

**INFLUENCE OF RISK ASSESSMENT ON PERCEPTIONS OF CONTRACT  
NEGOTIATION AND FRAUD PREVENTION**

by

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## Abstract

As fraudulent schemes continue to impact small businesses, increased awareness of fraud is needed to identify areas of weakness where prevention measures are appropriate. This study added to the understanding of fraud in small businesses by exploring risk assessment perceptions in the planning cycle of a project within the construction industry. The research focused on these perceptions and how they influence contract negotiation procedures and fraud prevention measures. Exploring the perceptions of owners and managers added to the understanding of fraud risks within this group. Risk assessment identifies areas of weakness where internal controls are needed to prevent fraudulent schemes. In circumstances where strategic planning is essential, such as contract negotiations, it is crucial to ensure owners and managers carried out risk assessments to minimize fraud. This study addresses the literature gap by exploring perceptions of individuals in small to medium-sized enterprises where internal controls are limited. This phenomenological qualitative research method examined 12 owners' and managers' perceptions to contribute knowledge concerning the research questions: What are owners' and managers' perceptions of and attitudes toward fraud prevention? How does risk assessment influence small to medium sized enterprises (SMEs) contract negotiation procedures? How does risk assessment influence SMEs' fraud prevention measures? Data was collected through semi-structured, face-to-face interviews and analyzed by identifying themes from participant responses. Four themes were identified from participant responses and included governance, strategic planning, fraud prevention, and policies and procedures. The study's results identified a lack of risk assessment in the planning stage of a project cycle and reliance on previous experience in the field. The study contributes to the literature on fraud prevention and avenues for owners and managers to apply risk assessment to increase internal controls.

## **Dedication**

I dedicate this dissertation to my family. To my husband, Luke, thank you for believing in me every step of the way. I am so grateful for your constant love and support throughout this journey. Thank you to my daughter for your patience, love, and sweet spirit. I appreciate all the times you waited for me to finish reading, writing, or editing one more page. To all my family who cheered for me along the way, I sincerely thank you.

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## CHAPTER 1. INTRODUCTION

Small to medium-sized enterprises (SMEs) have a substantive economic contribution to the U.S. economy with 28.8 million small businesses, constituting 99.7% of all U.S. businesses and 48% of U.S. employees (SBA, 2018). The construction industry contributed \$840 billion in U.S. gross domestic product (GDP) in 2018 (Associated General Contractors of America, 2019) and over 4.5 million in small business employment (SBA, 2018). Small businesses reported experiencing 28% of all fraud cases and suffer disproportionate losses compared to larger organizations (ACFE, 2018; Kramer, 2013), accounting for thirty percent of business failures (Andoh et al., 2018). The Association of Certified Fraud Examiners (ACFE) 2018 *Report to the Nations* listed the construction industry as fifth in highest median fraud losses, totaling \$227,000.

The global financial crisis of 2008 triggered economic and non-economic costs on society, calling for accounting research to make real contributions to the accounting profession (Wilkinson & Durden, 2015). Studies suggest future accounting research should encompass the effectiveness of governance related to risk management and internal control policies (Halbouni et al., 2016). Ineffective information and guidelines of risks within an organization have the potential to result in poor decision-making related to sources of risk (Elshandidy et al., 2018), calling for increased attention to the effects of risk assessment on organizational objectives (Rendon & Rendon, 2016). Gunduz and Önder (2013) emphasized the need for improvement opportunities related to the mitigation of internal fraud risks within the construction industry.

Risk assessment examines opportunities for fraud and necessitates consideration of external environment changes (Oluwatoyin Muse et al., 2015). Contract negotiation procedures include negotiable for diverse project applications and require a complete assessment of each condition's risk placed upon a contractual obligation (Chi & Mackay, 2015). Fraud prevention

efforts implement appropriate controls to mitigate opportunities for fraud (Rayaan et al., 2016). Research of fraud produces increased awareness of deceptive schemes and related conditions to combat better fraudulent activity (Gates et al., 2016). Managers often underestimate fraud within organizations due to ineffective internal control processes (Patterson et al., 2018). Employee fraud relates to a lack of internal controls, inadequate knowledge regarding fraud, and individual ethics (Omar et al., 2016). Continuing research using diverse methods is one avenue that may assist in a better understanding of fraud and fraud prevention (Anand et al., 2015).

### **Background of the Study**

Fraud is one of the most prominent challenges for businesses (Halbouni et al., 2016). Fraud losses within the construction sector accounted for \$340 billion of construction costs (Le et al., 2014). SMEs reported experiencing the highest percentage of all fraud cases (ACFE, 2018). They suffer disproportionate losses compared to larger organizations (Kramer, 2013) due to a lack of resources to implement adequate oversight and control procedures to prevent employee misconduct (Omar et al., 2016). The most common types of fraud schemes in small businesses were employee skimming and expense reimbursement, billing schemes, corruption, and check tampering (ACFE, 2018). Small and medium-sized companies have primary responsibility in developing and implementing internal controls and procedures in the workplace to oversee organizational processes (Kennedy, 2017). Anti-fraud processes and controls, policies and procedures, and monitoring are fundamental in mitigating fraud (Mangala & Kumari, 2017). They are vital to the sustainability of organizations (Halbouni et al., 2016).

Ineffective leadership and decision-making skills lead to fraud schemes (Yogi, 2016). Fraud occurs when an employee misuses their position to gain personal benefits (ACFE, 2018) through deliberate deception of an organization's resources (Glodstein, 2015). Effective methods

to detect and prevent fraud are needed and should include reviewing and improving internal controls, ethics, and agreements with suppliers and contractors (Zamzami et al., 2016). Fraud impacts organizations financially and non-financially through effects on stakeholders, investor confidence, and society (Mangala & Kumari, 2017).

Competition in contract negotiations is an essential factor in assessing contract performance to minimize risks (Feng & Lu, 2013). Risk management processes that use pre-defined checklists of contract risks support effective contract management (Schuhmann & Eichhorn, 2017). Organizations have the freedom to choose negotiation partners and accept or reject contractual obligations (Pinteala, 2015). Also, guidelines overseeing negotiating procedures for contractual agreements mitigate the risks of unfavorable gaps in contract obligations (Palanisamy et al., 2015). Risk guidelines help identify potential gaps in contractual agreements to mitigate undue advantages that may put a firm at a disadvantage (Feng & Lu, 2013; Schuhmann & Eichhorn, 2017).

Risk assessment encompasses the evaluation of controls, governance, and employees. However, the type of risks differs among industries and requires different preventive actions (Mohd-Nassir et al., 2016). Researchers highlight the need to examine risk judgments with entity-level and process-level risks (Premuroso & Houmes, 2012). Risk assessment identifies areas to improve management responsibilities, records, and facilitate traceability (Dai & Chen, 2014). Fraud risk assessment should encompass fraud models and staff capabilities to act upon opportunities to commit fraud (Boyle et al., 2015), calling attention to management influence on fraud risk assessments (Want & Fargher, 2017). Qualitative research attempts to understand a phenomenon by evaluating participants' lived experiences (Merriam & Tisdell, 2016) by collecting data in the population's natural environment (Creswell, 2014). Research surrounding

fraud in construction is an emerging topic of interest with global implications (Le et al., 2014). The discussion with owners and managers regarding the influence of risk assessment on the perception of contract negotiation and fraud prevention assisted in understanding the processes performed within smaller organizations.

The construction industry is one of the riskiest sectors to fall victim to fraud due to complex cost structures and frequent use of third-party contract relationships (Fauzi et al., 2019). Further, employee fraud within the construction industry is attributable to preliminary design and estimates of projects, fictitious contractual obligations, and unreal documentation (Zhunisbekov, 2018). Lack of adequate monitoring mechanisms and control procedures inflate project costs and exceed budget expectations (Osei-Tutu et al., 2010). Fraud prevention measures, including appropriate oversight processes and effective internal control procedures, have been identified as a cost of doing business, putting smaller firms at a disadvantage and risk for failure (N'Guilla et al., 2018).

The research found internal controls and the ethical focus of management as the most effective safeguards in protecting the organization from fraud (Fauzi et al., 2019). However, small businesses are more vulnerable to fraud schemes due to a lack of internal controls and anti-fraud processes (ACFE, 2018). Researchers posit the assessment of risks in business operations and employee responsibilities assists in the early identification of potential fraud schemes (Oluwatoyin Muse et al., 2015; Rendon & Rendon, 2016). The research found the continuous review of risks within the construction industry is necessary due to the widely varied requirements of projects (Chi & Mackay, 2015). Also, changing environments and remote job sites present difficulties in formulating effective control procedures (DeStefano & Miller, 2013). Continued fraud reports in small businesses are attributable to a lack of oversight and weak

internal controls (Khairul et al., 2016). Research findings are consistent in identifying the lack of internal controls and appropriate management as potential fraud indicators. However, it is uncertain whether a preliminary evaluation of risk in pre-project planning and project administration is a tool to implement proper controls and oversight. The phenomenon of fraud within a small business, specifically the construction industry, was of interest, so fraud prevention procedures apply to organizations with continually changing and diverse environments. Fraud theory assists in understanding this phenomenon and the conditions and explanations for fraud. Self-governed project administration in changing settings facilitates opportunities for fraud through deficiencies in appropriate checks and balances and oversight functions. Fraud theory recognizes specific conditions that enable fraudulent behavior comprised of all schemes (Cressey, 1950). In this industry, the perceptions of fraud in this ever-changing environment help to understand the phenomenon of fraud in this industry and gaps in oversight and controls. Previous research using fraud theory explored the primary conditions of fraud and the impacts on organizational operations (Albrecht et al., 2016). The use of fraud theory in exploring perceptions and attitudes of fraud within a small business helps understand participants' lived experience and how this relates to fraud's primary conditions.

### **Need for the Study**

Studies found small organizations to be at an increased risk for employee fraud than larger organizations due to inadequate control policies and employees' monitoring (Omar et al., 2016). Specifically, within the construction industry, 42% of all fraud schemes resulted from employee corruption (ACFE, 2018). Risks related to contract negotiation proceedings include employee misconduct in the form of kickbacks, bid-rigging, embezzlement, or purchasing schemes (Rendon & Rendon, 2016). Research findings underscore the importance of assessing

risk to effectively manage uncertainty and mitigate opportunities for fraud (Renault et al., 2018). Additionally, research on risk assessment within small businesses is minimal, given their substantive economic contribution (Renault et al., 2018). It is unclear whether small business owners' awareness of risk assessment influences contracts negotiation procedures to prevent opportunities for fraud. Further, it is uncertain if the evaluation of risks in pre-project planning and negotiation procedures helps develop appropriate internal control procedures and monitoring mechanisms. Studies suggest that additional research on fraud in small businesses should focus on limited resources and how these impact fraud schemes (Kramer, 2013).

Fraud is any dishonest act against an organization and includes financial statement fraud, asset misappropriation, and corruption (Johansson & Carey, 2016). Small to medium-sized businesses experience the highest percentage of all fraud cases and suffer disproportionate losses compared to larger organizations (Kramer, 2013), accounting for thirty percent of business failures (Andoh et al., 2018). Risk assessment identifies potential exposures to fraud (Oluwatoyin Muse et al., 2015) by evaluating risk factors of incentives, opportunities, and rationalizations (Johnson Popoola et al., 2016). Evaluation of risk relies upon professional judgments and the ability to ask probing questions (Bik & Hooghiemstra, 2018). Contract negotiation procedures provide cost savings benefits, streamlined processes, and risk mitigation (Chi & Mackay, 2015). Effective project planning incorporates risk mitigation through appropriate policies and procedures that impact both contract negotiations and budget considerations (Pinto et al., 2015; Shang & Yang, 2015). Fraud prevention establishes internal policies, procedures, and governance structures significant in mitigating fraud occurrences (Kamaliah et al., 2018; Rayaana et al., 2016). Additionally, anti-fraud processes and controls, oversight functions, and a culture of honesty and high integrity support the prevention of fraud



schemes in organizations (N'Guilla et al., 2018). Although research has found specific procedures that assist in the overall deterrence of fraud (Albrecht et al., 2016), the occurrence of fraud schemes in small businesses persists due to a lack of appropriate control procedures (ACFE, 2018; Kramer, 2013). Further, risk assessment evaluates the efficiency and effectiveness of control processes and vulnerabilities to fraud in business operations (Oluwatoyin Muse et al., 2015). However, risk assessment on owners' and managers' perception of contract negotiation and its impact on fraud prevention is unclear.

### **Purpose of the Study**

The purpose of this qualitative inquiry using the phenomenology method was to explore owners and managers of construction companies' perception of fraud prevention and how this influenced risk assessment and contract negotiation procedures. The researcher explored SMEs in a specific state in the Midwest region to understand the perceptions related to risks in the construction industry. Fraud impacts organizations financially and non-financially through effects on stakeholders, investor confidence, and society (Mangala & Kumari, 2017). Research of fraud, including the types, frequency, and impact on businesses, increases awareness of fraud schemes and related causes to combat fraudulent activity (Gates et al., 2016; Kramer, 2013). Understanding fraud helps organizations make significant advancements in prevention strategies and better understand the nature and extent of fraud (ACFE, 2018). Continued research using diverse methods better assists in understanding fraud and fraud prevention (Anand et al., 2015).

Internal control weaknesses, including lack of oversight, improper record-keeping, and lack of organizational policies and guidelines, contribute to fraud (Khairul et al., 2016). Fraud surveys found small businesses as the most vulnerable to fraud (ACFE, 2018). Small companies suffer disproportionate losses compared to larger organizations from weak or missing internal

controls (Kramer, 2013). Lack of resources to implement efficient controls to prevent fraud causes businesses to be more susceptible to fraud (Omar et al., 2016). Therefore, the study contributed to fraud prevention's practical application related to risk assessment and contract negotiation procedures.

### **Significance of the Study**

Fraud is the intentional deception or misuse of a position of trust for individual gain (Albrecht et al., 2016). Fraud prevention efforts are more effective and less expensive than fraud detection efforts (Abdullahi & Mansor, 2015). Research suggests the prevention of employee fraud and the mitigation of damaging effects on small businesses' viability requires an understanding of how fraud affects organizations (Kramer, 2013). Understanding perceptions of fraud prevention enhanced the overall importance of risk assessment and control procedures within small businesses and how it is related to the policies and guidelines outlined in contract negotiations.

The significance of fraud in small businesses is substantial and directly related to the controls overseeing business functions (N'Guilla et al., 2018). Risk assessment has been vital in developing control activities and procedures that manage administrative proceedings (Renault et al., 2018). Also, small business failures directly result from internal corruption and employee dishonesty (Omar et al., 2016). Further, specific control measures and oversight functions related to contract negotiations link to a project's success and the mitigation of risks (Renault et al., 2018). Understanding the influence of risk assessment on control procedures and monitoring mechanisms specific to contract negotiations helped in understanding the impact these factors have on fraud prevention. Therefore, research emphasizing the mitigation of fraud within organizations substantiates further review of preventive measures in various areas.

Research related to large organizations' fraud schemes over the past 20 years has been extensive (Free, 2015). Moreover, the study explicitly identified small businesses as a target for fraud schemes and the demand for awareness as imperative to surviving fraud losses (Kramer, 2013). Collusion has been the primary element of many fraud schemes experienced by large organizations (Dorminey et al., 2012; Free, 2015). Additionally, research on improper accounting for large organizations' construction contracts exists (Dugar & Gujarathi, 2018). Although extensive research on fraud schemes in large organizations exists, small businesses have been mainly neglected (Kramer, 2013). Understanding perceptions of risk assessment in SMEs assisted in identifying opportunities for fraud and prevention measures.

The research study explored perceptions of and attitudes towards fraud prevention and how this influences risk assessment and contract negotiation procedures. The research is beneficial to accounting research by providing an additional understanding of risk assessment and control procedures. Small businesses contribute to almost half of all U.S. employment and over 4.5 million employees within the construction industry (U.S. Small Business Administration, 2018). Exploring small companies in the construction industry contributes to similar organizations by identifying gaps in risk assessment and controls. Given the large number of contract negotiations undergone by businesses in the construction industry, management of conflicts of interest and other critical factors such as change order controls, appropriate pre-project planning, and project administration procedures are essential (Renault et al., 2018).

A significant risk for employee fraud is in small organizations (Omar et al., 2016). In addition, considerable proportions of corruption schemes exist in the construction industry (ACFE, 2018). Complex cost allocations within the construction industry present difficulties

implementing control procedures (López-Alonso et al., 2016). Gunduz and Önder (2013) emphasized the need to improve the mitigation of internal fraud risks within the construction industry, including effective governance, control procedures, and anti-fraud processes. Exploring SME owners' and managers' perceptions in the construction industry helped identify areas to implement more effective strategies for preventing fraud.

