimal strategies to establish an effective internal control system to reduce employee fraud (Hess & Cottrell, 2016). In small businesses, occupational fraud risk is higher than in large businesses because business owners lack the resources to implement an effective internal control system (Hess & Cottrell, 2016; Ahmed et al., 2021). As such, small business owners must identify effective strategies to reduce employee fraud and avoid financial losses.

Occupational or employee fraud is a growing business risk that is causing greater financial losses in small businesses than large businesses (Kramer, 2015). In 2014, the median loss for occupational fraud for small businesses with fewer than 100 employees in the United States was $154,000 (Glodstein, 2015). Small business owners have fewer resources to reduce occupational fraud, so they do not have the ability to hire additional employees for an adequate segregation of duties or to acquire technology for employee monitoring (Whittaker, 2015; Hussain et al., 2021). As such, small businesses are more vulnerable to fraud risk, especially occupational fraud, in comparison with large businesses. The Committee of Sponsoring Organizations of Treadway Commission (COSO), which consists of five professional accounting organizations in the United States, provides guidance regarding internal controls to business organizations (Rose et al., 2015). Business leaders should follow this guidance in establishing an adequate internal control system to reduce fraud (Rose et al., 2015). However, small business leaders have limited resources to effectively establish an internal control system as suggested by COSO (Law & Kusant, 2014). Small business leaders do not have an adequate segregation of duties in their internal control design due to their lack of financial resources (Law & Kusant, 2014). As such, Rose et al. (2015) suggested that small business leaders should establish strategies to overcome the limited segregation of duties in their internal control systems to reduce occupational fraud. By doing so, small business leaders can reduce occupational fraud and avoid financial losses.

The general business problem that guided this study was that some small business owners experience significant losses from occupational fraud. The specific business problem was that some business owners of small restaurants lack strategies to reduce occupational fraud. The purpose of this qualitative multiple case study was to explore the strategies used by some business owners of small restaurants to reduce occupational fraud. The target population consisted of business owners of three small restaurants located in San Juan, Puerto Rico, which is a territory of the United States. This population was appropriate because these restaurant owners have experience in establishing successful strategies to reduce employee fraud in their businesses. The findings of this study may help individuals to reduce fraud activities and contribute to social change by reducing crime and unemployment while catalyzing an ethical environment and increasing the trust between community members.

Research Question

The research question that guided this study was: What strategies do some small restaurant owners use to reduce occupational fraud?

Purpose Statement

The purpose of this qualitative multiple case study was to explore the strategies used by some business owners of small restaurants to reduce occupational fraud. The target population consisted of business owners of three small restaurants located in San Juan, Puerto Rico, which is a territory of the United States. This population was appropriate because these restaurant owners have experience in establishing successful strategies to reduce employee fraud in their businesses. The findings of this study may help individuals to reduce fraud activities and contribute to social change by reducing crime and unemployment while catalyzing an ethical environment and increasing the trust between community members.

REVIEW OF RELATED LITERATURE

Fraud is the act of deceiving others for a personal benefit (Rahman & Anwar, 2014). In businesses, the risk of fraud consists of the dishonesty and purposeful misappropriation of assets or falsification of financial statements (Rahman & Anwar, 2014). Since the beginning of commerce, this risk has affected businesses causing instability (Morales et al., 2014). Moreover, the risk of fraud represents the dark side of business that is causing substantial financial losses (Button et al., 2015; Kramer, 2015). As such, business leaders should have effective strategies to reduce this risk and prevent financial losses. In small businesses, a common type of fraud is occupational fraud (Kramer, 2015). Morales et al. (2014) stated that occupational fraud occurs when employees take advantage of the trust delegated by the business owners for their personal benefit. Employees may abuse an owner's trust for their personal reward (Karim et al., 2015). Employees take advantage of the lack of segregation of duties and internal controls in businesses to commit wrongful acts (Whittaker, 2015). Therefore, business leaders may monitor employee actions to reduce financial losses related to occupational fraud.

Small businesses have yearly financial losses of approximately 5% of their revenues due to occupational fraud (Kramer, 2015). In 2014, the median loss for occupational fraud for small businesses with fewer than 100 employees in the United States was $154,000 (Glodstein, 2015). The financial losses associated with occupational fraud are higher in small businesses than large businesses (Kramer, 2015). Small businesses have less financial resources versus large businesses to establish adequate segregation of duties and internal controls to reduce occupational fraud risk (Whittaker, 2015). Small business leaders should establish suitable strategies to manage their limited resources to reduce this fraud risk. In terms of small restaurants in the United States, Law and Kusant (2014) argued that owners lack internal controls to reduce fraud risk. The owners of small restaurants are not aware of the internal controls to protect their businesses from employee fraud (Law & Kusant, 2014). Furthermore, small restaurants managers perceive that a restaurant's control systems are inadequate and ineffective to prevent employee fraud (Frazer, 2012). These small business owners are victims of employee fraud.