Small businesses within the U.S. constitutes 99.7% of U.S. businesses, 48% of U.S. employees, and 82.7% of the construction industry (U.S. Small Business Administration, 2018). Small companies have primary responsibility in developing and implementing rules and procedures to oversee employee processes (Kennedy, 2017). The research study helped identify gaps in the assessment of risk and implementation of controls over contract negotiation procedures.

### **Research Question**

Research related to the types and impact of fraud in small businesses is deficient (Kramer, 2013), calling attention to the significance of fraud prevention measures in SMEs in the construction industry related to risk assessment of contract negotiation procedures. Small and Medium-Sized Enterprises (SMEs) face significant risks to fraud schemes due to a lack of controls overseeing business processes (ACFE, 2018). Governance within an organization reinforces the importance of risk management and oversight responsibilities to achieve organizational goals (Committee of Sponsoring Organizations of the Treadway Commission, 2017). The Sustainability Accounting Standards Board (SASB) provides industry-specific standards for topics, including governance, to provide relevant and reliable information for continued sustainability (Sustainability Accounting Standards Board, 2014). In addition, COSO developed an *Enterprise Risk Management-Integrated Framework* for assessing risk to reduce

possibilities of unfavorable outcomes and strengthen oversight (Committee of Sponsoring Organizations of the Treadway Commission, 2017).

“Qualitative researchers are interested in understanding how people interpret their experiences, how they construct their worlds, and what meaning they attribute to their experiences” (Merriam & Tisdell, 2016, p. 6). Characteristics of qualitative research include collecting data in the natural environment of the population, the researcher as a primary instrument in collecting data, and the use of multiple data sources (Creswell, 2014). In an effort to understand the perception of risk assessment and influence on contract negotiation procedures and fraud prevention in construction companies, the following research questions were used to guide the study:

### **Research Question**

RQ1: What are owners and managers of construction companies’ perceptions of and attitudes toward fraud prevention?

### **Subquestions**

RQa: How does risk assessment influence SMEs' contract negotiation procedures?

RQb: How does risk assessment influence SMEs' fraud prevention measures?

### **Definition of Terms**

*Risk assessment.* Risk assessment evaluates governance, controls, and opportunities for fraud (Fortvingler & Szívós, 2016). Types of risks differ among industries and require different preventive actions (Mohd-Nassir et al., 2016). Risk assessment encompasses five indicators, including goal setting at the entity-level and activity-level, risk identification and analysis, and managing risk during change periods (Vitayanti & Nini, 2017). Risk assessment analyzes

potential risks associated with organizational goals and how these risks will be managed and controlled (Bharaditya et al., 2017).

*Contract negotiation.* Contract negotiation is an agreement to conditions between two or more parties (Shang & Yang, 2015). Contract negotiations set the framework for how risks may occur, are managed and shared between supply chain partners (Eckerd & Girth, 2017). Risk aversion in contract negotiation has substantial effects on the parameters and earning potential (Shang & Yang, 2015). Procurement fraud specific to the contract negotiation process includes bribery risks, conflicts of interest, embezzlement, and kickbacks (Rendon & Rendon, 2016).

*Fraud.* Fraud is an intentional act of dishonesty against an organization (Johansson & Carey, 2016). An employee misuses their position to gain personal benefits (ACFE, 2018) through deliberate deception of an organization's resources (Glodstein, 2015). *Fraud prevention* is anti-fraud measures to proactively mitigate the risk of fraud opportunities (Mangala & Kumari, 2017).

*Internal controls.* Internal controls direct the organization's policies and procedures to achieve organizational objectives (Zakaria et al., 2016). Control systems provide an efficient and effective function to business processes and inform research with established frameworks.

*Small to medium-sized enterprises (SMEs).* SMEs are firms that employ fewer than 500 employees (U.S. International Trade Commission).

*Association of Certified Fraud Examiners (ACFE).* The ACFE is a global anti-fraud organization that aids professional members in training, detecting, and deterring fraud (ACFE, 2018).

## **Research Design**

The research study employed a qualitative inquiry using phenomenology to explore fraud prevention perceptions in owners and managers of construction companies and the influence on risk assessment and contract negotiation. A qualitative approach explored the perceptions of owners and managers using purposive sampling of construction enterprises. A phenomenological study is used to explore participants' lived experiences to understand the phenomenon's essence and defining characteristics (Merriam & Tisdell, 2016). Qualitative studies require the researcher to immerse themselves as part of the study, acting as a research instrument (Erlingsson & Brysiewicz, 2013). Exploring perceptions of risk assessment using phenomenology assisted in understanding the influence these perceptions have on contract negotiation procedures and fraud prevention. Phenomenology focuses on the experience itself and how it transforms into understanding the phenomenon (Merriam & Tisdell, 2016).

A sample size based on what would be required to reach saturation depends upon the type of information derived from the sample. Further, purposive sampling is the most appropriate means for sampling when specialized experience and competence specific to the research topic is needed (Merriam & Tisdell, 2016). Relevant information from a sample decreases the required sample size to reach adequate saturation (Fusch & Ness, 2015; Malterud et al., 2016). Further, the highly relevant information is through a small number of interviewees' selective choice and a clearly defined topic of research (Cleary et al., 2014; Turner, 2010).

## **Assumptions and Limitations**

### **Assumptions**

Qualitative research explores the meaning and specific assumptions individuals give to a phenomenon (Creswell, 2014; Merriam & Tisdell, 2016). The research study focused on

exploring the perception and experience of participants to understand and summarize the findings. Assumptions of the analysis included the participant's responses being truthful and independent from another participant's lived experience. Also, it was assumed participants clearly understand the interview questions. However, the research study developed as data was collected, and interview questions varied depending upon each interview to elicit participant views and opinions (Creswell, 2014). The researcher brackets personal bias and assumptions upon initiation of the research proposal through the process of epoche (Chan et al., 2013).

Additionally, fraud prevention methods of contract negotiation procedures for small businesses assume owners and managers are aware of potential losses. Larger companies have greater resources to prevent and detect fraud by implementing controls (Kramer, 2013). Assumptions for the study are that small businesses have limited resources to implement appropriate controls. Additionally, the analysis assumes small businesses have a baseline understanding of risk assessment and subsequent controls overseeing business processes.

### **Limitations**

Limitations included the amount of time and labor invested in interviewing participants (Merriam & Tisdell, 2016). Also, the presence of the researcher may have altered the responses of participants (Creswell, 2014). Further, if the researcher is not comfortable asking questions and thinking inductively, qualitative research may prove difficult in researching a phenomenon (Merriam & Tisdell, 2016). Further, limitations may exist within SME budgets to implement appropriate controls for fraud prevention.

### **Conceptual Framework**

A theoretical framework supports a theory and embodies relevant constructs with clear interconnections illustrated using a conceptual model (Sekaran & Bougie, 2016). This study's



conceptual framework emerged from fraud theory and the constructs of risk assessment, internal controls, governance, and fraud.

Risk assessment evaluates governance, controls, and opportunities for fraud (Fortvingler & Szívós, 2016). Types of risks differ among industries and require different preventive actions (Mohd-Nassir et al., 2016). The presence of competition and contract negotiation signifies the importance of assessing risk (Feng & Lu, 2013). Optimizing risk management processes through pre-defined checklists of contract risk align contract management processes to support risk management systems (Schuhmann & Eichhorn, 2017).

Internal controls direct the organization's policies and procedures to achieve organizational objectives (Zakaria et al., 2016). Control systems provide efficient and practical functions to business processes and inform research with established frameworks. Additionally, internal controls are a critical component of organizational processes and effective governance structures (Bharaditya et al., 2017). The absence of efficient controls over business processes causes organizations to be more susceptible to fraud (Omar et al., 2016).

Governance represents the oversight of an organization and its primary leaders. Governance embodies the standards and practices adopted within an organization that reflects its values, culture, and purpose (Clarke, 2016). Governance standards drive accounting practices, minimize pressures and self-interested behavior (D'Andreanmatteo et al., 2019). Further, governance informs accounting research by exploring organizational values, norms, and beliefs associated with established policies and standards and the influence on accounting practices and controls. Exploring risk assessment perceptions can clarify the governance and rules adopted by the organization that influences fraud prevention and specific procedures of contract negotiation.

Fraud is any dishonest act against an organization and includes financial statement fraud, asset misappropriation, and corruption (Johansson & Carey, 2016). The Fraud Triangle is a framework that consists of three primary factors that lead to fraudulent behavior (ACFE, 2018). The primary characteristics of fraud include financial pressure, an opportunity to violate a position of trust, and an ability to rationalize one's actions (Cressey, 1950). The fourth element of knowledge of an enterprise's workings extends the fraud triangle to include the capability of committing a fraudulent act, furthering the conditions of fraud to the fraud diamond (Wolfe & Hermanson, 2004). Exploring participant perceptions of risk and the influence on fraud prevention provides greater clarity into whether these primary conditions for fraud are recognized.

### **Organization of the Remainder of the Study**

This qualitative phenomenological research study includes four additional chapters. Chapter 2 will encompass a literature review related to risk assessment, internal controls, governance, and the theory of fraud. Chapter 3 will review the qualitative phenomenological method and the specific approach with SMEs in the Midwest region. Chapter 4 will present the findings of data collection surrounding participant interviews. Finally, Chapter 5 will provide an analysis of the results and recommendations for future research. The research study concludes with summary observations of SME perceptions on fraud prevention and how this influences risk assessment procedures and contract negotiation practices. The conclusions help expand the understanding of fraud and prevention measures within a vulnerable population and how these relate to specific processes of risk evaluation and contract negotiation. Future research is suggested based on observations to continue research in fraud prevention measures and identify gaps.

## **CHAPTER 2. LITERATURE REVIEW**

This chapter provides an in-depth review of the scholarly research on risk assessment components and the influence they have on contract negotiations and fraud prevention. The researcher will discuss strategies for searching databases and identifying related academic research. The researcher will also present the theoretical orientation for the study. Finally, the researcher will give a thorough review of the literature related to the study's constructs.

### **Methods of Searching**

Advanced searches include fraud and risk assessment, fraud and governance, fraud and internal controls, and fraud and contract negotiation. An examination of peer-reviewed articles published in the previous 5–7 years. Sources for the research were from accounting and business journals within the Capella Library databases. The Business Source Complete, ProQuest, and Google Scholar databases were the primary databases for scholarly literature on fraud theory and related constructs supporting this study. The preliminary keyword search included fraud prevention, risk assessment, and contract negotiation. Pertinent publications appeared in the 2013–2019 period. A limited number of historical journals and seminal studies were to understand fraud theory and its components better.

The researcher used the Easy Search and Advanced Search functions in relevant databases to extract relevant studies. These methods allowed the researcher to compile sufficient and appropriate data to perform a substantive literature review and further explored the research topic. In total, 102 articles are in this literature review.

### **Theoretical Orientation for the Study**

Exploring perceptions of and attitudes toward fraud prevention explained how these perceptions influence risk assessment and contract negotiations. Risk assessment identifies areas

within organizational processes where governance and internal control procedures should be implemented (Committee of Sponsoring Organizations of the Treadway Commission, 2017; Rendon & Rendon, 2016). Researchers have found that organizations with effective risk-assessment processes effectively mitigated opportunities for fraud (Oluwatoyin Muse et al., 2015). Specifically, controls and oversight of contract negotiations are critical in mitigating fraudulent schemes in the pre-project stages of construction projects (Chang et al., 2018; Chi & Mackay, 2015). Exploring fraud perceptions may further expand the understanding of risk assessment in small and medium-sized enterprises (SMEs).

Research suggests that SMEs with practical risk assessment, governance, and internal control procedures overseeing organizational processes better prevent fraudulent activities (Dubihlela & Nqala, 2017; N'Guilla et al., 2018). Also, large organizations within the construction industry have adequate risk-assessment procedures overseeing organizational processes contributing to the mitigation of fraud (Chi & Mackay, 2015; Renault et al., 2018). Moreover, SMEs have higher instances of fraud due to a lack of internal control procedures (Kramer, 2013; Omar et al., 2016). In addition, research indicates that understanding specific areas of fraud in SMEs and the magnitude of the effects is essential in the fight against fraud within this vulnerable population (Kramer, 2013). Phenomenology explores a lived experience through the related experiences, attitudes, and understanding of the phenomenon (Merriam & Tisdell, 2016). Using phenomenology for this study may provide a pathway toward understanding the perceptions of fraud in the construction sector. Exploring perceptions of risk and the impact on fraud prevention may give a better understanding of fraud prevention's perceptions and attitudes within SMEs. Phenomenology accesses the day-to-day experiences, interpretations, and essence of the meaning given to a phenomenon (Merriam & Tisdell, 2016;

Van Manen, 2014). The construction industry loses billions of dollars due to fraud every year ((Le et al., 2014).

Furthermore, the pre-project phases of construction have the highest risk for fraud due to the high degree of complexity and short time frames for bidding (Chang et al., 2018). Contract negotiations are an integral part of the pre-project phase and the highest area at risk for fraud (Feng & Lu, 2013). Exploring SME owners' and managers' perceptions of fraud prevention and evaluating risk may provide more understanding of the phenomenon and how these perceptions impact procedures crucial to the development of projects at high risk for fraud.

In addition, exploring perceptions of and attitudes toward fraud can help identify how these factors influence risk assessment by examining the procedures implemented to mitigate fraud instances. Phenomenology focuses on how experiences are transformed by directly contacting those experiencing the phenomenon (Merriam & Tisdell, 2016; Spiegelberg, 1965). Moreover, identifying attitudes toward fraud may lead to a better understanding of how SMEs develop governance and control measures by evaluating perceived risk procedures that regulate business processes specific to contract negotiations. Exploring the essence of the phenomenon and how one perceives it in consciousness provides a basic structure in understanding the experience itself (Merriam & Tisdell, 2016; Van Manen, 2014). In turn, this structure sheds light on how people experience the phenomenon in their lives (Creswell, 2014). SME owners' and managers' perceptions may result in further insights into the symptoms of fraudulent schemes within this vulnerable group and expand prevention measures.

### **Review of the Literature**

The constructs used in this study include risk assessment, governance, internal controls, fraud, and contract negotiation. Effective oversight of an organization and its leaders involves

evaluating risk related to business processes used to achieve organizational objectives (Committee of Sponsoring Organizations of the Treadway Commission, 2017; Larcker & Tayan, 2015). Governance embodies the techniques adopted by organizations to instill leaders' appropriate oversight in meeting organizational objectives (Clarke, 2016). Similarly, effective governance structures use identified risks to develop reasonable internal control procedures to oversee business processes (Al-Zwyalif, 2015). Sound governance and control procedures lead to improved fraud prevention by mitigating opportunities to commit fraud (Albrecht et al., 2016; Kramer, 2013). Fraud theory identifies specific opportunities for fraud in the fraud triangle model (Albrecht et al., 2016). Opportunities for fraud in organizational processes determine risk, leading to the exploration of the research topic of risk assessment and the influence on contract negotiations and fraud prevention.

### **Fraud Triangle and Fraud Diamond**

In 1950, Donald Cressey developed the fraud triangle to illustrate the conditions that cause an individual to commit fraud (Abdullahi & Mansor, 2015). The fraud triangle includes three states of fraud: pressure, opportunity, and rationalization (Cressey, 1950). Perceived or real pressure may occur in the form of financial or nonfinancial needs (Omar et al., 2016). Pressures may develop from economic hardships, living beyond one's means, poor credit, or high personal debt levels (Albrecht et al., 2016). Other pressures may arise from vices, such as gambling and other addictions, or work-related performance pressures (Albrecht et al., 2016). The opportunity to commit a fraudulent act exists when a perceived or inherent weakness in internal controls exists (Hendi, 2014). The lack of internal controls to prevent or detect fraud and insufficient government oversight to judge quality performance may lead to a perceived opportunity for fraud (Albrecht et al., 2016). The Committee of Sponsoring Organizations (COSO) developed an

internal control framework comprised of elements to assist organizations in preventing and detecting employee fraud (Bharaditya et al., 2017). Rationalization occurs when fraud perpetrators attempt to justify their actions based on the belief that they will pay the money back, that what they are doing is not illegal, or that the money is owed to them for being overworked or underpaid (Albrecht et al., 2016).

A fourth element of the fraud triangle concerns the capability of committing a fraudulent act (Wolfe & Hermanson, 2004). This aspect underscores the importance of the perpetrator's skill and ability to commit a fraudulent act (Abdullahi & Mansor, 2015). Fraud is a deliberate act of deception intended to gain an advantage (Kamaliah et al., 2018) while attempting to obtain money, property, or other assets illegally (Mangala & Kumari, 2017). Implementing appropriate culture, ethics, and training programs positively correlate with the prevention of fraudulent activity within organizations (Hauser, 2018). Without the ability to understand, lie, and manipulate, a person cannot commit fraud even if an opportunity exists (Omar et al., 2016).