Occupational fraud consists of three types: (a) financial statement fraud, (b) misappropriation of assets, and (c) corruption (Glodstein, 2015). Business leaders must identify the signals related to each type of employee fraud in order to detect (Gullkvist & Jokipii, 2013). By understanding each type of employee fraud, business owners can identify them and establish strategies to reduce fraud risk (Omar et al., 2015).

Ding et al. (2015) examined employee fraud in small businesses by using the data from the World Business Environment Survey (WBES), which included over 10,000 firms in 80 countries. Small businesses controlled by the family had less employee fraud events than non-family controlled businesses (Ding et al., 2015). In addition, there was not a significant difference of employee fraud events between less developed countries and more developed countries (Ding et al., 2015). Ding et al. suggested a family-controlled monitoring to employees to reduce occupational fraud in small businesses. Frazer (2012) examined manager's perceptions of their internal control effectiveness to prevent employee fraud in 270 small restaurants in New York, United States. Small restaurants managers perceived their restaurant's control system as inadequate to prevent employee fraud (Frazer, 2012). Specifically, managers did not have an adequate segregation of duties, protection of assets, and verification of transactions to reduce asset misappropriation. Frazer (2012) also found that managers did not know the basic components of an internal control system. To reduce employee fraud, small restaurant managers should learn the components of the internal control framework of the COSO to design their control system (Frazer, 2012).

Law and Kusant (2014) examined the internal controls used by small restaurant owners to prevent and detect employee fraud in Pennsylvania, United States. Specifically, Law and Kusant examined the internal controls to prevent and to detect asset misappropriation and found that owners lacked internal controls to reduce fraud risk. Most owners have some detection controls (cash counts, register codes, inventory counts, and cameras) to protect the cash and the inventory (Law & Kusant, 2014). However, owners do not have preventive controls (e.g., ethic training, background checks) in place. As such, small restaurant owners are not aware of preventive controls to protect their businesses from employee fraud.

The most frequent type of employee fraud in small businesses is the misappropriation of assets while in large businesses it is the financial statement fraud (Gilmore-Allen, 2015; Hess & Cottrell, 2016). In terms of small restaurants, the most common type of fraud is also the misappropriation of assets (Law & Kusant, 2014). In large and small businesses, managers do not have effective controls to reduce employee fraud (Hess & Cottrell, 2016; Law & Kusant, 2014). Occupational fraud is a continuous risk to businesses causing financial losses (Kramer, 2015). As such, various researchers have enunciated different theories about the employee motivations to commit fraud.

In assessing fraud risk, business leaders must identify risk factors (red flags) related to employee fraud (Moorthy et al., 2014). Moorthy et al. (2014) argued that the individual and organizational factors have a positive relationship with the employee's intention of committing fraud. In the individual's factors, business leaders must consider (a) the individual's need, (b) opportunity, and (c) personal traits (e.g., ethical values) in assessing fraud risk. These factors have association with the fraud triangle theory (Moorthy et al., 2014).

Managers should consider employee motivations and risk factors to perpetrate fraud (Mangala & Kumari, 2015). Bonny et al. (2015) stated that the main employee motivations to commit fraud are a financial hardship, living beyond their means, gambling, sudden external financial pressure, internal/external pressure to steal, a drug dependency, and alcohol. In addition, Mangala and Kumari (2015) argued that most common risk factors are inadequate compensation plans, unusual compensation patterns, high industry competition, and a close relationship with suppliers, poor segregation of duties, ineffective supervision, and weak internal controls. Managers must continuously consider employee motivations and the organization's internal control system in their risk assessment.

Scholars have suggested different strategies to reduce occupational fraud. Some of these strategies consist of the organization's control environment such as the ethical organizational culture (tone at the top) and human resources policies among others (Rendon & Rendon, 2016; Schuchter & Levi, 2015). Other strategies focus on the control and monitoring activities such as a segregation of duties, internal/external audits, and analytical procedures (Boyle et al., 2015; Trompeter et al., 2014).

In summary, business owners could use different strategies to reduce employee fraud. Some of the strategies would be preventive controls such as ethical organizational environment (tone at the top), employee compensation and reward systems, and background checks. Other strategies consist of detective controls such as internal/external auditors, whistleblowing programs, and analytical procedures. However, small businesses have less financial resources versus large businesses to establish an adequate segregation of duties and internal control strategies to reduce occupational fraud risk (Hess & Cottrell, 2016). As such, the themes described in this literature review are useful to explore the strategies used by small restaurant owners to reduce occupational fraud considering their limited resources.

Conceptual Framework

The conceptual framework for this study was the fraud triangle developed by Donald R. Cressey in 1953. The fraud triangle is a framework for assessing fraud risk (Lokanan, 2015; Morales et al., 2014). According to this theory, the individuals that commit fraud have three psychological stages that are (a) pressure, (b) rationalization, and (c) opportunity. In the first stage, individuals have a personal financial need or necessity. In the rationalization stage, individuals deliberate to commit the wrongful act to satisfy their needs instead of the needs of the others (Cressey, 1986). In the opportunity stage, individuals analyze the viability in committing fraud while people do not detect them (Cressey, 1986). In occupational or employee fraud, individuals use their positions for personal enrichment through intentional taking, misuse, or misapplication of organization resources (Karim et al., 2015). The fraud triangle theory was suitable for this study because it provided the potential elements to evaluate business strategies to prevent and reduce employee fraud. Business leaders can use the triangle of fraud theory when designing their internal control system to reduce employee fraud (Lokanan, 2015; Morales et al., 2014). As such, this theory served as a lens for evaluating the adequacy of the strategies used by small restaurant owners in reducing occupational fraud.

Significance of the Study

The significance of this study is the potential identification of successful strategies to reduce employee fraud in small businesses. The reduction of employee fraud may have an impact on decreasing business financial losses (Kramer, 2015). Therefore, the findings of this study may be of value to business leaders pursuing successful strategies to reduce occupational fraud and avoid financial losses.

Contribution to Business Practice

Small business leaders seek information to reduce occupational fraud in their organizations (Peltier-Rivest & Lanoue, 2015). The study may be significant to small business leaders because they may use the research findings to implement effective fraud reduction strategies thus attenuating their financial losses. The study's findings may inform managers designing their internal systems for limiting occupational fraud risk. Moreover, small business leaders can develop internal control standards, improve internal control policies, and increase profits.

Implications for Social Change

The findings of this study may contribute to social change by reducing crime and unemployment while fomenting an ethical environment and increasing the trust between community members. Fraud activities have a negative impact on communities because individuals could lose their businesses, jobs, and confidence in their institutions (Olaison & Meier, 2014). Furthermore, a high unemployment level increases crime activity (Speziale, 2014). In areas of high crime rate, individuals lose their trust in other community members, so they avoid starting new initiatives and organizations (Sloan et al., 2016). As such, a reduction in fraud activities may decrease unemployment and crime while promoting an ethical environment in the community.

Research Methodology

This study used qualitative methods. Researchers employ qualitative methods to learn more about a social issue (Bailey, 2014). Interviews with open-ended inquiries let researchers learn about people's perspectives (Makrakis & Kostoulos-Makrakis, 2016). This strategy is used to address how and why questions about social issues (Yin, 2014). Participants tell their stories so researchers can grasp their viewpoints on societal issues (Berger, 2015). This research wasn't testing theories, gathering data, or measuring variables, so quantitative and mixed techniques weren't applicable. Using qualitative research methods, the study investigated small restaurant owners' measures to decrease occupational fraud.

This research considers a multiple case study methodology to investigate small restaurant owners' tactics to prevent occupational fraud. Multiple case studies examine activities, processes, or behaviors in natural settings (Vohra, 2015; Yin, 2014). Interviews are used to collect data and compare situations (Dasgupta, 2015). Comparing a single case study to several case studies increases the robustness of research findings (Vohra, 2015).

Three small restaurant proprietors were interviewed in this study. They were chosen because they had experience implementing successful ways to prevent employee fraud, and so could answer the research question and reach data saturation. Participants were interviewed until no new codes or themes emerged. To improve data validity, participant information was compared to company documentation (e.g., personnel incident reports, insurance claims, and accounting record losses). So, data saturation and methodological triangulation was employed to support the study’s validity.

Population and Sampling

The study's participants were proprietors of three small eateries in San Juan, Puerto Rico, who had successfully reduced staff fraud. Participants were chosen based on suggestions from Certified Fraud Examiners (CFE) professionals in Puerto Rico. To verify their eligibility, participants were visited at their restaurants’ sites and confirmed that they had adopted successful techniques to decrease employee fraud. The study's purpose was described to participants until a minimum of three gave informed consent.

Purposeful sampling can discover participants with in-depth research knowledge (Moss et al., 2014). An ideal sample for a multiple case study is one that includes individuals who can best answer the research question and have a thorough grasp of the research topic (Marshall & Rossman, 2016; Robinson, 2014). Case studies necessitate planned rather than random sampling (Yin, 2014). In qualitative research, researchers utilize purposeful sampling to locate and select rich-information examples (Fusch & Ness, 2015). Choosing participants who have demonstrated effective measures to decrease occupational fraud and can answer the research question was appropriate for this study.

The sample size for this multiple case study was three small restaurant operators. To get a deeper grasp of the research issue, researchers should focus on the quality of data rather than quantity (Marshall & Rossman, 2016). Yin (2014) recommended a sample size of no more than ten for a multiple case study. Crocker et al. (2014) recommended a small sample in numerous case studies to obtain rich and detailed insights of participants' ideas. As previously said, participants were chosen based on CFE professionals' recommendations. The CFE experts advised participants who reduce employee fraud. Thus, the study's sample size of three small restaurant owners was appropriate due to their extensive experience of effective staff fraud prevention techniques.