### **Types of Fraud**

Fraud includes the act of fraud, the concealment of the fraudulent act, and converting the stolen asset to something useful for the perpetrator (Dorminey et al., 2012). Fraudulent acts may be against an organization or on behalf of an organization (Hendi, 2014). Three categories of fraud include asset misappropriations, corruption, and fraudulent financial statements (ACFE, 2018). Fraudulent acts, including employee embezzlement, vendor fraud, customer fraud, management fraud, investment scams, and consumer fraud, further characterize fraud (Albrecht et al., 2016). Finally, specific fraudulent schemes may develop from each category of fraud, with 89% of all cases occurring in the form of asset misappropriations (ACFE, 2020). In addition, departments comprising upper management constitute 11% of all cases and \$729,000 in median

losses, while purchasing and procurement channels account for 5% of all cases and \$163,000 in median losses (ACFE, 2018)

The procurement function is an essential contribution to an organization's profitability, performance, and competitive advantage (Pemer & Skjølvik, 2016). Studies suggest that initiatives to formalize the procurement process are of interest to institute appropriate controls over procurement information (Pemer & Skjølvik, 2016). Contract negotiations contain specific procurement details regarding materials and subcontractors to meet project specifications (Rendon & Rendon, 2016). Procurement schemes may involve overbilling for goods or services by a vendor in which an employee has a vested interest (ACFE, 2018).

Larger organizations have more resources to prevent and detect fraud by implementing effective internal control procedures (Kramer, 2013). Small businesses are more vulnerable to fraudulent schemes due to a lack of oversight and internal controls (ACFE, 2018). In addition, small businesses have primary responsibility in developing and implementing controls and procedures in the workplace to oversee business processes, underscoring the significance of adequate internal controls in preventing fraudulent acts (Kennedy, 2017). Employing effective policies and procedures that oversee essential business processes contributing to profitability is imperative in small businesses (ACFE, 2018; Kramer, 2013; Pemer & Skjølvik, 2016). Exploring the perceptions of risk and how these influence procedures may explain how internal controls mitigate fraudulent acts.

### **Fraud Prevention and Detection**

Fraud prevention includes establishing controls and creating internal policies, procedures, and governance structures to mitigate fraud occurrences (Kamaliah et al., 2018; Rayaana et al., 2016). Anti-fraud processes and controls, oversight functions, and a culture of honesty and high



integrity support the mitigation of fraudulent activity (N'Guilla et al., 2018). Furthermore, governance structures within organizations are central in combating corruption and preventing fraudulent behavior (Di Pietra & Melis, 2016).

Researchers have paid minimal attention to fraud prevention and detection concerning procurement and supply chain processes (Patterson et al., 2018). The risks of procurement fraud increase during contract negotiations between material suppliers and subcontractors (Rendon & Rendon, 2016). Effective methods to detect and prevent fraud are needed and should include reviewing and improving internal controls, ethics, and agreements with suppliers and contractors (Zamzami et al., 2016). In addition, corporate governance significantly impacts the oversight function, the corporate environment's integrity and ethics, and the mitigation of fraud (Halbouni et al., 2016). Moreover, anti-fraud processes and controls, combined with a culture of honesty and efficient and effective oversight, significantly influence the prevention of fraud (N'Guilla et al., 2018).

### **Fraud in Small and Medium-Sized Enterprises (SMEs)**

SMEs have reported experiencing the highest percentage of all fraud types and suffer disproportionate losses compared to larger organizations with median losses of \$200,000 and 28% of all fraud cases for SMEs (ACFE, 2018; Kramer, 2013). Researchers have estimated that fraud losses represent 5% of an organization's annual revenues (Simha & Satyanarayan, 2016). Furthermore, small businesses often become the targets of fraudulent schemes, making awareness imperative for organizations hoping to avoid losses due to fraud (Kramer, 2013).

The primary categories of fraud include financial statement fraud, asset misappropriation, and corruption (Johansson & Carey, 2016). Financial statement fraud occurs when an organization misrepresents its financial statements (Ilter, 2014) to save the company and ensure a

profit for owners by displaying the best possible results of transactions (Dimitrijevic, 2015). Executive management was involved in 89% of fraudulent financial reporting cases (McMahon et al., 2016) due to ineffective oversight, lack of management integrity, honesty, or ethics (Nindito, 2018).

Asset misappropriation is the theft or misuse of organizational assets by employees, management, or third parties and occurs in over 70% of all fraud cases (Glodstein, 2015; Haniza Hanim et al., 2017; Le & Tran, 2018). Fraud occurs when employees misuse their positions to gain personal benefits (Gunduz & Önder, 2013). Median losses for asset misappropriations are less than those due to fraudulent financial statements and corruption schemes (Hunt, 2014).

Corruption accounts for the largest percentage of fraudulent schemes in small businesses, while procurement schemes account for 77% of all corruption cases (ACFE, 2018). The Association of Certified Fraud Examiners (2018) attributed 42% of fraud cases to a lack of internal controls. Effective monitoring mechanisms include sound internal control procedures, good governance, and fraud-prevention procedures (Kamaliah et al., 2018).

### **Fraud in Construction**

Fraud losses within the construction sector accounted for \$340 billion of construction costs (Yuniarti & Ariandi, 2017). Corruption, a subset of fraud, occurs when employees misuse their positions to gain individual benefits and are among the most significant fraud risks for construction organizations (ACFE, 2018). Corruption schemes accompany ineffective leadership and decision-making skills, as well as the opportunity, rationalization, and motivations driving those decisions (Yogi, 2016). Gunduz and Önder (2013) emphasized the need for improvement in the mitigation of internal fraud risks within the construction industry.

## Internal Control

Internal control weaknesses were found to be a significant contributing factor for fraud occurrences related explicitly to inadequate supervision and improper documentation (Khairul et al., 2016) and account for almost half of all fraud cases (ACFE, 2018). Weak compliance with internal controls provides opportunities for fraud (Nawawi & Ahmad Saiful Azlin, 2018) due to the perception that an opportunity exists (to exploit poor workplace conditions and a low probability of being caught (Hendi, 2014; Mui & Mailley, 2015). Opportunity is one of three factors that drive fraudulent behavior within organizations (ACFE, 2018). The control environment, accounting system, and control activities and procedures are all significant factors in minimizing opportunities for fraud (Albrecht et al., 2016). The Association of Certified Fraud Examiners (2018) emphasized that fraudsters typically seize whatever opportunity may arise to carry out a scheme. They underscored the importance of understanding fraud risks within an organization. Although all three elements of the fraud triangle must be present for fraud to occur, an opportunity is an essential component because if there is no real or perceived opportunity, fraud will not take place (Albrecht et al., 2016).

Internal controls help minimize fraud risks and provide reasonable assurance regarding accounting processes and financial reports (Mohd-Nassir et al., 2016). The COSO *Internal Control-Integrated Framework* provides guidance related to the control environment, risk assessment, and fraud prevention (Bharaditya et al., 2017). An entity's control environment serves as the foundation for all other internal controls within the organization (Rae et al., 2017). The control environment includes the integrity, ethics, and competence of the organization's employees, the management's philosophy, the operating style, the development of people, and the board of directors' role. Ultimately, the control environment sets a precedent for the

organization through the tone established by the top management and influences all other internal control components (Bharaditya et al., 2017). In addition, management responsibilities and authorizations are critical components of the control environment (Bharaditya et al., 2017). The management philosophy and operating style, the ability to delegate responsibilities, the organization and development of people, and effective communication are central to the management's role in the control environment (Albrecht et al., 2016). Control activities mitigate fraud occurrences through policies and procedures, overseeing specific risks (Al-Zwyalif, 2015). Risk assessment examines organizational processes for potential risks and how they will be managed and controlled (Bharaditya et al., 2017). Identifying perceived risks is the initial stage of control development and serves as a foundation for internal control procedures overseeing business processes.

The American Institute of Certified Public Accountants (AICPA) has published professional standards (see Moeller, 2013) that specify five internal control components within the COSO framework for risk: the control environment, risk assessment, information and communication, control activities, and monitoring. These internal control components and the accounting system of an entity work together to mitigate the opportunity for fraud and promote an environment of honesty, ethics, and proper behavior (Albrecht et al., 2016). Fraud risk assessment should encompass fraud models, as well as the capabilities and experiences of staff members (Boyle et al., 2015). Furthermore, fraud-prevention methods related to contract negotiations using the control environment and related activities.

Internal control in accounting through the expansion of control procedures overseeing business processes specific to give-and-take agreements. Studies suggest that initiatives to formalize the purchasing and contract agreements should be further researched to institute

appropriate controls (Pemer & Skjølsvik, 2016). This study will inform the implementation of internal controls by addressing critical risks and identified procedures overseeing contract-negotiation processes specific to small businesses. Small businesses are more vulnerable to fall victim to fraudulent schemes, and knowledge of fraud can assist owners and managers in their prevention (Kramer, 2013). This study may also expand upon control activities related to contractual agreements and serve as a tool for fraud-prevention models for future researchers.

Internal control weaknesses are responsible for almost half of all frauds (ACFE, 2018). Larger companies have more resources to prevent and detect fraud by implementing controls (Kramer, 2013). The evaluation of governance specific to risk assessment, oversight, and the assessment of key performance indicators is an appropriate method to analyze opportunities for fraud related to contract negotiation. Internal controls direct the organization's policies and procedures to achieve organizational objectives (Zakaria et al., 2016). Additionally, internal controls are a critical component of organizational processes and effective governance structures (Bharaditya et al., 2017). The absence of efficient controls over business processes can make organizations more susceptible to fraud (Omar et al., 2016).

Internal control embodies a conceptual framework developed by COSO to provide reasonable assurance in achieving organizational objectives (Committee of Sponsoring Organizations of the Treadway Commission, 2017). The *COSO Internal Control-Integrated Framework* provides an evaluation of internal control effectiveness. Components of the COSO framework include (a) risk assessment, (b) control activities, (c) information and communication, and (d) monitoring (Committee of Sponsoring Organizations of the Treadway Commission, 2017). Management's overall tone is identified as one of the essential controls within an organization (Committee of Sponsoring Organizations of the Treadway Commission, 2017),

calling attention to management's influence on fraud risk assessment (Want & Fargher, 2017). Setting a good example and appropriate communication are essential elements for management in promoting an effective control environment (Albrecht et al., 2016). Exploring the perceptions of risk may elicit insight into the specific controls implemented to mitigate risk and the influence of these controls on contract negotiation procedures and fraud prevention.

### **Internal Controls in Construction**

Internal control quality based on the COSO framework includes controls related to operations, accounting, property, budget, and performance (Chen et al., 2017). The construction industry faces particular difficulties in the formation and implementation of internal control processes. Prearranged pricing, remote job sites, and management oversight of off-site operations pose unique challenges in forming a suitable internal control system (Bashir et al., 2013). Evaluating controls overseeing organizational processes related to the information collection, communication, systems, and anti-fraud oversight and monitoring was demonstrated as a practical component of internal controls (Chen et al., 2017).

Internal controls regulate and monitor risk (Wu et al., 2012). Researchers have pointed out that the lack of resources to implement efficient internal control structures that prevent fraud and employee misconduct makes small businesses more susceptible to fraud (Omar et al., 2016). Internal control weaknesses—including a lack of oversight, improper record-keeping, and a lack of organizational policies and guidelines—were found to be contributing factors to fraud (Khairul et al., 2016). Additionally, researchers have also shown that accounting information security, financial department organization, accountant ability, quantitative measurement, and management oversight are essential elements to control within an organization (Wu et al., 2012).

Hence, implementing control processes overseeing these significant areas is crucial to regulate and monitor risk effectively.

Risks within construction originate with contractual agreements on processes, materials, and relationships (Doskočil, 2016). Perceived risks in construction relate predominately to clear articulation of contracts during bidding, contractual responsibilities, claims and dispute settlement, and stipulation of payment terms (Ashmawi et al., 2018). Understanding the perceptions of risk assessment in the construction industry may help identify fraud prevention avenues specific to contract negotiation procedures.

### **Internal Controls and Fraud**

Small businesses account for 28% of all fraud cases due to a lack of resources to implement appropriate controls, a lack of awareness, or excessive trust in employees (ACFE, 2018). In addition, small businesses experience the most considerable median losses (42%) from fraud due to a lack of internal controls (ACFE, 2018). Internal control weaknesses are a major contributing factor for fraud occurrences related explicitly to inadequate supervision and improper documentation (Khairul et al., 2016). The mitigation of fraud includes appropriate controls, internal policies and procedures, and governance structures to reduce fraud (Kamaliah et al., 2018; Rayaan et al., 2016). Additionally, oversight and a culture of honesty and high integrity are significant in mitigating fraud (N'Guilla et al., 2018). Exploring risk perceptions may provide insight into how controls identify risks and how these ongoing impact procedures of contract negotiation and fraud prevention.

Project-related internal control deficiencies leading to fraud begin in the contract administration and source selection (Rendon & Rendon, 2016). Anti-fraud strategies guide an organization to control risks and conditions, leading to fraud (Yuniarti & Ariandi, 2017). The use

of fraud theory extends the evaluation of risk and control criteria within an organization by incorporating the human elements of pressures and the rationalization of behaviors.

### **Internal Controls and SME Fraud**

SMEs are more susceptible to fraud, as they do not have sufficient resources to implement appropriate controls (Kramer, 2013; Omar et al., 2016). Specific internal control weaknesses in SMEs relate to a lack of knowledge of internal control processes, appropriate risk assessment, and efficient control activities related to enterprise management (Zheng, 2016). Small firms with weak internal controls incur higher costs of capital and face challenges in funding operations due to the increased risk associated with business operations (Nawawi & Ahmad Saiful Azlin, 2018). Furthermore, Kramer (2013) emphasized the importance of conducting additional research on the types, frequency, and impact of fraud on small businesses.

SMEs' internal control policies and procedures tend to center around operational efficiency, including operational, supplier-related, customer, and external environment risks (Dubihlela & Nqala, 2017). Internal controls within SMEs are crucial in preventing fraud and, when implemented effectively, promote more reliable data on inventories, payables, and performance measures (N'Guilla et al., 2018). Exploring the perceptions of risk may help identify specific areas where internal controls are focused and whether appropriate controls oversee inventory, payables, and performance data of contract negotiation deliverables.

### **Risk Assessment**

Risk assessment examines specific events to identify and evaluate potential risks that could hinder an organization's ability to achieve its goals and objectives (Rendon & Rendon, 2016). In addition, risk assessment identifies potential risks for fraudulent activities (Oluwatoyin Muse et al., 2015). The COSO *Enterprise Risk Management—Integrated Framework* (ERM)



involves identifying specific events, assessing related risks that impact organizational objectives, and responding appropriately. The ERM risk-assessment components include (a) event identification, (b) risk assessment, (c) risk response, (d) control activities, (e) information and communication, and (d) monitoring (Committee of Sponsoring Organizations of the Treadway Commission, 2017). Moeller (2013) identified the components of risk assessment as the foundation for identifying the most significant risks to fulfilling organizational objectives. Furthermore, risk assessment has a significant effect on preventing fraud (Vitayanti & Nini, 2017).

The COSO-ERM provides guidelines and frameworks for organizations to follow when assessing and managing risk. Risk assessment entails examining potential risks and identifying and evaluating methods for mitigating risks (Rendon & Rendon, 2016). Risk assessment may be implemented within organizations through an initial outline of objectives from the ERM framework, identifying and evaluating risks, proposing solutions for risks through corrective actions and controls, and building oversight through risk-management systems (Kim & Yoo, 2017).

Identifying events that produce uncertainty and evaluating potential risks and responses provides organizations a foundation for risk assessment and management. Within the construction industry, projects encompass diverse specifications requiring the continuous review of risks related to an endlessly changing environment (Chi & Mackay, 2015). Risk-management strategies related to assessing risk in the construction industry involve pre-project, project implementation, and post-event phases (Chang et al., 2018). Additionally, an assessment of risk on a contract's content, including procurement strategy, performance, pricing, and payment terms (Schuhmann & Eichhorn, 2017). Procurement occurs when an organization obtains something

(Rendon & Rendon, 2016). Contracts and procurement are common areas for instances of fraud (ACFE, 2018). Adopting standard risk-assessment guidelines within an organization has been found to have significant positive impacts on the success of a project and the mitigation of risks (Renault et al., 2018).

Risks of fraud may develop within procurement during the stages of contract negotiation and contract management (Rendon & Rendon, 2016). Risk-management processes using pre-defined checklists related to contract risk to align contract-management processes to support risk-management systems (Schuhmann & Eichhorn, 2017). Diverse contracting methods to acquire goods and services during competitive negotiation and such methods require specific skills and experience to understand complex acquisitions, monitoring, budget variance, and the proper assignment of responsibilities (ACFE, 2018). Assessing the risks related to procurement deepens the understanding of risks beyond strictly financial terms (Eckerd & Girth, 2017).