The limited sample size of a qualitative study requires data saturation to establish the findings' validity (Fusch & Ness, 2015; Marshall & Rossman, 2016). In this study, the interviews of the three small restaurant owners were compared and analyzed with company papers linked to employee fraud. To ensure data saturation, this process continued until any new codes or themes emerged from the interviews and company documents.

Data Analysis

In this multiple case study, methodological triangulation was used for data analysis. In methodological triangulation, researchers compare multiple data sources to support research findings (Carter et al., 2014; Yin, 2014). In methodological triangulation, researchers could compare interview data, organizational documents, and published literature to enhance the study's conclusions (Wilson, 2016). Face-to-face semi structured interviews were performed and reviewed with company documents for data collection. Using methodological triangulation, data collected from participants' interviews were compared with company documents and published literature to enhance the validity and accuracy of the study.

Researchers should follow five steps to analyze data (Yin, 2014). These five steps include (a) compiling data, (b) dissembling data, (c) reassembling data, (d) interpreting data, and (e) reaching conclusions. Microsoft Word and Excel were used to code and analyze data collected from the interviews and documents. Using Microsoft Word, interviews were transcribed and identified patterns for a coding process (dissembling). With the use of a coding process, researchers could interpret specific details of participants' interviews to broader meanings and themes (Bernard et al., 2016; Yin, 2014). Using Microsoft Excel, data was coded by using colors and to identify common themes (reassembling). Besides, thematic analysis was applied as part of the sequential process of the data analysis. Researchers use thematic analysis to identify common themes to analyze data and support research findings (Vaismoradi et al., 2013).

After identifying common themes, data was compared with company documents and the published literature. In methodological triangulation, researchers could link interview data, organizational documents, and published literature to enhance data validity (Carter et al., 2014; Wilson, 2016; Yin, 2014). The identified themes were compared with company documents and published literature to support the validity of the findings. Researchers also should associate identified themes with the conceptual framework of the study (Borrego et al., 2014). By using the conceptual framework, researchers connect and analyze the study's findings with the literature (Borrego et al., 2014; Yin, 2014). The fraud triangle theory, discussed in the conceptual framework of this study, was used to analyze and interpret the meanings of the data collected. As a result, in the sequential process of the data analysis, interviews were transcribed, identified codes, searched for common themes, compared themes with company documents and literature, analyzed data with the conceptual framework, and issued an analysis report to support research findings.

Four themes emerged from data analysis. The themes identified were (a) an owner's monitoring is key to reducing employee fraud, (b) analytical procedures are effective tools to decrease occupational fraud, (c) segregation of duties minimizes employee fraud, and (d) communication with employees is essential to reduce fraud. The findings of this study revealed effective strategies that small restaurant owners can use to reduce employee fraud and their associated financial losses.

Presentation of the Findings

The central research question of this multiple case study was: What strategies do some small restaurant owners use to reduce occupational fraud? Face-to-face semi structured interviews with three small restaurant owners were conducted to understand what strategies are effective for reducing employee fraud. Through member checking participants validated the findings of the interview process to enhance data accuracy. Using Microsoft Word and Excel, interviews were transcribed, identified codes, and searched for common themes for data analysis. With the use of methodological triangulation, emergent themes were compared with company documents and published literature to support the validity and reliability of study's results.

The four themes that emerged from data analysis were (a) owner's monitoring is key to reducing employee fraud, (b) analytical procedures are effective tools to decrease occupational fraud, (c) segregation of duties minimizes fraud, and (d) communication with employees is essential to decrease fraud. The results of this study showed alignment with the elements of the conceptual framework of the fraud triangle. The findings from this research also aligned with studies discussed in the literature review.

Theme 1: Owner's Monitoring is Key to Reducing Employee Fraud

An owner's monitoring was the first theme that emerged from data analysis as a way to reduce employee fraud. All three participants mentioned that the owner's monitoring is an essential strategy to reduce occupational fraud because employees will observe that owners watch them and avoid committing fraud. The theme of owner's monitoring emerged 94 times from the interview data. Table 1 presents the frequency in which owner's monitoring was a topic of discussion during the interviews and the percentage of interview questions answered. Participant 2 discussed an owner's monitoring in all seven questions or 100% of the questions. Participant 1 and Participant 3 mentioned an owner's monitoring in six of the seven interview questions or 86% of the responses.

Table 1: Number of Times Owner's Monitoring Discussed

Questions where participants discussed an owner's monitoring	Times discussed	% of responses
Participant 1, Interview questions 1, 2, 3, 4, 6, 7	39	86%
Participant 2, Interview questions 1, 2, 3, 4, 5, 6, 7	25	100%
Participant 3, Interview questions 1, 2, 4, 5, 6, 7	30	86%

The owner's monitoring strategy ties to the conceptual framework of the fraud triangle. Specifically, this strategy aligns with the opportunity element of the fraud triangle. In this element, individuals analyze the viability in committing fraud without other individuals notice their wrongful acts (Schuchter & Levi, 2015). The opportunity element is the main driver of individuals in committing fraud (Schuchter & Levi, 2015). Business owners should monitor employees to limit the opportunity element of the fraud triangle (Lokanan, 2015; Schuchter & Levi, 2015). Participant 1 stated, "When you have the owner monitoring in the workplace, you basically eliminate the threat." Participant 3 noted, "Without owners monitoring, employees can tell that the owner is not watching us." Lokanan (2015) stated that the opportunity is the principal element in which business leaders have control to prevent the wrongful acts.