Researchers have found increased fraud risks within the procurement channel, related explicitly to contract-negotiation processes (Rendon & Rendon, 2016). In addition, small businesses tend to be more susceptible to fraud due to a lack of resources to monitor employees and control business processes. Moreover, fraud losses within the construction sector resulted from an absence of standardized controls and monitoring mechanisms overseeing construction project planning (Yuniarti & Ariandi, 2017). Exploring the perceptions of fraud may help clarify how these perceptions influence the evaluation of risk related to the pre-project planning of contract negotiations and procurement.

During contract-negotiation processes, risk assessment is imperative for organizations to examine to mitigate identified risks and opportunities for fraud (Chi & Mackay, 2015; Johnson Popoola et al., 2016; Kramer, 2013). In addition, risk assessment identifies potential exposures to

fraud (Oluwatoyin Muse et al., 2015) by evaluating the risk factors of incentives, opportunities, and rationalizations (Johnson Popoola et al., 2016). Practical risk assessment incorporates the fraud triangle variables to identify and evaluate fraud opportunities within specific events or business transactions (Fortvingler & Szívós, 2016).

## **Governance**

Governance informs accounting research by outlining the primary practices adopted across organizations. In addition, governance in the accounting industry offers frameworks for risk management, regulations for management oversight, and roles and responsibilities of the board of directors. Research suggests the prevention of employee fraud and the mitigation of damaging effects on small businesses' viability requires an understanding of how fraud affects organizations (Kramer, 2013). Awareness of fraud and its impacts on an organization helps management effectively implement oversight and monitoring functions (Albrecht et al., 2016).

Governance represents the oversight of an organization and its primary leaders. Governance embodies the standards and practices adopted within an organization that reflect the institution's values, culture, and purpose (Clarke, 2016). Governance standards drive accounting practices, minimize pressures and self-interested behavior (D'Andreamatteo et al., 2019). Additionally, governance encompasses the adoption of mechanisms to achieve organizational objectives and represents the institution's values and beliefs (Clarke, 2016). The quality of governance structures influences an organization's effectiveness and the mitigation of fraud (Halbouni et al., 2016). PricewaterhouseCoopers (2017) found that financial misconduct affects every industry, regardless of size. Although a universally established set of governance standards does not exist, fundamental practices have been established (Bingham et al., 2005).

Governance activities establish roles and responsibilities for decision making, management, and the continuous review of processes (Gercek et al., 2016). Additionally, contract risk-management models provide support and defined controls regarding the expected ethical behaviors of parties involved in contract agreements by providing specific responsibilities and guided communication (Schuhmann & Eichhorn, 2017). Furthermore, an ethics code within an organization represents the attitudes and beliefs regarding fraud within an organization (Birol, 2019). Establishing an effective governance system within an organization combines aspects of culture, integrity, anti-fraud processes and controls, and oversight functions (N'Guilla et al., 2018). Exploring perceptions of fraud may provide additional insights into the influence these perceptions have on developing the organizational culture and management tone. Efficient oversight functions monitor contract-management processes, procurement roles, responsibilities, and instill ethical standards within the organizational environment (Rendon & Rendon, 2016). Governance within an organization should reinforce the importance of risk management and oversight responsibilities to achieve organizational goals (Committee of Sponsoring Organizations of the Treadway Commission, 2017).

Fraud-prevention efforts are more effective and less expensive than fraud detection efforts (Abdullahi & Mansor, 2015). This study will inform governance by addressing risks in contract negotiations and the controls overseeing these processes. In addition, this study may potentially expand our knowledge of the risks associated with contract negotiations and allow other researchers to use this model as a tool for fraud prevention.

### **Fraud Theory**

The purpose of accounting theories is to guide and inform accounting practices. Theories of accounting influence the principles developed from accepted practices (Rutherford, 2016).

Although accounting theories form the foundation of practices, accounting theories' ongoing development allows for changes within the standards and principles to meet changing market demands. Consequently, accounting theories inform research by providing a baseline understanding that may be added to or refined to evolve with increasing changes in the industry (Berisha & Asllanaj, 2017).

Fraud theory provides a model for conditions that facilitate financial fraud (Albrecht et al., 2016). The conditions of fraud are illustrated within the fraud triangle and include financial pressure, an opportunity to violate a position of trust, and an ability to rationalize one's actions (Cressey, 1950). The three elements of the fraud triangle are present and transpire when the motivation to commit a fraud occurs (ACFE, 2018).

Behavioral red flags for perceived pressures may include living beyond one's means, financial difficulties, and family problems, including divorce and addiction problems (Kramer, 2013). In addition, organizations with unethical cultures, unrealistic goals, and aggressive accounting techniques exacerbate the pressure on employees (Rae et al., 2017).

Opportunity is the next condition of fraud explained in the fraud triangle. Opportunity relates to the perception that a control weakness exists and that the risk of being caught is minimal (Hendi, 2014). Opportunities exist due to weak internal controls, a lack of the segregation of duties, and a lack of separation between those receiving and paying for goods (Omar et al., 2016). Moreover, the ability to commit fraud will not occur if employees believe they will not accomplish the scheme with the existing or perceived controls (Kramer, 2013).

The final factor for fraud illustrated in the fraud triangle is the rationalization of fraudulent activity and how individuals perceive and judge behaviors and actions (Omar et al., 2016). The rationalization of dishonest behavior occurs when individuals under pressure have the

opportunity to commit fraud (Albrecht et al., 2016). Red flags for an employee rationalizing self-interested behaviors include prior complaints about inadequate pay, pressures, or excessive responsibilities (Kramer, 2013). Fraudulent schemes often accompany ineffective leadership and decision-making skills, as well as the opportunity, rationalization, and motivations driving those decisions (Yogi, 2016).

Researchers have found that fraud losses across all industries equate to an estimated 5% of an organization's annual revenues (Simha & Satyanarayan, 2016). In addition, corruption losses within the global construction sector accounted for \$340 billion of annual construction costs (Yuniarti & Ariandi, 2017). Specifically, procurement fraud related to contract-negotiation processes includes bribery risks, conflicts of interest, embezzlement, and kickbacks (Rendon & Rendon, 2016). Specific schemes derived from conflicts of interest involve purchasing and sales schemes, while bribery schemes consist of kickbacks and bid-rigging schemes (ACFE, 2018). Gunduz and Önder (2013) emphasized the need for improved mitigation of internal fraud risks within the construction industry. These findings underscored the need to explore the perceptions of fraud and the influence that these perceptions have on risk assessment and the governance of these vulnerable areas related to contract negotiations.

Control procedures overseeing business processes minimize risks and mitigate fraudulent activity (Mohd-Nassir et al., 2016). Specific internal controls positively influence employee fraud prevention, including the segregation of duties and responsibilities among employees (Hess & Cottrell, 2015). Although fraud prevention positively correlates with internal control procedures, fraud may continue within organizations with internal controls alone (Omar et al., 2016). Additional methods to prevent fraud include effective corporate governance procedures that encompass transparency and accountability (Nwanyanwu, 2018). Furthermore, proper

oversight begins with a thorough examination of the risks to organizational processes (Larcker & Tayan, 2015).

Risk assessment identifies potential exposures to fraud (Oluwatoyin Muse et al., 2015) by evaluating risk factors of pressures, opportunities, and rationalizations (Johnson Popoola et al., 2016). Scholars have recognized that having employees associated with vendors or customers constitutes a prominent red flag for fraud in small businesses (Kramer, 2013). Moreover, researchers have paid minimal attention to fraud prevention and detection related to purchasing, the supply chain, and logistics (Patterson et al., 2018). This study seeks to identify risk assessment perceptions and the relationship between contract-negotiation processes and opportunities for fraud. Exploring perceptions of and attitudes toward fraud and the influence that these perceptions have on risk assessment may provide insights into how SMEs mitigate fraudulent schemes within the supply chain.

Fraud may be incredibly destructive to small businesses due to a lack of fraud-prevention measures and increased employees' trust (ACFE, 2018). Effective methods to mitigate fraud should include reviewing and improving internal controls, ethics, and agreements with suppliers and contractors (Zamzami et al., 2016). Research suggests that the prevention of employee fraud and its effects on small businesses requires understanding how fraud affects organizations (Kramer, 2013). Exploring perceptions of fraud in small businesses may help understand whether effective methods of mitigation exist and how they impact the assessment of risk in contract negotiations.

Risk assessment may include elements of the fraud triangle to identify opportunities that may arise from conditions facilitating fraud (Fortvingler & Szívós, 2016), including weak internal controls or methods requiring significant judgment (Mock et al., 2017). Organizations

should examine risk judgments concerning entity-level and process-level risks (Premuroso & Houmes, 2012) to identify areas where the organization can improve management responsibilities, records, and traceability (Dai & Chen, 2014).

This study contributes to the fraud theory by addressing fraud present opportunities in contract negotiations by exploring perceptions of risk overseeing these processes. Continued research using diverse methods may better understand fraud and fraud prevention (Anand et al., 2015). Research indicates that the prevention of employee fraud and the mitigation of the damaging effects on small businesses' viability requires understanding how fraud affects organizations (Kramer, 2013). This study may provide insights into how risk assessment influences fraud prevention measures specifically related to contract negotiation procedures.

### **Contract Negotiation**

Effective contract-negotiation procedures provide cost savings, streamlined processes, and risk mitigation benefits (Chi & Mackay, 2015). Negotiation processes should encompass the requirements of policies and procedures set forth to mitigate potential risk with a significant impact on contract negotiations (Shang & Yang, 2015). In addition, Rendon and Rendon (2016) found identifying fraud risks within the procurement process to be imperative to the effective management of contract negotiations.

Risk aversion in contract negotiation has substantial effects on the parameters and earning potential (Shang & Yang, 2015). The competitive nature of the procurement process and the absence of standardization related to construction projects produce fraud risks due to the varying complexity of projects (Le et al., 2014). In addition, the risk management related to contract negotiations rests upon effective corporate governance structures and risk assessment of contract procedures (Schuhmann & Eichhorn, 2017).



Contract risk emerges during the management of a contract and the governance of a business process (Schuhmann & Eichhorn, 2017). Identifying all potential risks that may arise in a business process should be completed before contract negotiations (Palanisamy et al., 2015). In addition, multiple controls may be needed at various phases of a project, depending upon its nature and related risks (Appuhami & Perera, 2016). Potential risks of fraud pertaining to contract-negotiation processes may include allocating profits through alliances formed between negotiating parties, vendors, or suppliers (Shang & Yang, 2015). Furthermore, organizational influences, including culture and monitoring, significantly influenced the processes and outcomes of contract negotiations (Johnson & Sohi, 2016).

Incorporating behavior measurements to monitor, evaluate, and minimize risk appears to expand traditional models of contract negotiation (Appuhami & Perera, 2016). Favorable negotiations occur during bidding and contract activities in the preliminary stages of the project (Chang et al., 2018). Identifying specific risks in proposal evaluations, contract negotiations, and contract award decisions reduce fraud risks in the procurement process (Rendon & Rendon, 2016).

In addition, negotiating favorable agreements between procurement parties develops a better awareness of the contractual responsibilities, mitigates risk, and improves a project's performance (Chi & Mackay, 2015). The presence of competition in contract negotiations signifies the importance of assessing contract performance (Feng & Lu, 2013). Organizations have the freedom to choose negotiation partners and accept or reject elements as they like (Pinteala, 2015). Unfavorable contractual agreements can arise, resulting in budget overruns and unfavorable returns (Palanisamy et al., 2015). Furthermore, project managers and other stakeholders should communicate about the potential risks to reduce conflicts of interest (Renault

et al., 2018). Fraud risks in the procurement process increase during contract negotiation due to conflicts of interest, bribery, embezzlement, and kickbacks (Rendon & Rendon, 2016).

### **Synthesis of the Research Findings**

Researchers have identified the need for improved mitigation efforts regarding fraud within the construction industry (Gunduz & Önder, 2013). Scholars have also found that fraud prevention costs organizations less than detection efforts and are more effective in mitigating fraud (Abdullahi & Mansor, 2015). This study expands upon the scholarly literature on risk assessment by exploring the perceptions of fraud and its relation to the risk assessment of contract-negotiation procedures and fraud-prevention efforts. Research suggests that the prevention of employee fraud and the mitigation of the damaging effects on small businesses' viability require an understanding of how fraud affects organizations (Kramer, 2013). Exploring risk assessment perceptions may develop an understanding of how these perceptions impact evaluations of controls specific to contract negotiations. The study may also provide insights into the awareness of fraud within the construction industry and whether mitigation efforts are within negotiation procedures. Studies have found significant risks for employee fraud and corruption schemes within the construction industry (ACFE, 2018; Omar et al., 2016), signifying a void in identifying risks relevant to activities in the construction sector. Identifying gaps in risk assessment related to contract negotiations may help develop new models for evaluating and controlling risk. Discovering perceptions of risk and the influence on contract negotiation procedures and fraud prevention may provide insight into the ongoing degree of fraudulent acts within small businesses in the construction industry. Furthermore, while previous research has underscored the significance of fraud in small businesses, research into the types and frequency of frauds have been scarce (Kramer, 2013).

Identifying the influence of SMEs' perceptions of contract negotiation and fraud-prevention measures will expand awareness of fraud-prevention procedures specific to small organizations. Extensive research surrounding fraud cases within large organizations exists, while relatively few researchers have investigated fraud cases in small businesses (Kramer, 2013). Furthermore, fraud-prevention efforts are more effective and less expensive than detection (Abdullahi & Mansor, 2015). This study may expand the awareness of fraud in small businesses and the controls used to prevent opportunities for fraud. Research indicates that the prevention of employee fraud and the mitigation of its damaging effects on small businesses' viability requires understanding how fraud affects organizations (Kramer, 2013). Examining perceptions of risk may enhance fraud prevention initiatives specific to contract-negotiation procedures.

The lack of resources to implement efficient control structures to prevent fraud and employee misconduct makes small organizations more susceptible to fraud (Omar et al., 2016). The study may contribute to our understanding of the symptoms of employee fraud and fraudulent schemes within small businesses and expand fraud awareness and prevention methods. The research methodology consisted of a qualitative case study that explored owners' and managers' perceptions of fraud using phenomenology, which focuses on the lived experience and how the experience impacts one's understanding (Merriam & Tisdell, 2016).

This study explored owners and managers of construction companies' perceptions of risk assessment and the influence on contract negotiations and fraud prevention. The fraud triangle comprises the conditions of fraud, which include financial pressure, an opportunity to violate a position of trust, and an ability to adjust the self-perception of one's actions (Cressey, 1950). Exploring the perceptions of risk focuses on the opportunity for fraud present in contract

negotiation procedures. Additionally, a fourth element—knowledge of an enterprise's workings—extends the fraud triangle to include the capability of committing a fraudulent act, enlarging the fraud triangle to a fraud diamond (Wolfe & Hermanson, 2004). Understanding the perceptions of risk and the influence on contract negotiations may generate a better understanding of implementing fraud prevention measures that may restrict fraudulent acts despite having the capability to do so.

The study may extend the seminal work of Cressey (1950) by identifying opportunities for fraud by exploring risk assessment and the perception of these influences on contract negotiations and fraud prevention. The research may also build on the seminal literature of Wolfe and Hermanson (2004) by exploring the capabilities of fraud concerning contract negotiation and associated risks. Fraud is the intentional deception or misuse of a position of trust for individual gain (Albrecht et al., 2016). By exploring the perceptions of risk and how this influences the attitudes of fraud prevention within an organization, it may understand how the deception may occur in positions with high levels of responsibility. Expressly, the responsibilities related to the pre-project stage of contract negotiations set the company's parameters for generating revenue. This study may provide valuable insight into the perception of risk specific to this procurement stage and how it influences subsequent procedures.

### **Critique of Previous Research Methods**

Although researchers continue to find that small businesses are vulnerable to fraud and encourage the incorporation of fraud-prevention methods (Andoh et al., 2018; ACFE, 2018; Kramer, 2013), gaps still exist in the literature on strategic methods for specific accounting processes for SMEs with scarcer resources. A risk assessment identifies fraud exposures, while effective contract-negotiation procedures mitigate risks (Chi & Mackay, 2015; Oluwatoyin Muse

et al., 2015). However, SMEs continue to experience high instances of fraud due to a lack of resources to implement appropriate internal control procedures (ACFE, 2018).

Additional research on fraud specific to small businesses is necessary to understand better the specific impacts these types of fraud have (Kramer, 2013). Within the construction industry, fraud has been found to occur at every phase of a project cycle, specifically, the planning, designing, bidding, and construction stages (Le et al., 2014). Research findings of fraud-prevention efforts to mitigate with appropriate control procedures and governance structures (Kamaliah et al., 2018; N'Guilla et al., 2018; Rayaana et al., 2016), it remains unclear how such initiatives influence the perceptions of SME owners and managers regarding implementing policies and procedures at the onset of the project life cycle, specifically the contract negotiation phase.