To implement this strategy, participants mentioned the use of cameras, internal audit of transactions, and use of family members to monitor employees. These implementation strategies to monitor employees align with the published literature (Boyle et al., 2015; Ding et al., 2015; Morales et al., 2014). In terms of cameras, the three participants use cameras and surveillance systems to monitor employees. Participant 1 noted, "Cameras are very effective because you know that employees are aware of cameras." Participant 2 also supported this implementation strategy and stated, "I use cameras in different areas. For example, I use a camera at the top of the cash register and another camera in the receiving area of merchandise." Morales et al. (2014) suggested a surveillance system to limit the opportunity element of individuals, so employees will perceive management monitoring a continuous activity. In small restaurants, Law and Kusant (2014) argued that business owners should use cameras as part of their internal control system to protect the cash and inventory.

As another implementation strategy of an owner's monitoring, participants articulated the use of internal audits of transactions. Specifically, participants suggested internal audits of purchasing and selling transactions. Participant 2 noted, "I continuously count and reconcile the inventory to ensure that you have the proper amounts and how your employees are using the inventory." Participant 3 mentioned, "We check what it is coming, purchasing, or selling and be sure that employees are putting them into the system." Using internal audits, employees perceive that management monitors them (Boyle et al., 2015). In this monitoring activity, managers will limit the opportunity element of the fraud triangle, so individuals restrain from committing wrongful acts (Boyle et al., 2015). Singh et al. (2013) also suggested internal audits to detect possible fraud activities or patterns of employees.

The three participants also mentioned the use of family members to implement the owner's monitoring strategy. Participant 1 mentioned, "When I, my father, or anyone of my family is working at the restaurant, I believe that this is the best way to prevent fraud." Participant 3 also supported this implementation strategy and mentioned, "When the workers see you or your family checking things every day, they know that you watch them." These findings align with a recent study of employee fraud in small businesses. Ding et al. (2015) suggested family-controlled monitoring to employees to minimize occupational fraud in small businesses. Small businesses controlled by the family had less employee fraud events than nonfamily-controlled businesses (Ding et al., 2015).

Theme 1 ties with the conceptual framework of the fraud triangle, the published literature, and recent studies of occupational fraud in small businesses. Using this strategy, business owners limit the opportunity element of the fraud triangle to restrain individuals from committing fraud (Lokanan, 2015; Schuchter & Levi, 2015). To implement the owner's monitoring strategy, participants suggested the use of cameras, internal audit of transactions, and use of family members to monitor employees and reduce fraud.

Theme 2: Analytical Procedures are Effective Tools to Decrease Fraud

A second theme that emerged from the data was analytical procedures as effective tools to decrease employee fraud. Analytical procedures consist of the process of comparing financial and nonfinancial data to identify unusual fluctuations or changes (Nia, 2015). All participants articulated that analytical procedures are effective tools to decrease employee fraud. Table 2 shows the frequency in which analytical procedures were a topic of discussion during the interviews and the percentage of interview questions answered.

Table 2: Number of Times Analytical Procedures Discussed

Questions where participants discussed analytical procedures	Times discussed	% of responses
Participant 1, Interview questions 1, 2, 4, 5	22	57%
Participant 2, Interview questions 1, 3, 4, 5, 6	25	71%
Participant 3, Interview questions 3, 5, 6,	17	43%

Participants mentioned analytical procedures to reduce employee fraud in the areas of inventory and sales transactions. The analytical procedures strategy to reduce employee fraud aligns with the published literature (Chen et al., 2014; Mangala & Kumari, 2015). For the inventory, all participants implemented this strategy by performing continuous physical counts and comparing quantities with accounting records to identify unusual differences. By performing inventory reconciliations, employees may restrain from committing fraud because managers could catch them (Chen et al., 2014). Halbouni et al. (2016) suggested to use analytical procedures in connection with accounting computer systems to detect unusual transactions or deviations. Participant 2 said, "I continuously reconcile the inventory with the system to ensure that I have the proper amounts and how my employees are using the inventory." Participant 1 noted, "If I have an inventory mismatch, then something happened." Participant 3 also mentioned, "An inventory check is effective because people working for you know that you are behind them every moment." By doing continuous reconciliations, business leaders may reduce employee fraud because employees will perceive that owners could detect their wrongful acts (Chen et al., 2014).