Qualitative research differs from quantitative research in many ways, including the nature of observation, the focus of the study, the view of human behavior, and the research objectives (Creswell, 2014). The nature of observation for qualitative research occurs in the natural environment of the study, whereas quantitative research attempts to use controlled conditions to study behavior (Merriam & Tisdell, 2016; Sekaran & Bougie, 2016). Furthermore, the focus of the study and the view of human behavior in qualitative research allows for a deeper and broader view of the phenomenon while examining the dynamic elements of human behavior (Merriam & Tisdell, 2016). Interpretations in qualitative research are very descriptive and relate to how a phenomenon is experienced (Erlingsson & Brysiewicz, 2013). Although research has found positive correlations between appropriate controls and risk-assessment procedures with the mitigation of fraud, small businesses continue to experience disproportionate losses compared to larger organizations due to a lack of these procedures (ACFE, 2018). Exploring the perceptions

of owners and managers of small businesses may shed light on why this vulnerable population continues to experience high instances of fraud.

Quantitative research offers an opportunity to examine data using statistics and percentages of variables and their relationship within a population. Quantitative survey designs provide researchers the ability to determine the characteristics, attitudes, or behaviors of a population by drawing conclusions from the sample data (Creswell, 2014). Studies using a quantitative approach have identified a positive relationship between risk assessment and fraud prevention (Kamaliah et al., 2018; Rayaan et al., 2016). However, by using a quantitative approach, aspects of qualitative data will not be used in understanding the constructs of the research. Specifically, narrative research will not be used to understand small business owners' perceptions of fraud prevention. By exploring the perceptions of risk, this study may produce valuable insight into the influence these perceptions have on procedures and fraud prevention measures. Exploring these perceptions broadens the knowledge and understanding of fraud in small businesses and where controls may be the most pivotal.

Qualitative research offered opportunities to research and understand how small business owners perceive fraud-prevention efforts as they relate to risk assessment and contract-negotiation policies. In addition, qualitative research requires researchers to immerse themselves in the study as a research instrument (Erlingsson & Brysiewicz, 2013). Qualitative researchers employ specific techniques to include personal perspectives and insights in their studies (Creswell, 2014). The risks of incorporating personal perspectives in qualitative research rest upon the extent to which any person can bracket their own bias related to an activity, event, or phenomenon (Merriam & Tisdell, 2016).

A pragmatic researcher should consider the benefits and risks associated with each research method when evaluating its appropriateness for the prospective topic and the true intent of what is to be accomplished (Merriam & Tisdell, 2016). The purpose of the research should be understood to appropriately align the true intent of the research to the appropriate method. Qualitative research explores the meaning given to a phenomenon by eliciting narratives from participants (Merriam & Tisdell, 2016). Alternatively, quantitative research focuses on the relationship between variables or constructs within a given population (Creswell, 2014). Understanding the objective of research enables a pragmatic researcher to assess which method will achieve the intended purpose appropriately using a qualitative approach to explore the perceptions of fraud allowed for further understanding of the awareness of fraud in this group and whether these perceptions impact organizations that continually fall victim to fraudulent schemes. Therefore, this study employed a qualitative approach to examine the perceptions of risk assessment and the influence on contract negotiation and fraud prevention.

### **Summary**

A review of the current scholarly research related to this study combines all relevant research to analyze significant information appropriate in developing a position (Sekaran & Bougie, 2016). Although the scholarly literature can be integrated and synthesized for the research topic, fraud theory expands the understanding of fraud conditions to assist in examining the perceptions of risk assessment in contract-negotiation procedures and how these perceptions influence fraud-prevention strategies. Exploring the research topic using fraud theory offered a broader understanding of opportunities for fraud by evaluating risks in relation to business processes, in addition to human elements that may adversely affect contractual agreements.

For the research topic, the exploration of the meaning given to risk assessment and contract negotiations broadened the understanding of fraud-prevention measures within small businesses in the construction industry. Quantitative research may elicit relationships among these constructs but excludes narrative inquiry that may further develop our understanding of the phenomenon. Given the human elements within the models of fraud theory, the exploration of human behaviors, and the meanings of the phenomenon, eliciting narratives from participants resulted in a better understanding of the research topic. In addition, effective fraud-prevention efforts will not be successful until a thorough exploration of individual perspectives is conducted.



## CHAPTER 3. METHODOLOGY

Qualitative studies require researchers to immerse themselves in the research process and become part of the study (Erlingsson & Brysiewicz, 2013). Researchers should bracket personal bias and assumptions upon initiation of the research proposal through the process of epoche (Chan et al., 2013). Using epoche, researchers suspend judgments to explore a phenomenon in its truest form (Merriam & Tisdell, 2016). The process of epoche allows a researcher to identify personal judgments and properly bracket them to mitigate undue influence on the research study.

The characteristics of qualitative research include the collection of data in the natural environment of the population and the use of multiple sources of data (Creswell, 2014). Obtaining a sample size based on what would be required to reach saturation depends upon the type of information derived from the sample. Furthermore, purposive sampling is the most appropriate means for sampling in cases that require specialized experience and competence specific to the research topic (Merriam & Tisdell, 2016). Relevant information from a sample decreases the sample size required to reach adequate saturation (Fusch & Ness, 2015; Malterud et al., 2016). Moreover, highly relevant information may be obtained by carefully selecting a small number of interviewees and clearly defining the research topic (Cleary et al., 2014; Turner, 2010).

### **Purpose of the Study**

Fraud is one of the most significant challenges facing businesses today (ACFE, 2018; Halbouni et al., 2016). In addition, small businesses experience the greatest number of fraud cases, disproportionate losses, and a high risk of business failure compared to larger organizations (ACFE, 2018; Kramer, 2013). Furthermore, the construction industry is one of the riskiest industries in terms of fraudulent schemes (Fauzi et al., 2019). Le et al. (2014) found

companies lose billions in construction costs every year due to fraud. A lack of resources to implement efficient controls to prevent fraud makes businesses more susceptible to fraud (Omar et al., 2016). Small- and medium-sized enterprises (SMEs) have the primary responsibility of creating and implementing processes and controls to oversee employee responsibilities within the workplace (Kennedy, 2017).

The purpose of this qualitative inquiry, using the phenomenology method, was to explore the perceptions of fraud prevention and how they influence risk assessment and contract-negotiation procedures. The perceptions of owners and managers of construction companies in Midwest were explored to understand better the influence of and attitudes toward fraud prevention, informed by fraud theory. This study contributed to theoretical research on risk assessment and fraud prevention specific to opportunities for fraudulent schemes in contract negotiations. Therefore, this study contributed to the overall understanding of small businesses' perceptions of fraud and the influence on risk assessment as it relates to contract-negotiation procedures. Understanding the perceptions of fraud prevention expands the understanding of knowledge gaps within vulnerable accounting processes related to contract negotiations and pre-project planning. Understanding perceptions of fraud prevention influence on risk assessment in contract negotiations provided a foundation for future research on the development of anti-fraud procedures related to these processes. Moreover, this study adds to the literature on owners and managers of construction companies' understanding of fraud prevention, allowing us to incorporate current perceptions and specific processes that are significant for the sustainability of organizations.

## **Research Question**

RQ1: What are owners and managers of construction companies' perceptions of and attitudes toward fraud prevention?

## **Subquestions**

RQa: How does risk assessment influence SMEs' contract-negotiation procedures?

RQb: How does risk assessment influence SMEs' fraud prevention measures?

## **Research Design**

This qualitative study was conducted using the phenomenology method that explored owners' and managers' perceptions of fraud prevention through a purposive sampling of construction enterprises. A qualitative study explores participants' lived experiences to understand how they construct the meaning and substance of a phenomenon (Merriam & Tisdell, 2016). The qualitative research method employed in this paper allowed the researcher to assess the research topic and the effectiveness of exploring the influence of risk assessment on small business owners' perceptions of contract negotiations and the influence of those perceptions on the prevention of fraud.

The method phenomenology was employed to investigate construction owners' and managers' perceptions through interviews and observations. Participants of the study were owners and managers with direct responsibilities in contract negotiation procedures. Merriam and Tisdell (2016) described a phenomenological interview as the primary method for depicting the lived experience of participants. Focusing on the lived experience requires the study to go directly to participants to derive the essence of their day to day lives (Spiegelberg, 1965; Van Manen, 2014).

The use of phenomenology created opportunities to expand the understanding of fraud prevention as perceived by small businesses by asking poignant questions on their knowledge of and safeguards for fraud prevention. Discussing how participants perceived risk in their responsibilities developed a better-understanding as to whether risk assessment influences policies overseeing negotiations. Furthermore, generating dialog concerning risk assessment provided context into how these procedures may influence fraud prevention within the organization.

Exploring perceptions in a population vulnerable to fraud and how these perceptions influenced specific procedures of risk assessment and contract negotiations increased understanding of fraud prevention. Moreover, phenomenology assisted in answering the primary research question, which was formulated to explore the perceptions of and attitudes toward fraud prevention in small businesses through interviews and observations. The results created avenues to improve specific processes common in small businesses in the construction industry, thereby increasing the understanding and deterrence of fraud.

The methods outlined above were employed to explore the influence of owners' and managers' perceptions of fraud prevention on risk assessment and the influence of those perceptions on contract negotiations. This researcher used key components of qualitative data collection, including triangulation, field notes, and constant comparison (Merriam & Tisdell, 2016). The present study also used coding in the data analysis process to generate broad themes and categories (Creswell, 2014).

## **Target Population and Sample**

This section provides descriptions of the population, sample, and participants. In addition, how participants and protection for the study are provided. Finally, the method used to collect and analyze the data is discussed.

### **Population**

The population of the research study consisted of SMEs in the construction industry. The participants included owners and managers with responsibilities in contract negotiations. The sample participants' perceptions of fraud prevention and the influence on risk assessment and contract-negotiation procedures, as analyzed using the phenomenology method, provided a better understanding of the experiences of and attitudes toward fraud in small businesses.

SMEs have been found to continually experience high instances of fraud due to a lack of control procedures overseeing accounting processes (ACFE, 2018). Within the construction sector, organizations are at an increased risk of falling victim to fraudulent schemes due to remote project locations, producing vulnerabilities in oversight and controls (Bashir et al., 2013). This study focused on SMEs in the construction industry using phenomenology to understand the experiences within this vulnerable population.

### **Sample**

The sample participants for the study included owners and managers with responsibilities in contract negotiations. Significant processes essential to the sustainability of a construction enterprise include appropriate risk assessment procedures, pre-project planning, and effective contract-negotiation proceedings (Ashmawi et al., 2018; Doskočil, 2016). Exploring the sample participants' perceptions of and attitudes toward fraud helped generate a better understanding of the experiences of risk assessment and fraud prevention within the greater population.

Furthermore, the participants' perceptions resulted in a deeper understanding of the influence that these perceptions have on risk assessment and contract negotiations. Exploring these perceptions and the subsequent influences expanded understanding of fraud vulnerabilities and prevention strategies as they relate to these significant processes within this industry.

The sample participants consisted of owners and managers with direct responsibilities in contract negotiations for SMEs in the construction industry located in the Midwest. SMEs can be defined as firms that employ fewer than 500 employees (U.S. International Trade Commission, 2010). Losses due to fraud within the construction industry accounted for billions in construction costs (Le et al., 2014). The inclusion criteria in this study limited the sample to SMEs operating within the construction industry, had been in business for at least five years, and were located in the Midwest. Small Business Administration (2012) reported that only half of all businesses survive for five years. The population of businesses with five or more years of experience provided data from organizations that have survived past typical survival rates.

The research used a purposive sampling method of construction enterprises. This type of sampling in qualitative research is used to ensure that relevant data is obtained from information-rich cases using participants with specialized experience and competence (Merriam & Tisdell, 2016). The sample consisted of 12 participants from construction enterprises. Cleary et al. (2014) pointed out that highly relevant information may be obtained by carefully selecting a small number of interviewees and a clearly defined topic of research. The researcher identified participants using appropriate criteria and contacted them through email; then provided the participants with instructions on the nature and purpose of the study, as well as an agreement of informed consent (Merriam & Tisdell, 2016). Owners and managers who did not have direct responsibilities in risk assessment and contract negotiations were excluded.

## **Procedures**

The procedures used for this study included the identification of SMEs within the construction industry in the Midwest using a public database hosted by the state's department of transportation and an industry-specific association from the state of the study. Once identified, businesses meeting the selection criteria for the study were sent an email requesting their participation in the study. Businesses interested in taking part in the study then granted permission to recruit participants via email and ask them to provide consent prior to the face-to-face interviews. The interviews consisted of semi-structured questions to explore and elicit the experiences of and attitudes toward fraud and fraud prevention. Other questions were created to understand further how these attitudes and experiences influenced risk assessment and contract-negotiation procedures. Each interview was audio-recorded and lasted no more than one hour. The interview data were then transcribed and coded to analyze the information to assist in identifying patterns and similarities among the participants' experiences.

### **Participant Selection**

The participants in the study were owners and managers of small- to medium-sized construction businesses with direct responsibilities in contract negotiation. Participants were selected using purposive sampling based on whether they held direct responsibilities in or oversight of contract-negotiation procedures. Purposeful sampling in qualitative research was used to ensure that relevant and sufficient data are obtained from information-rich cases using participants with specialized experience and competence (Merriam & Tisdell, 2016). Using purposeful sampling allowed for deliberate testing of participants within the construction sector located in the Midwest. Additionally, the use of purposive sampling allowed the researcher to contact organizations falling within the category of small to medium-sized enterprises who are

engaged in contract negotiation procedures regularly. The researcher identified construction entities using a query from industry specific organizations.

The businesses contacted granted permission to recruit participants from their organizations. Recruitment letters were emailed to the owners after permission was granted, and the selection of participants was completed within the organizations. Participants were screened by verifying; they had direct responsibility or oversight of contract negotiation procedures within the organization. The participants willing to join in the study then communicated with the researcher via email to set up individual interview times. The interviewees participated voluntarily, and if they were interested, they signed the informed consent form.

### **Protection of Participants**

The participants were given an informed consent form to sign, which notified them about the purpose, procedures, and risks involved in the study. In addition, the form provided information about the participants' right to confidentiality and their ability to withdraw from the research study at any time. Any questions about the study were posed to the researcher via email. The informed consent form was then signed on the day of the interview before any data collection.

Participants were notified within the informed consent form and before data collection that any identifiable information provided would remain confidential. Furthermore, participants were assured that the researcher would not share any personal information with any unauthorized individuals and that all the information recorded during the interviews would be held in a secure safe, accessible only to the researcher. Additionally, the interviews were transcribed using a coding system to conceal the participants' identities. Finally, participants were informed that all coding keys would be kept in a secure safe along with the audio recordings.



## **Expert Review**

The semi-structured interview questions created by the researcher were reviewed by an expert in the field of qualitative research. The expert reviewer assisted the researcher in determining the usability of the guided interview questions and alignment with the research study and research questions. Semi-structured interview questions explore specific issues through a flexible guide of interview questions where exact wording and order are not required (Merriam & Tisdell, 2016). The guiding interview questions used in this research study aligned with the research questions that sought to explore the perceptions of fraud among owners and managers of construction companies. The expert reviewer deemed the interview questions to be appropriate for the research study.

## **Data Collection**

People interested in taking part in the research study contacted the researcher via email after receiving preliminary information from the owners who had previously granted permission to recruit participants in their organizations. The participants received an email response from the researcher, including information about the purpose of the study, procedures, and any risks of participating. Additionally, the participants received a copy of the informed consent form detailing the same information and giving the participants the right to withdraw at any time. Those participants still interested in the study contacted the researcher with any questions and set up an interview time. The participants met the researcher in a public location or a designated area within their organization. Prior to any data collection, the researcher once again provided an informed consent form to the participants and allowed them to review all the information contained within before signing.

Data collection was completed through face-to-face interviews. Interviews were conducted using an audio recorder. The interviewer asked semi-structured questions to explore the lived experience of each participant and understand their attitudes toward fraud. This type of interview allowed the researcher to respond to the situation at hand with no exact wording or order of questions determined ahead of time, thus providing the researcher the ability to use the questions according to the context of each interview (Merriam & Tisdell, 2016). When scholarly jargon is used in interviews, confusion can occur among participants. Patton (2015) explained that the use of particular words or jargon might cause participants to provide nonsensical answers or not answer at all. Questions should be posed in familiar language to avoid the use of jargon (Merriam & Tisdell, 2016). For example, the research avoided using acronyms such as AP for accounts payable, and so on. In addition, the research clearly stated general accounting knowledge by simply asking if the organization compares projected costs to actual costs incurred throughout the project rather than asking if they review the budget to actual. Other data collection methods include field notes, constant comparison, and member checks to capture a complete recording of data (Merriam & Tisdell, 2016; Schensul & LeCompte, 2013). Field notes were taken during and after the interview process, which lasted no longer than one hour. The researcher protected all physical data by storing it in a locked filing cabinet. Electronic data was encrypted during storage, and identifiers were removed from data files.

### **Data Analysis**

Interview audio was transcribed onto an electronic word document by the researcher. One master copy was maintained. Data analysis was accomplished using transcribed interviews, field notes, and coding. Coding assigns a summarized description of the data using a word or short phrase (Saldana, 2013). Using open coding, as suggested by Merriam and Tisdell (2016), the

researcher identified segments of text that were useful in answering the research questions. After identifying categories from open coding, the researcher reexamined the data, as suggested by Creswell (2014), to build upon the core phenomenon and identify categories and subcategories.

Other data analysis tools used in this study include field notes, constant comparison, and member checks, as mentioned in the data collection section above. Merriam and Tisdell (2016) explained the process of categorizing data by reading interview transcripts, field notes, and documents, as well as taking comments, observations, or queries into consideration to identify potentially relevant information.

### **Instruments**

Qualitative research helps scholars understand multiple truths with a subjective view to observe human realities (Erlingsson & Brysiewicz, 2013). A phenomenological approach in qualitative research seeks to understand how participants generate and transform experiences and the true essence of a phenomenon to understand the lived experience (Chan et al., 2013; Gill, 2014; Van Manen, 2014). Understanding what interpretive research means, as well as identifying the social constructs of one's self concerning experiences and the environment, allows researchers to understand and ascribe meaning to their experiences.

### **The Role of the Researcher**

The role of researchers is to explicitly recognize and immerse themselves in the data collection process and the analysis of qualitative research (Merriam & Tisdell, 2016). Qualitative studies require researchers to become part of the study by going through the process of epoche and bracketing personal bias about the phenomenon (Erlingsson & Brysiewicz, 2013).

Qualitative researchers may employ specific techniques to include personal perspectives and insights into their studies, including epoche, bracketing, memoing, and journaling (Merriam &

Tisdell, 2016). Researchers first explore their own experiences and refrain from judgment using the epoche technique (Merriam & Tisdell, 2016). Next, researchers bracket any prejudices or assumptions identified in the epoche process (Merriam & Tisdell, 2016). Researchers may utilize theoretical notes in a memoing format or journal about the preconceptions that they have identified throughout the research process (Tufford & Newman, 2010).

Identifying personal bias of accounting research and industry experience, as suggested by Merriam and Tisdell (2016), the researcher used the process of epoche to bracket prejudices and assumptions related to the research study. By identifying personal biases related to the study, the researcher was able to acknowledge attitudes and opinions and put them aside so they would not affect the research. In this study, the knowledge and background of fraud examination and statistics can be understood and examined in a manner that does not insert preconceived presumptions into the research study. Memoing or journaling can inform the conclusions drawn but allow researchers' roles in data collection and analysis to be explicit.

Incorporating personal perspectives into qualitative research has associated benefits and risks. Merriam and Tisdell (2016) asserted that acknowledging bias and prejudice, as well as exploring researchers' own experiences, benefits research studies. In addition, the risks of incorporating personal perspectives into qualitative research depend on the extent to which people can bracket their own biases related to an activity, event, or phenomenon (Merriam & Tisdell, 2016).

Researchers must be aware of their assumptions and biases associated with their work and remain mindful of these conditions through an ongoing reflective process. These processes may include reviewing field notes, constant comparison, and member checks, as discussed in the data collection section. Researchers first explore their own experiences and refrain from judgment

using the epoche technique (Merriam & Tisdell, 2016). Researchers may utilize theoretical notes in a memoing format or journal about any bias identified throughout the research process.

The necessary standards for qualitative research include credibility, dependability, and transferability (Merriam & Tisdell, 2016). Credibility includes triangulating data and drawing conclusions from multiple avenues (Tracy, 2010). Dependability refers to the reliability of data examined through triangulation and the extent that this process can be replicated (Merriam & Tisdell, 2016). Transferability occurs if the findings may apply to other circumstances or situations (Merriam & Tisdell, 2016).

One cannot observe a phenomenon without changing it, and the experience being investigated depends on participants' constructions of reality and how they understand the phenomenon (Merriam & Tisdell, 2016). The dependability of the data is only reliable to the extent that the human behavior examined can be replicated (Merriam & Tisdell, 2016). Generalizing the data allows researchers to construct relevance elsewhere (Lincoln, 1995) and is difficult in qualitative research since the objective is to select a purposeful sample to understand the phenomenon in-depth, not to find what is generally true for many (Merriam & Tisdell, 2016).

The researcher collected data through interviews, field notes, and participant observation. The researcher was qualified to conduct interviews of participants through previous coursework in qualitative research where interviews were conducted with fellow students as practice. The career experience of the researcher includes over ten years of experience in the field of accounting. The researcher has served both as a public accountant and later as an assistant professor teaching accounting courses at university. The researcher also holds a Certified Fraud Examiner (CFE) certification from the Association of Certified Fraud Examiners (ACFE). Additionally, the researcher has experience in the industry in interviewing candidates for

positions. Further, continued research and reading of books and articles relevant to interviewing have been completed by the researcher.

### **Researcher-Designed Guiding Interview Questions**

Questions for participants:

1. What are your primary responsibilities within the company?
2. What is your perception of risks related to the construction industry?
3. What is your perception of the types of risk related to contract negotiations?
4. What strategies are used to assess risk within the organization?
5. What is your perception of the role of risk assessment in influencing policies and procedures within the organization?
6. What procedures does your organization follow in contract negotiations?
7. What is your perception of the role of management in overseeing contract negotiations?
8. What is your perception of the role of risk assessment in influencing contract negotiations?
9. How long have you performed contract negotiations for the organization?
10. Did you receive any training related to contract-negotiation procedures?
11. Describe the methods of training for employees performing contract negotiations.
12. Are there policies and procedures overseeing contract negotiations?
13. What is the procedure for completing a change order related to a contract?
14. Who has the authority to complete change order requests?
15. How are change orders communicated or reviewed within the organization?
16. How do employees complete change orders that are reviewed?

17. How does your organization review the frequency or number of change orders?
18. What is the procedure for reporting suspected fraud in your organization?
19. How are controls implemented when fraud is suspected?
20. What is your role in performing financial oversight for the organization?

### **Ethical Considerations**

Potential ethical challenges for qualitative researchers include the competence and use of the techniques for incorporating personal perspectives into their studies appropriately. Merriam and Tisdell (2016) explained that qualitative research is connected to the ethics and competence of the researcher and the rigorous thinking about the methods and analysis of qualitative research. For this study, the prevalence of fraud within industries, as well as the way the interviews were conducted, were examined through an ethical lens.

Studies suggest that the interpretation of themes and ideas should reflect some component of the researcher's own experiences and should be identified at the beginning of data collection (Bednall, 2006). Furthermore, bracketing should be established and adopted upon the initiation of the research proposal and not only in the data collection and analysis processes (Chan et al., 2013). Understanding the techniques recommended for immersing the researcher in the study is imperative in upholding the ethics surrounding the research and obtaining the benefits of qualitative research studies.

The current research study adheres to the *Belmont Report* guidelines (U.S. National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, 1979). The organizations that participated in this study operate in the construction industry—the researcher communicated directly with the construction companies selected. During the initial contact, the purpose of the study was disclosed, and the organizations had the opportunity to

agree or decline to participate in the study. Organizations that agreed to participate were provided an organizational endorsement form and site permission form to sign.

Participants were given a detailed explanation of the research study, ensuring anonymity, protection of confidentiality, and disclosing the role of the researcher in the study. Participants interested in the study signed an informed consent form prior to interviews. The anonymity of the participants interviewed was ensured by working with the Institutional Review Board (IRB) and a dissertation mentor to mitigate any risks best. Additionally, the participants were given the right to confidentiality and the ability to withdraw at any point during the research study.

Conflicts of interest with the participants were addressed by confirming that the participants were not current clients of the firm where the researcher was employed. Ethical standards in research require a truthful and responsible design to conduct credible research (Merriam & Tisdell, 2016). Throughout the research study, the mitigation of ethical risks and respect for the participants and justice remained focal points, and data collection was carried out fairly and with the protection of the participants in mind. The researcher accomplished this by maintaining the anonymity of participants, the confidentiality of data collected, and minimizing conflicts of interest by ensuring participants were not known to the researcher.

Potential ethical challenges for qualitative researchers include the competence and use of the techniques for incorporating personal perspectives into their studies appropriately. Merriam and Tisdell (2016) pointed out that qualitative research is connected to the ethics and competence of the researcher, as well as rigorous thinking about the methods and analysis of qualitative research. The researcher maintained a consistent moral compass in obtaining data from participants to appropriately exercise ethical behavior through mitigation of ethical risks to participants—specifically, the researcher-maintained respect for participants and fair data



collection. Physical data from the study is stored in a locked filing cabinet for a duration of seven years. Electronic data was encrypted, and identifiers were removed from data files to ensure the protection of participants. All data will be permanently and irreversibly destroyed after the required seven-year period for data retention. Additionally, anonymity and confidentiality were maintained to mitigate risks to participants. Further, ethical guidelines provided in the *Belmont Report* were reviewed as a refresher for ethics training (U.S. National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, 1979).

In addition, the researcher had competence in the subject area to ask the appropriate questions needed to answer the research questions. Further, knowledge of the method phenomenology allowed the researcher to focus on the experience of the participants in identifying their perceptions of risk.

### **Summary**

The purpose of this research study was to explore the perceptions of fraud and the influence of these perceptions on risk assessment and contract negotiations. The researcher was able to focus on the experience and perceptions of risk by using the method of phenomenology. The population includes SMEs within the construction industry located in the Midwest. The sample of the study includes owners and managers with direct responsibilities in or oversight of contract-negotiation procedures. The sample size for the research study is 12 participants and was determined through the evaluation of qualitative research. The number of participants met the minimum sample size requirements for the study. The research study design consisted of interviews using semi-structured questions. The data collection procedures included face-to-face audio-recorded interviews and field notes.

Chapter 3 includes all the information related to the procedures used for sampling, ensuring the protection of participants, collecting and analyzing data, and addressing ethical considerations. Chapter 4 presents the overall findings of the research study with responses to and interpretations of the outlined research questions.

## CHAPTER 4. FINDINGS

### Introduction: The Study and the Researcher

The problem addressed in this research study explored the perception of risk assessment and the influence those perceptions had on contract negotiation procedures and fraud prevention. Although extensive research on fraud has been conducted in large organizations, small business fraud has been identified as an area in need of continued research (Brody et al., 2012). In addition, the construction industry experienced median losses of \$200,000 annually and 47% of all fraudulent schemes as a result of corruptive activities (ACFE, 2020). While small businesses are vulnerable to fraudulent schemes (Kramer, 2013), a specific application of this vulnerability has not been studied in-depth within the construction sector.

Chapter 4 provides the findings from the twelve participants in the six SME construction businesses. This chapter discusses the findings of the study and how these perceptions impact the organizational processes of contract negotiation and fraud prevention. The results will also include observations made during interviews as well as a review of field notes taken during and after interviews. The first section includes a detailed description of the sample used in the study. Next, the methodological approach applied to analyze the data and the process undergone in the analysis will be provided. The final section will present the data and results of the analysis.

The researcher's interest in the phenomenon to be investigated stems from certification in fraud examination and education and training directly related to fraud prevention. The researcher prepared for data collection through specific identification of personal bias through the process of epoche. Using epoche, the researcher identified personal experience and understanding of the phenomenon to set aside any personal bias before data collection. The significant effect of the researcher's knowledge and experience assisted in the use of semi-

structured interviews to accurately understand participant perceptions. The researcher's education as a Certified Fraud Examiner (CFE) along with the continuing education assisted in the understanding of contract and procurement fraud in the construction industry. The researcher may have influenced the data in the analysis stage of understanding the meaning behind participant responses.

### **Description of the Sample**

The participant sample included owners and managers with direct responsibilities or oversight in contract negotiation procedures. Sample participants for the study were located in the Midwest. Three of the organizations had close to twenty years in business, one organization had forty years, and another had over seventy-five years. The participants included primarily male participants, with the exception of one female. Educational background for participants included four high school graduates and eight with bachelor's degrees. Six of the participants had over twenty years' experience in contract negotiation procedures, while all other participants had five or more years' experience.

All data were obtained through face-to-face interviews with participants, observations, and field notes. Interviews were conducted primarily in the participant's place of business in a conference room separated from normal business operations. One participant was interviewed at a coffee shop location with some interruptions from outside noise and general commotions of a public place. The interruptions caused some disruption of thought for both the interviewer and interviewee and may have affected the course of the interview. Participants interviewed in their organization had little or no disruptions and did not appear to be distracted from the course of the interview. Overall, the interactions followed the desired scope and allowed the interviewer to proceed as planned.

Participants appeared to understand the research study from the information provided in the adult informed consent and any questions asked before the interview proceedings.

Preliminary understanding of the study assisted in the individual's responses to align with the interview questions. However, some participants needed additional guidance on the objective of certain questions. For instance, two participants initially perceived risk as weather-related or a result of other natural disasters. The researcher clarified the meaning of risk in the interview questions as those that occur in the normal operations of contract negotiation procedures. The researcher clarified the meaning of risk by asking participants if controls were overseeing the budget, signoffs, bidding, or change orders related to the project. These clarifications created some additional steps in obtaining participant perspectives related to the study.

Observations of participant workplaces were captured with field notes taken during the interviews. Recorded observations assisted in identifying keywords from narrative responses. Highly descriptive field notes were applied using Merriam and Tisdell (2016) method of detailed observation of the setting and participant behaviors. The substance of each interview was again captured after the interview to gain an overall lens into the specific person and interaction (Taylor & Bogdan, 1984). The researcher determined after all twelve interviews had been completed that no new or significant information would ensue and that saturation had been met. Participants were protected throughout the research study through the mitigation of ethical risks, the anonymity of identity, and confidentiality of information. Additionally, the researcher reviewed the *Belmont Report* (U.S. National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, 1979) as a refresher for ethical training.

## Research Methodology Applied to the Data Analysis

The study employed a qualitative design and a methodological approach using phenomenology. The step-by-step process of data analysis began with open coding to construct categories from interview transcripts. Using open coding, the researcher developed keywords or phrases that described participant responses from the interviews. Next, the researcher went back through the transcripts, coding, and field notes taken from the interviews to group comments and notes that seemed to correspond with one another. The researcher then reflected on the meaning of similar coding and interpreted the data using analytical coding. For example, some open coding keywords identified frequent use of *gut feeling*, *expertise in the field*, and *years in construction*.

Using analytical coding, the researcher grouped these keywords and phrases under the categories of experience, skill, and knowledge. The category was reformulated to identify how they used this experience for risk assessment. Another open coding example identified frequently used keywords of (more or less) *moving parts*, *continual review*, and *manager signoff*. The researcher used analytical coding to group these keywords and phrases under the categories of opportunity, controls, and separation of duties. The researcher reformulated the category to identify the relation to which these components were used in the contract negotiation procedures. Using analytical coding, the researcher analyzed the connected categories to understand better how participants were experiencing the phenomenon. Throughout the analytical coding process, the researcher condensed and reformulated categories to better articulate the message that the participant was providing. Identifying the experiences of participants and considering the purpose of the study, the researcher was able to classify the analytical code categories into themes. Themes were developed by identifying structural qualities of responses to find the

overall meaning or essence of the participant's perception. The research design allowed for an exploratory approach using semi-structured interview questions to allow for flexibility in the interview process. Interview questions were used as a general guide to driving questions around specific issues (Merriam & Tisdell, 2016). In carrying out data analysis, the researcher continually returned to the bracketed biases discovered through the process of epoche to analyze the themes and descriptions in a non-biased manner. The bracketed bias of the researcher included the need for monitoring of contract negotiation procedures, rotation of duties, vendor review, and change order tracking continually.

### **Presentation of Data and Results of the Analysis**

This section provides the procedure for recruiting and selecting participants used within the research study. In addition, this section provides the procedures used to obtain and protect data, interview settings, and the results of participant interviews. Finally, this section will present the results of participant interviews and the data coding developed based on interview data.

### **Procedure for Recruitment and Selection of Participants**

Participants were informed about the study by the organization owner and emailed the researcher back if interested in participating. Four of the twelve participant interviews consisted of owners of the organizations. The researcher relied on the organization's owner to identify participants within their business that fit the criteria of the study's remaining participants. Participants had the opportunity to email or call the researcher with any questions regarding the study. Additional inclusion criteria for the study required participants to be owners and managers with direct responsibilities or oversight in contract negotiation procedures.

After twelve potential participants were identified and gave an express interest in participating in the study, the researcher emailed an overview of the study, along with the adult informed consent letter. Twelve participants signed the consent letter at the beginning of each interview conducted. Data was received through face-to-face interviews with participants, field notes were taken during and after the interview, and public information was obtained from the organization's website. The setting of the interviews took place at the participant's place of employment in a private, closed-door area. Interviews were recorded on a recording device and later stored within a lockbox. Participant information was secured through the use of an alphabetical coding system to conceal the identity of participants.