In the sales area, Participant 2 and Participant 3 implemented an analytical procedures strategy by performing a reasonableness test. Mangala and Kumari (2015) suggested reasonableness tests as a detective control to identify possible errors or wrongful acts. In this process, participants compared actual sales with the expected inventory consumption to generate those sales. If business owners do not attain their target profits based on estimated consumptions, the unexpected differences could indicate errors or possible fraud (Halbouni et al., 2016; Singh et al., 2013). Participant 3 said, "Sometimes employees give something for free to get better tips, and I make reasonableness tests to detect them." Participant 2 mentioned, "With this strategy, I identify those employees that do not charge some food or beverage and give them free to customers to get better tips." Using analytical procedures in the sales area, owners can timely detect employee fraud to reduce their financial losses.

Documents of accounting records provided by Participant 2 and Participant 3 showed annual average losses due to inventory shortages of $34,000 and $22,000, respectively. Participants (P2, P3) identified inventory shortages from the reconciliation process and recorded in the accounting system. In the United States, the annual average financial loss for occupational fraud in small businesses is $154,000 (Glodstein, 2015). As such, the average financial losses of participants were less than the average loss of small businesses, which supports the effectiveness of their strategy. Using analytical procedures, participants reduced their losses significantly in comparison with the average of small businesses.

The analytical procedures strategy ties to the conceptual framework of the fraud triangle. This strategy aligns with the rationalization and opportunity elements of the fraud triangle (Schuchter & Levi, 2015). In the rationalization element, individuals deliberate committing the wrongful acts for their needs instead of the needs of the others (Schuchter & Levi, 2015). All participants implied that employees might not charge items to customers to get better tips or steal inventory for their own benefit, which is consistent with the rationalization element (Schuchter & Levi, 2015). In terms of the opportunity element, employees analyze the possibility of committing fraud without other individuals noticing their acts (Schuchter & Levi, 2015). Analytical procedures are a useful strategy to reduce the opportunity element of employees to commit fraud (Chen et al., 2014). Employees will notice that managers could detect them by fluctuations and unusual transactions.

Theme 2 ties with the conceptual framework and the published literature as an effective business practice (Chen et al., 2014; Halbouni et al., 2016; Mangala & Kumari, 2015; Schuchter & Levi, 2015). By performing analytical procedures, business owners may limit the rationalization and opportunity elements of the fraud triangle to restrain employees in committing fraud (Schuchter & Levi, 2015). To implement analytical procedures strategy, participants suggested inventory reconciliations and reasonableness tests of sales to timely detect employee fraud and reduce financial losses.

Theme 3: Segregation of Duties Minimizes Employee Fraud

Data from interviews and business documents revealed segregation of duties as a useful strategy to minimize employee fraud. In segregation of duties, business owners separate responsibilities among different employees to ensure that an individual does not have total control over a transaction to commit and cover a fraud (Rose et al., 2015). All three participants mentioned that segregation of duties is a helpful strategy to minimize fraud. The theme of segregation of duties emerged 78 times from the interview data. Table 3 shows the frequency in which segregation of duties was a topic of discussion during the interviews and the percentage of interview questions answered.

Table 3: Number of Times Segregation of Duties Discussed

Questions where participants discussed segregation of duties	Times discussed	% of responses
Participant 1, Interview questions 1, 3, 4, 5, 6	34	71%
Participant 2, Interview questions 1, 2, 4, 7	20	57%
Participant 3, Interview questions 1, 2, 3, 5, 6, 7	24	86%

Participants mentioned segregation of duties to minimize employee fraud mainly in the areas of the cash register and sales transactions. The strategy of segregation of duties aligns with the published literature as an effective mechanism to minimize occupational fraud (Andon et al., 2015; Imoniana et al., 2016; Rose et al., 2015). Managers should segregate the authorization of a transaction, the recording of a transaction, and the custody of assets among different employees (Andon et al., 2015; Rose et al., 2015). In the cash register, all participants mentioned that only one employee handles the cash to minimize employee fraud. To implement this strategy, Participant 1 and Participant 2 mentioned that waiters' record sales orders in the system, but a different employee handles the cash register. Participant 1 mentioned, "One employee handles the cash register to avoid that waiters steal cash." Participant 2 noted, "A good strategy is that only one person collect the cash in the restaurant." By segregating responsibilities among different employees, business owners will ensure that an individual does not have total control over a transaction to commit fraud (Rose et al., 2015).

In sales transactions, Participant 1 and Participant 3 implemented the segregation of duties strategy by assigning to one person the authorization of sales discounts and cancellations to reduce fraud. Participants (P1, P3) mentioned that usually the owner or a manager authorizes a sales discount or cancellation in the system. Participant 3 explained that sometimes a customer tells a waiter to keep the change of a ticket as a tip, and the employee goes back to the system to cancel the order or give a sales discount in order to receive a higher tip and commit fraud. Participant 1 stated, "I only could authorize cancellations in the system, so I could ask employees the reasons for the cancellations." By using segregation of duties in sales transactions, Participant 1 and Participant 3 articulated that it minimizes unrecorded sales and misuse of inventory. Rose et al. (2015) and Imoniana et al. (2016) stated that an adequate segregation of duties is a useful strategy to decrease fraud because employees will not have total control over a transaction to commit and cover their wrongful acts.