### **Participant Interviews and Results**

Participants received the adult informed consent letter before the interview. An overview of the study was provided to the participant before and just before the interview, along with criteria for participation in the study. Participants were able to ask questions through email, phone, and before the start of the interview. Recording of interviews was acceptable to all participants, and no questions were raised. Interviews were scheduled for an hour, and all were completed within the time frame. After completing all twelve interviews, the researcher found saturation had been met. A combination of four owners and eight managers participated in the study. All of the participants had over five years' experience in the industry working with contract negotiations. Over half of all those interviewed had over nineteen years' experience, a bachelor's degree, or participated in yearly continuing education training. Table 1 summarizes participants in the research study.



**Table 1***Participant Identification*

Company	Participant	Participant Years' Experience	Participant Education	Organization Years in Business	Owner
A	A1	24	Bachelor's degree	40	X
B	B2	20	Bachelor's degree	75	
	B3	20	Bachelor's degree		
	B4	30	Bachelor's degree		
C	C5	20		20	X
D	D6	20		13	X
E	E7	10		19	
	E8	5	Bachelor's degree		
	E9	19			
F	F10	5	Bachelor's degree	20	
	F11	9	Bachelor's degree		
	F12	5	Bachelor's degree		

**Data From Interviews**

All research data was retrieved through in-person interviews, field notes, and constant comparison. Each organization undergoes contract negotiation procedures several times throughout a given year. Interviews were conducted in late winter 2020 at the participant's organization. One interview took place at a coffee shop at the request of the participant to save the researcher on driving time. Participants were identified using an alpha-numeric system to maintain confidentiality. The phenomenological study consisted of six organizations. Four participants were owners of the business and had over nineteen or more years' experience. Eight of the participants held a bachelor's degree and participated in continuing education related to industry practices. Coding procedures began with open coding to develop keywords describing interview transcript data. Coding procedures then moved into axial coding to identify links among the constructs found in open coding. The researcher then analyzed the coding by integrating the interview question topics of risk assessment, contract negotiation, and fraud

prevention in the analysis. The primary topics driving the interview questions were used to develop analytical coding that tied the transcript data back to the research questions for the study. The researcher used open coding to identify keywords and phrases *working with the same clients, solid work history, and feels right*. Moving into axial coding, the researcher found links from these words and phrases and reexamined the transcripts and field notes to identify and group the words into the category of *trust*. The researcher reformulated the category of *trust* to fall under the methods of *fraud prevention* after finding direct links into the category of interview questions. A summary of each participant is provided for understanding of their roles and responsibilities.

**Participant A1.** The primary roles and responsibilities of the participant include estimating, contract negotiation, and contract administration. The participant did not view fraud as a risk in the organization or believe risk assessment was necessary for contract negotiation procedures. Participant A1 explained, “there are a lot of things I am concerned about in bidding work, but fraud has not come up. More so, can we get the job done?” Although the participant viewed risk as a prominent factor in the construction industry, the participant did not believe fraud was a factor in their specific company.

**Participant B2.** The primary roles and responsibilities of the participant include bidding, cost analysis and review, financial reporting, review of change orders, budgeting, contract negotiation, and contract administration. This participant viewed risk as situational depending on the size and complexity of a project. The participant views fraud as a significant factor in the industry, specifically about the contract negotiation of vendors and suppliers. Participant B2 indicated, “for this company, we’ve actually had some fraud take place. There was an employee who was hooked up from the outside with a material supplier.” Although the fraud had occurred

within this organization, other participants from the same organization were not aware of the fraudulent activity.

**Participant B3.** The primary roles and responsibilities of the participant include contract negotiation, project management, and contract administration. This participant viewed risk as situational depending on the size of a project. Participant B3 described, “my experience, I have not witnessed any fraud in construction.” The participant did not view fraud as a factor in the industry and did not believe risk assessment was needed in overseeing contract negotiation procedures.

**Participant B4.** The primary roles and responsibilities of the participant include contract negotiation and contract administration. The participant viewed risk as a prominent factor in the industry and believed risk assessment was necessary for overseeing contract negotiation procedures. Participant B4 indicated, “I wouldn’t worry about fraud prevention since that’s above my level. But risk assessment is happening during bid time.” The participant also viewed fraud as a risk if specific procedures were not implemented within an organization.

**Participant C5.** The primary roles and responsibilities of the participant include estimating, bidding, contract negotiation, and contract administration. Participant C5 detailed perceptions of risk in construction as, “I think the number one risk is getting lax about long term employees. Keep an eye on their personal situations and make sure they are being compensated enough.” The participant believed risk was inherent in construction industry procedures, and fraud prevention should be exercised in all areas, including contract negotiation procedures.

**Participant D6.** The primary roles and responsibilities of the participant include bidding, contract negotiation, and contract administration. The participant did not believe risk assessment was necessary and did not view fraud as a risk to the organization. Participant D6 detailed his

perception of fraud within the organization as, “I do not know of any fraud. Maybe I suppose bigger contracts. I just don’t see where it’s really possible for our company.” Rather than believing fraud may be an issue within the organization, the participant believed a family operated business provides better safeguards than other small businesses that are not family-owned and operated.

**Participant E7.** The primary roles and responsibilities of the participant include bidding, contract negotiations, and contract administration. The participant believed risk assessment was necessary for overseeing contract negotiation procedures but did not believe fraud was a factor. When asked about fraud, the participant provided the following response.

It seems like it may be easier to develop relationships of collusion with specialized work types because there are fewer contractors that do that work, so you are going to see the same people every time you need that type of work done.

**Participant E8.** The primary roles and responsibilities of the participant include contract negotiation, contract management, and contract administration. The participant believed risk assessment was necessary for overseeing contract negotiation procedures and believed fraud was a factor for larger organizations. When asked about fraud, the participant responded, “I think since we are fairly small, we do not have to worry about fraud so much, and that helps reduce those risks.” The participant stated evaluating risk throughout contract negotiations was important to offset risk factors during the project.

**Participant E9.** The primary roles and responsibilities of the participant include overseeing contract negotiation and project management. The participant viewed risk as a prominent factor and believed risk assessment was necessary for overseeing contract negotiation procedures. When asked about fraud, the participant responded, “I think being a smaller construction company, we do not have to worry about fraud. With supplies maybe, a payoff of

goods or something, but I think it would be hard to do something fraudulent from that standpoint (here).” The participant also viewed fraud prevention measures as necessary for overseeing practices and procedures within the company.

**Participant F10.** The primary roles and responsibilities of the participant include contract negotiation, budgeting, subcontractor relations, and risk management. The participant viewed risk assessment as an essential piece of contract negotiation procedures. The participant also viewed fraud prevention measures as necessary for overseeing practices and procedures. When asked about fraud, the participant provided the following response.

I would say it is not something we actively worry about. We have enough experience that those of us that have seen it, the experience will take over, and you know we will adjust and change things accordingly on how we are doing stuff. But I would say it is an issue we have with having fraud all over the place.

**Participant F11.** The primary roles and responsibilities are contract negotiation of subcontractors, contract administration, and project management. The participant viewed risk assessment as necessary in overseeing procedures within the company. The participant also believed fraud prevention was necessary for managing risk. When asked about fraud, the participant provided the following response.

I think that depends a lot on how you define fraud. Simple economics of supply and demand, when times are good, and there is plenty to go around, I’m sure there are markups on contracts, and they’re still able to get the job.

**Participant F12.** The primary roles and responsibilities are contract negotiation of subcontractors, change order review, and project management. The participant viewed risk assessment as necessary in overseeing contract negotiation procedures. The participant also viewed fraud prevention as necessary for overseeing policies and procedures. When asked about fraud, the participant provided the following response.

I don't know if it's an issue. It is definitely present. But I would not say it is an issue. We have a lot of documents in place being a mid-sized company. There's a lot of processes and procedures in place overseeing our work.

### Data Collected

The researcher identified topics from interviews using open coding. Table 2 outlines the major topics derived from interviews. Topics were discovered from interview questions about the participant's perception surrounding risk, contract negotiation procedures, and fraud prevention within the organization and industry.

**Table 2**

*Major Interview Topic Categories*

Risk Assessment	Contract Negotiation	Fraud Prevention
Experience	Controls	Trust
Skilled	Opportunity	Communication
Knowledge	Separation of Duties	Culture

### Risk Assessment

The process of risk assessment was managed slightly differently among each organization. Risks were identified before submitting a bid and continued through the evaluation of subcontractors. If the company submitted a bid and won the project, contract administration and project management procedures began immediately. Although four companies exercised risk assessment prior to bidding, continual review of risks during negotiation procedures did not occur with the other two organizations.

Participant's perceptions of risk varied across all organizations. Three participants did not view risk as a factor within their organization or necessary for evaluating contract negotiation

procedures. Nine participants viewed risk as inherent in the construction industry and within their organization. The nine participants who believed that risk was a significant factor in the construction industry also believed it was necessary to examine risk in business operations. Participant B2, in response to questioning about risk assessment, “risk is a huge part of what we assess as we bid projects. And as a project is started and built and finished, you are constantly assessing what is our risk if we decide to do this.” Knowledge and experience in construction were found to be the most important aspects in developing skilled knowledge of risks in construction among all of the participants interviewed. Participant F10 stated, “at least being able to know where things are in contracts and how to go look for stuff within a contract. From what’s risk standpoint, that’s really just learned experience of reviewing them but also negotiating them.”

Participants were asked what their perceptions of risk were related to the construction industry and their organizations. Participants who did not view risk as a problem within their organization shared the perception that experience, and knowledge of the field are how they overcame risks. Eleven of the 12 participants believed that repeated use of subcontractors in projects reduced the risks in contract negotiations. Participant A1 responded, “Primarily, the factor that we use in risk is experience.” Participant B3 responded, “We have a pretty good relationship with the subs (subcontractors) we work within this area. The DOT work that we do is similar types of work.” One participant believed that working with the same subcontractor may lead to fraudulent activities. Participant E7 stated, “If you work with the same guy ten times a year for twelve years, then they are going to develop a relationship that may be easy to give kickbacks.”

Participants who viewed risk as a significant factor in the construction industry and to their organization also found experience, knowledge, and skill in the field to be prominent factors contributing to risk assessment. Participant F10 responded, “A lot of it is gut feeling and experience. So, no contract is ever reviewed by one person.” Participant B2 also emphasized the size and scope of the job impacts the amount of risk but experience in the field is what determines the overall risk factor.

### **Contract Negotiation**

Contract negotiations occurred at the onset of evaluating a bid proposal for all organizations. Review of subcontractors, vendors, and suppliers were all determined before submission of a bid. Negotiation procedures could occur in a short period and require a quick turnaround of proposals from subcontractors for all organizations. Participants from all organizations indicated final contract negotiations occurred before submitting a bid. Participants found it difficult to perform a risk assessment in the pre-project stages because of the lack of time given before bid submission deadlines.

When asked about pre-project planning before submitting a bid, participant B4 responded with the following.

The problem is there's just not enough time. Sometimes when things are changed before the bid, it puts the contractor at a disadvantage in trying to submit an appropriate bid. Some of the plans have 1200 plus pages and could have 3,4 or 5,000 revisions to it (them). So, there's just no time.

Organizational controls, separation of duties, and opportunity were all significant categories found in participant responses related to contract negotiation procedures found in participant responses. Participant B2 provided the following response.

You will know which items have more risk or ok; this item has more moving parts to it. If you are wrong on an assessment of something, it will impact those potential costs. So,



making sure we are asking, have you covered x or y, and if there is a variable there that is unknown, you either need to place your best estimate. We do not exact things. So, we put our best estimate at it, but I also have to let our owner know, ok, here's where our risks are before we turn those numbers in.

Participants identified as owners all found a separation of duties to be important in mitigating opportunities for fraud in contract negotiation procedures. When asked about controls over contract negotiations, participant A1 responded, "I don't feel like I need to put in those controls because I'm usually involved in all of it. I can see if a business has two or three different locations, they will need those controls."

Participants were asked about their perception of management, overseeing contract negotiations, and administration. E8 responded, "We have a standard contract we use, but everybody makes changes. Everybody usually wants to push their risk off to someone else." When asked if pre-project planning carries more of the risk than the actual project management piece, F12 responded.

Yes, definitely. I can only adjust so much based on what the contract says. The only way to get (around) things (agreed upon in the contract) would be through arbitration or litigation after the contract is signed. So, if it is planned out well, then you avoid those risks.

For that reason, all participants emphasized the need for effective pre-project planning before entering into contract negotiations to mitigate the need for significant changes. All participants emphasized the risk the organization bears after entering into an agreement and the need to understand all the working parts in a contract to mitigate risks.

### **Fraud Prevention**

Fraud prevention measures were not instituted in all organizations. Three organizations that implemented prevention measures had already experienced instances of fraud within the organization. One of the organizations implemented better monitoring and controls over

processes after the fraud occurrence. Another organization indicated that it was a part of doing business, especially when times are good. The third organization did not go into detail about the instance but did say the processes are in place to reduce opportunities for fraud. In addition, participants who did not view fraud prevention as necessary did not reveal whether prior instances of fraud had occurred within the organization. Other participants who found fraud prevention to be a significant component of operations but did not reveal whether their organization had experienced fraud did provide detail into direct advisement of an owner and other manager directing them to take precaution in this area. Ultimately, all the participants who did not have experience with fraud in their organizations agreed fraud prevention measures were imperative, but only for organizations larger than their own. Although the participants did not all have the same perception of fraud prevention, they were all aware of the terminology and agreed on the objectives behind preventive measures.

Trust, communication, and culture were all found to be significant categories found in all participant responses related to fraud prevention measures. Four participants did not view fraud as a significant threat to their operations, while the remaining eight found it to be important in their examination of risk. Participants who did not believe fraud was a factor their organization needed to be concerned with believed open communication and a culture of trust inherently mitigated fraud. B3 responded that open communication deters fraud and that, in their perspective, fraud is not a factor of concern for the organization. A1 responded, “We’re pretty small here. So, we just communicate with each other easily. I could see where another place that has several outlets would need constant communication, but in our place, it’s pretty small.” A1 also believed the business being primarily family-owned and operated helped in the organization not having to worry about fraud. Participants who viewed fraud as a significant factor explained

that the policies and procedures in their organization had been refined over time. B2 detailed an instance of fraud at the organization before the proper implementation of control procedures. B2 stated the following.

The individual was hooked up with a material supplier outside the company. The dollar amounts were off. This individual was approving the invoices, and payment was being made to that company, and then the person from that company was – yea. So now the way we are set up is there are a few more (policies and procedures).

Participant B2 explained how much the company had enhanced the policies and procedures overseeing business operations. One of the most significant policies B2 felt was the most beneficial was for managers to sign off on all payments to suppliers and for upper management to sign off for larger payment amounts. Participants emphasized the large amounts of money that changed hands and the difficulty of monitoring each line item of million-dollar contracts. B2 explained the following.

Some of our contracts are up to seventy million dollars, so you are dealing with a lot of money changing hands. You could potentially have forty to fifty percent subcontractors out of that 70 million, but for us, the exposure comes to us from the trucking costs and materials and purchasing. So, there is a constant influx of dollars coming in and dollars going out.

F10 stated that over time, the organization had implemented a third-party audit to oversee operations and stated that the culture of the organization was one of its strongest attributes and developed an atmosphere of accountability.

### **Development of Coding**

Interviews of twelve participants were conducted across six organizations within the construction industry. The primary focus of the interviews surrounded perceptions of risk assessment, contract negotiation procedures, and fraud prevention measures to tie the results back to the research questions of the study.

## Research Questions

RQ1: What are owners and managers of construction companies' perceptions of and attitudes toward fraud prevention?

## Subquestions

RQa: How does risk assessment influence SMEs' contract-negotiation procedures?

RQb: How does risk assessment influence SMEs' fraud prevention measures?

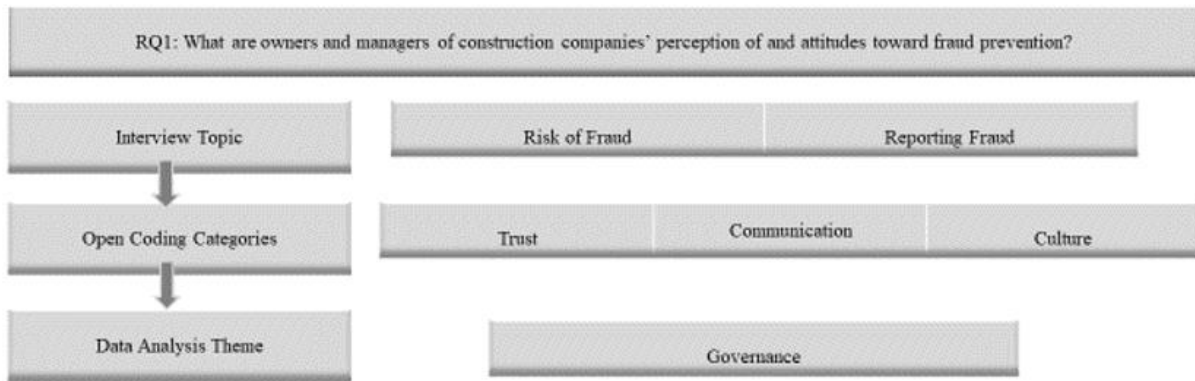
Interview data and field notes were reviewed to develop open coding categories. Using axial coding, the researcher identified significant themes of expertise, fraud prevention, and culture. Open coding found experience, skills, and knowledge falling under the theme of expertise. Controls, opportunity, and separation of duties were found using open coding and further narrowed into the category of fraud prevention using axial coding. Finally, trust and communication were identified in open coding and further narrowed into the theme culture under axial coding.