Documents of personnel provided by Participant 1 and Participant 3 revealed employees' job descriptions and procedures manuals that support the segregation of duties strategy. Internal memos and communications of Participant 1 also showed reminders to employees about the authorization process of sales discounts and cancellations. The findings of company documents to implement the segregation of duties strategy aligns with published literature (Laxman et al., 2014). Business leaders should have an adequate organizational structure, assignment of authority and responsibility, and human resources policies to reduce occupational fraud (Laxman et al., 2014). By having an adequate segregation of duties, Laxman et al. (2014) stated that business leaders influence the conscience of the employees to reduce fraud risk.

Segregation of duties strategy also ties to the conceptual framework of the fraud triangle. Schuchter and Levi (2015) argued that an adequate segregation of duties is useful to limit the financial pressure and opportunity elements of employees. If an employee has a financial pressure, the individual will avoid committing fraud by perceiving an adequate segregation of duties. Individuals will perceive that other employees may discover the fraud (Schuchter & Levi, 2015). By having adequate segregation of duties, managers will prevent employees from committing fraud because individuals will not control the entire process of a transaction.

Theme 3 aligns with the published literature and the conceptual framework (Andon et al., 2015; Imoniana et al., 2016; Rose et al., 2015; Schuchter & Levi, 2015). By establishing an adequate segregation of duties, business leaders may limit the financial pressure and opportunity elements of the fraud triangle to prevent employee fraud (Schuchter & Levi, 2015). Participants mainly suggested an adequate segregation of duties for the cash register, sales discounts, and cancellation of sales transactions to reduce misappropriation of cash, unrecorded sales, and misuse of inventory. Business documents also revealed the use of employee job descriptions, procedures manuals, and internal memos to implement segregation of duties strategy.

Theme 4: Communication with Employees is Essential to Reduce Fraud

Business documents and interview data showed that effective communication with employees is an essential strategy to reduce employee fraud. Effective communication with employees is essential to promote an ethical culture and reduce fraud (Halbouni et al., 2016). All three participants articulated that communication is an essential strategy to minimize fraud. The theme of communication with employees emerged 63 times from the interview data. Table 4 shows the frequency in which communication with employees was a topic of discussion during the interviews and the percentage of interview questions answered.

Table 4: Number of Times Communication Discussed

Questions where participants discussed communication	Times discussed	% of responses
Participant 1, Interview questions 4, 5, 6	27	43%
Participant 2, Interview questions 4, 5, 6, 7	16	57%
Participant 3, Interview questions 3, 4, 5, 6, 7	20	71%

Participants articulated that communication is an essential strategy to decrease fraud by notifying employees about new control strategies and informing employees about organizational policies and procedures. The strategy of communication aligns with the published literature (McMahon et al., 2016; Moritz, 2016; Rendon & Rendon, 2016). McMahon et al. (2016) stated that business leaders must communicate to employees about the expected organizational standards, behaviors, and policies in order to minimize occupational fraud.

Participants (P1, P2) mentioned that they notify employees about the implementation of every new fraud reduction strategy, so individuals notice new internal controls and management monitoring. Participant 2 mentioned, “For example, I communicate with them about a new camera or a new measurement instrument of liquor in the bar area for the best control.” Participant 1 stated, “If I tell the employee that a new camera is installed, you know that they will not commit fraud.” By communicating new control strategies, employees will perceive that management monitors them (Schuchter & Levi, 2015). By using effective communication, Moritz (2016) stated that management reinforces the importance of ethical behaviors and actions to their employees.

Personnel documents provided by Participant 1 and Participant 2 also revealed internal memos and employees’ procedures manuals that support the communication strategy to minimize employee fraud. Participants (P1, P2) mentioned the use of written communication for procedure manuals, policies, and employee memos to minimize wrongful acts. Participant 2 stated, “Employees receive written instructions of rules or a memo of situations.” Participant 1 mentioned, “Employees have to sign the receipt of memos, so they will not have an excuse in a future event.” Business leaders should have an effective communication of human resources policies and procedures to reduce fraud (Laxman et al., 2014). By having written communication of policies and procedures, business owners promote commitment to employee integrity and ethical behaviors in the organization (Rendon & Rendon, 2016).

Effective communication with employees to reduce fraud also ties to the conceptual framework of the fraud triangle (Schuchter & Levi, 2015). Effective communication is useful to limit the rationalization and opportunity elements. With an adequate communication of policies and procedures to employees, business owners promote an ethical environment to prevent the employee’s rationalization element of the fraud triangle to commit fraud (Rodgers et al., 2014). By communicating to employees about the implementation of new fraud reduction strategies, business owners will limit the opportunity of employees to commit fraud because individuals will perceive that management watches those (Schuchter & Levi, 2015). Effective communication with employees about policies and procedures is essential to promote an ethical environment and reduce fraud.

Theme 4 aligns with the conceptual framework and the published literature as an effective business practice (McMahon et al., 2016; Moritz, 2016; Rendon & Rendon, 2016; Schuchter & Levi, 2015). With effective communication with employees, business leaders may limit the rationalization and opportunity elements of the fraud triangle theory in minimizing fraud (Rodgers et al., 2014; Schuchter & Levi, 2015). For effective communication with employees, participants suggested written communication of policies, procedure manuals, and employee memos. Participants also suggested to informing employees about new control strategies, so that individuals will know that management monitors them and be reluctant to commit fraud.

Applications to Professional Practice

Employee fraud is a global corporate issue that reduces profitability (Morales et al., 2014). Small business owners are more vulnerable to occupational fraud than large firm owners due to a lack of control techniques (Hess & Cottrell, 2016). Law and Kusant (2014) found that small restaurant operators lack internal procedures to prevent fraud. Small business owners want to know how to reduce employee fraud (Peltier-Rivest & Lanoue, 2015). This study's findings contain useful information and practical recommendations for reducing employee fraud. This study may help other small restaurant owners reduce fraud in their operations.

The study's findings provide concrete tips for small restaurant operators to reduce staff fraud. This study presents four alternative fraud reduction tactics. Internal control measures include owner monitoring, analytical methods, segregation of roles, and good communication with staff. According to Law and Kusant (2014), small restaurant owners must implement appropriate controls to limit fraud risk. It also explained how to execute these tactics, so small restaurant owners can use this information to set up their internal control system. Using the study's findings, small business owners can enhance internal control policies and standards to reduce fraud risk.

Applying research findings to business procedures may help small restaurant operators reduce staff fraud losses. Compared to the average small firm, participants' financial losses from fraud were dramatically decreased. SMBs should implement efficient controls to avoid financial losses connected with occupational fraud, says Glodstein (2015). Using the study's findings, business owners can implement effective controls to reduce employee fraud and the corresponding financial losses.

Implications for Social Change

This study's findings may help reduce crime and unemployment while fostering an ethical environment and enhancing community trust. According to Olaison and Meier (2014), fraud damages communities by costing people their companies, jobs, and trust in institutions. According to Speziale (2014), company bankruptcies and significant unemployment promote crime. Reducing fraud may benefit the community by lowering unemployment and crime rates while increasing community safety and ethics. Sloan et al. (2016) claim that people lose trust in others in high-crime locations. Due to crime, people hesitate launching new businesses and groups (Sloan et al., 2016). The study's successful fraud reduction tactics may have good social ramifications by lowering fraud, company failures, unemployment, and criminality while increasing community trust in institutions. Individuals can collaborate to better society by decreasing fraud and fostering an ethical atmosphere.

Conclusion and Recommendations

The purpose of this qualitative multiple case study was to explore the strategies used by some business owners of small restaurants to reduce occupational fraud. The findings of this study indicated four strategies to reduce employee fraud, (a) owner's monitoring, (b) analytical procedures, (c) segregation of duties, and (d) effective communication with employees. Participants indicated significant elements that business owners should consider to implement these strategies. The use of surveillance systems, internal audits, and family members are essential elements to implement an effective owner's monitoring. Participants also noted the implementation of analytical procedures and an adequate segregation of duties for cash, inventory, and sales transactions. For the communication strategy, owners may consider written policies, procedure manuals, and internal memos. Employee fraud is a continuous business risk affecting organization's profitability. The results of this study may provide valuable knowledge for small business leaders to implement fraud reduction strategies in their control systems and minimize financial losses associated with fraud. Business leaders may effectively reduce this business risk while promoting organizational profitability and success. By using the findings of this study, business leaders and professionals may reduce occupational fraud, increase profits, and promote trust among community members to positively improve the society as a whole.

Recommendations for Further Research

This qualitative multiple case research examined various small restaurant owners' measures to decrease occupational fraud. This study gathered information from three small restaurant owners in San Juan, Puerto Rico. Qualitative study findings may not applicable to other geographic or cultural contexts. Future research should incorporate both qualitative and quantitative studies to explore and validate the techniques proposed in this qualitative study.

Findings from qualitative study conducted in other locations or cultures may help prevent employee fraud. As a result, a recommendation is to perform comparable studies in other regions. Another recommendation is to perform comparable qualitative investigations in communities recently hit by natural disasters. Participants in this study's geographical area suffered a category 4 hurricane 4 months prior to data collection. During interviews, people mentioned this natural tragedy. As a result, future research may examine how small business owners in disaster zones decrease employee fraud.

This study's implementation solutions to prevent occupational fraud may be examined and verified quantitatively. Participants identified surveillance systems, internal audits, inventory reconciliations, segregation of roles, and process manuals as measures to decrease fraud. So, performing future quantitative research may assess the effectiveness of these implementation tactics and other aspects that may help reduce employee fraud.

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