Open coding categories were developed using responses to interview topics to generate keywords representing the meaning behind participant perceptions and lived experiences. Category development is an intuitive process by the researcher, pulling from personal knowledge and experience, the explicit meaning given to the phenomenon by participants, and informed by the purpose of the study (Merriam & Tisdell, 2016). The category groups identified in Table 2 were further analyzed into four underlying themes of governance, strategic planning, policies and procedures, and fraud prevention. Using open coding, the researcher identified a *continual review*, *manager signoff*, and *manager approval*. The researcher reevaluated the keywords and phrases to group the categories into control and separation of duties. These codes were then

reformulated to fall into the theme of fraud prevention and policies and procedures. Figure 1-3 outline the coding for the primary research question and sub-category questions.

**Figure 1**

*RQ1, Interview Topics, Open Coding Categories, and Data Analysis Themes*



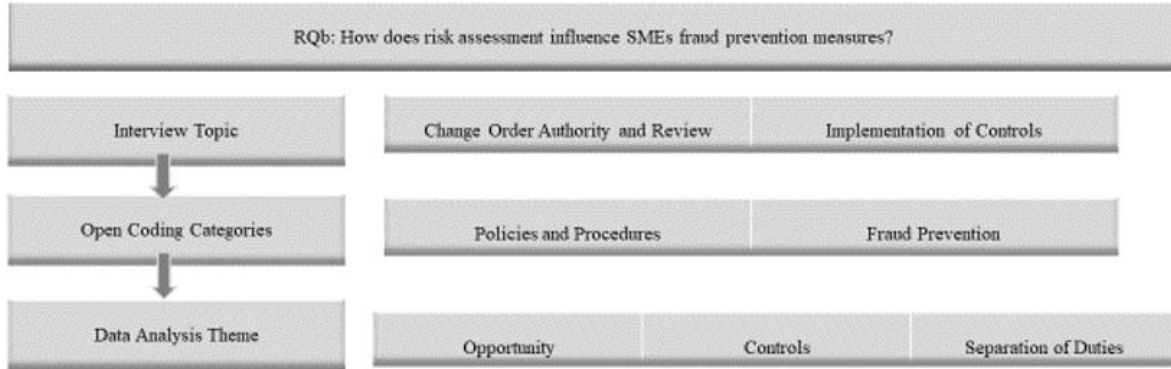
**Figure 2**

*RQa, Interview Topics, Open Coding Categories, and Data Analysis Themes*



**Figure 3**

*RQb, Interview Topics, Open Coding Categories, and Data Analysis Themes*



### **Data Analysis and Results**

Axial coding was used to develop themes from identified open coding categories.

Interview questions related to RQ1 and the risk of fraud and reporting of fraud were developed to elicit participant’s perceptions of fraud prevention. The researcher returned to the open coding categories to combine categories of similarity to find tentative themes generated from participant responses. Participants emphasizing a “gut feeling” or “instinct” about who to put in charge of a job were grouped into the open code category of trust. Participants who stated their organization had an open-door policy were grouped into the category of culture. Participants who perceived continual contact with a project manager and open communication with all members were grouped into a category of communication. Participant F11 stated the following.

I think our culture is one of our strongest attributes. They have developed a pretty awesome culture of accountability. In our jobs, not from a punitive standpoint, but an own up, learn and teach others, so we do not make the same mistakes over and over. So, it starts at the top. No one is afraid to speak up.

Participants reported trust, communication, and culture as prevention measures that mitigate the risk of fraud. The three categories underscored an overall theme of governance and a framework built on these categories described by participants.

Interview questions related to RQa and the influence of risk assessment on contract negotiation procedures were developed to understand whether the analysis of risk impacted negotiations. Perceptions of risk and training of employees related to contract negotiations were asked to elicit participant's perceptions of risk within the organization and in the construction industry. The primary categories developed encompassed employee's experience, skill, and knowledge of the industry.

Participants highlighted working with subcontractors, and material suppliers used in prior projects influence a bid price. If an organization is deemed risky or has not worked with the contractor previously, participants indicated an increase in bid price is used to accommodate for the potential risk of using a new organization. A1 indicated the following.

If from a past experience working with them if something had come up. That is all factors of risk for us. And how you feel giving one type of price to one person as opposed to what we do for another.

Adjusting prices based on gut feelings and past experiences were consistent in all participant responses. Knowledge and skills were found to be gained from each job and the years of experience of a project manager. The researcher performed axial coding on identified open coding categories by reexamining participant responses to identify whether all participants viewed these categories in the same manner. All participants viewed knowledge, skills, and experience as organizational strategies to evaluate risk. The researcher used axial coding to identify the overall theme of strategic planning in relation to the primary open coding categories for RQa.

Interview questions for RQb related to how risk assessment influences fraud prevention measures and the controls developed, change order policies, and review. The primary categories derived from these questions pertained to opportunity, controls, and separation of duties. Participants underscored continual monitoring and frequent review of project administration as controls to pre-project planning and contract negotiations. Participants also viewed relationships with subcontractors as deterrents in opportunity for fraud. B2 stated the following.

There are chances for fraud but one of the things that helps eliminate that is the typical companies we are dealing with. We know who these people are and what they are doing. If we get a quote from someone we have never heard of, we will most likely lay it on the side unless we do a little digging of who they have worked with, what types of projects they have been on (a part of).

Separating the duties of managers was also viewed as a deterrent-to fraudulent schemes.

Participant F10 provided the following.

We all end up sitting together and going through each contract. Unless it is a client we have worked with several times before, then that process is a lot quicker. It is just a quick check to see if anything has changed. Which sixty to seventy percent of our clients are repeat clients, so there's only higher levels of scrutiny with new clients.

The overarching themes developed using axial coding for RQb were *policies and procedures* and *fraud prevention*. Participants viewed fraud prevention as a natural ability derived from working with the same companies on a continual basis. Policies and procedures were emphasized only when new companies were brought into the equation; otherwise, a brief review was completed for repeat negotiations.

### Summary

The research study presented data that highlighted the existence of fraud in small to medium-sized enterprises. The research study provided detail into the prevalence of fraud in the construction industry and the need for additional research surrounding fraud in small business.



To properly understand the understanding of fraud in this vulnerable population, the researcher interviewed participants across six organizations to better understand the perceptions of fraud in this group. Prior to this study, there has been limited research in understanding the experiences of those working in small businesses. Participant's perceptions of fraud allowed for further understanding of the scope of fraud occurring among these businesses. The researcher discovered perceptions of risk within small construction businesses and how risk assessment influences contract negotiation procedures. In addition, the researcher discovered the perceptions of fraud within this group and how policies and procedures have been further refined over time to prevent fraudulent schemes. The research discovered disparities in the overall perceptions of risk and the implementation of a developed strategic plan. The themes identified in the coding categories developed understanding into the governance structures of management roles and guidelines overseeing negotiation procedures in preventing fraud. The research also discovered gaps in the clear implementation of policies and procedures to prevent fraud schemes.

In summary, Chapter 4 provided results of the interview data, open coding, axial coding, and identified themes to understand better the perceptions of risk and how these influence contract negotiations and fraud prevention. In Chapter 5, the researcher will conclude with a final evaluation of the research questions and how the study completed its intended purpose. Additional evaluation of implications to businesses and future research will be discussed in chapter 5.

## **CHAPTER 5. DISCUSSION, IMPLICATIONS, RECOMMENDATIONS**

Resource limitations, lack of awareness, and excessive trust in employees have all been found to be factors contributing to fraud in small businesses (ACFE, 2020). Fraudulent schemes found within the construction industry have been attributed to incomplete bid estimates and lack of controls and monitoring procedures (Osei-Tutu et al., 2010). Despite the growing emphasis on anti-fraud controls in smaller organizations, a lack of internal controls contributed to over 30% of all fraud in small businesses (ACFE, 2020). This study aligns itself with previous research in emphasizing the evaluation of risk in the pre-project stage of contract negotiations. In addition to identifying a lack of strategic planning to evaluate risk in pre-project planning phases, participants also considered fraud to be a vulnerability for larger organizations only. This chapter of the dissertation will discuss the results of the study and its conclusions based on participant perceptions. This chapter will also suggest the limitations and implications of the study and recommendations for further research.

### **Summary of the Results**

The purpose of this qualitative study using the method of phenomenology was to explore perceptions among owners and managers of fraud prevention and the influence of these perceptions on risk assessment and contract negotiation. Small businesses employ almost half of all employees in the U.S. and 4.5 million in construction alone (U.S. Small Business Administration, 2018). At the same time, 47% of all fraud in construction occurs because of corruption, and 22% due to billing schemes (ACFE, 2020). A considerable amount of research exists on fraud in small businesses and the need for such businesses to understand how and why it occurs (Kramer, 2013). However, the awareness and understanding of fraud concerning the evaluation of risk in pre-project contract negotiation procedures remain unexplored. This study

found that evaluating risk in the critical pre-project planning stages of contract negotiations assists in the identification and development of fraud prevention measures. This study contributes to the theory of fraud by focusing on risk assessment as a method of identifying potential opportunities for fraud specific to contract negotiation procedures. Analyzing past research revealed that anti-fraud policies, codes of conduct, managerial reviews, and anti-fraud training were effective measures in reducing fraud losses (ACFE, 2020). Results of this study support the findings of previous research studies that small businesses are most vulnerable to fraud due to perceived organizational weaknesses (Kramer, 2013). Organizations in the study that experienced instances of fraud corrected their control procedures to prevent fraudulent schemes from recurring in the same domains. Increased awareness surrounding fraud has been found to have significant effects on fraud prevention (Yuniarti & Ariandi, 2017). These findings correlate with the participant responses. Participants' awareness of fraud was dependent on the organization's experience with fraudulent behavior and the extent to which they believed fraud was relevant to their organization.

Using the phenomenological method of qualitative research was appropriate for exploring the owner's and manager's perceptions of fraud and understanding the influences of these perceptions on risk assessment and contract negotiation. Interview questions categorized questions under risk assessment, fraud prevention, and contract negotiation. Participants who had direct responsibilities for, or oversight of, contract negotiations were interviewed in-person. Interviews with 12 participants from six construction companies were completed. Open, axial, and analytical coding of interview transcripts and field notes were completed to identify key categories and related themes in the data. Key identified categories included trust, communication, culture, experience, skill, knowledge, opportunity, controls, and separation of

duties. The four themes developed from the key categories included governance, strategic planning, policies and procedures, and fraud prevention. The culture of the organization and overarching theme of governance were extrapolated from participant responses on evaluating risk and reporting channels for potential fraud schemes. Participants identified trust and open communication as an underlying foundation for risk assessment and fraud prevention.

Additionally, participants' experience on the job assisted in understanding where potential risks arose and provided a framework for strategic planning.

### **Discussion of the Results**

The results of the participant interviews provided answers to the study's primary research question and sub-questions. The primary research question RQ1 focused on owners and managers of construction companies' perceptions of and attitudes toward fraud prevention. Although participants were aware of fraud, they did not perceive fraud as an issue for smaller organizations. While 3 of the organizations in the study had directly experienced fraudulent activity, participants regarded these instances as temporary setbacks that were resolved with additional processes and procedures. Governance of participating organizations included high levels of trust in employees and the use of open-door communication. Perceptions of and attitudes toward fraud were founded on the belief that a familial culture and an atmosphere of trust could reduce or prevent it. Ultimately, participant organizations believed fraud to be a problem reserved for larger organizations.

### **Research Question**

RQ1: What are owners and managers of construction companies' perceptions of and attitudes toward fraud prevention?

## Subquestions

RQa: How does risk assessment influence SMEs' contract-negotiation procedures?

RQb: How does risk assessment influence SMEs' fraud prevention measures?

The first sub-question, RQa, focused on how risk assessment influenced SMEs' contract negotiation procedures. The research study found that risk assessment was viewed as an activity used in project administration after the contract negotiations were completed, and the bid was won. Additionally, strategic planning within the organizations was developed based on prior experience in the field. The mode of assessing risk and adopting procedures to mitigate risk areas were established through knowledge and skills obtained from working on multiple projects. Well-developed strategic planning was absent in evaluating risk and formulating strategies in contract negotiation procedures. Instead, participant organizations increased pricing for new subcontractors and conducted limited reviews of subcontractors with whom they had previously worked. Participants explained that there was inadequate time to assess risk properly before winning a bid. Contract negotiation procedures occurred in short periods, with some final quotes from subcontractors submitted within hours of a bid submission deadline. Given the significant quantity of page numbers in the given project scope, participants explained that there was no time for a thorough review of each line item, a retrieval of subcontractor bids, and verification of vendor and supplier information. Without a well-developed strategy to assess risk in contract negotiations, organizations are reliant upon the employees' experience and ability to identify risk areas. If circumstances change, and these employees leave the company or are unable to provide sufficient evaluation of potential weaknesses, the organizations are left to rely on external subcontractors, vendors, and suppliers. Understanding the identified deficiencies in appropriate checks and balances and oversight functions draws back to the conditions that facilitate

fraudulent schemes. Fraud theory identifies pressure, opportunity, and rationalization as the conditions that facilitate fraudulent behavior as presented in the fraud triangle (ACFE, 2018; Cressey, 1950). The theoretical framework for this study identified risk assessment, internal controls, governance, and fraud as the specific constructs supporting fraud theory. Risk assessment evaluates potential opportunities and weaknesses within operations to develop proper internal controls and governance measures to deter fraud. The study identified the absence of appropriate risk assessment in the planning stage of a project cycle. Appropriate evaluation in this stage of the project cycle will assist in identifying opportunities for fraud schemes and the control and governance measures needed to prevent fraud.

A second sub-question, RQb, focused on how risk assessment influenced SMEs' fraud prevention measures. Participants understood risk assessment as continuous monitoring of projects, budgets, and change orders after a bid had been won. Monthly or weekly meetings occurred, depending on the size and scope of the project, to review the project completion timeline, compare the budget with actual costs, and assess the extent and number of change orders. Participant organizations employed proper controls for project management, authorization of change orders, and review processes. However, potential collusion within these areas seemed to be overlooked. Focused attention on project completion and adherence to the budget was of primary importance for participant organizations. Although risk assessment occurred in the project management stage, the study found an absence of controls in pre-project planning and contract negotiation procedures. Given the continuous review of projects in the administration phases, participants did not perceive fraud to be a risk in the earlier phases of the project timeline. These findings indicate a lack of proper controls and oversight in the planning and contract negotiation stage. An absence of proper controls in this area creates potential

weaknesses where opportunities for collusion and fraudulent schemes could occur. The conditions for fraud presented in the fraud triangle identify opportunity as a catalyst for fraud when a perceived pressure exists, and subsequent rationalization can occur (Albrecht et al., 2016). The opportunity to commit a fraudulent act may occur if a perceived pressure occurs with an employee that has significant responsibility in the planning stage of a project cycle. Proper assessment of risk is therefore imperative to identify and deter opportunities for fraud. The research questions for this study explored the perceptions of fraud and the influence of risk assessment on contract negotiation and fraud prevention.

Although participants viewed fraud prevention as a component affecting the construction industry, participants believed the oversight of project administration offset any vulnerabilities to fraudulent schemes. For RQ1, participants' perception of and attitude toward fraud prevention was that prevention measures existed in the form of trust in employees and familial culture. For RQa, risk assessment was only conducted when a new subcontractor was used; otherwise, the procedure was found to be a summary process with a minimal appraisal. For RQb, risk assessment was found to be heavily implemented in the project management stage, after the signing of contracts. Participants indicated that risk assessment in the pre-project stage was absent due to a lack of available time while submitting a bid. Although risk assessment influences fraud prevention measures in the project management stage, appropriate measures seemed to be lacking in the negotiation stage. The research found that 19% of fraudulent cases involved unusually close associations between vendors or customers and employees (ACFE, 2020). Although risk assessment and fraud prevention measures were thoroughly developed after the signing of contracts, fraud schemes embedded in a contract could be overlooked. Adherence to the budget and timely completion of projects are reasonable measures, but fraud schemes

could be overlooked if they were already established in the project budget. Prior research has found a lack of planning as a significant predictor for adverse consequences due to the risks and uncertainty that exist in projects (Adeleke et al., 2018). Fraudulent schemes such as bid-rigging, kickbacks, substituting or removing material, vendor fraud, or subcontractor collusion may occur before a bid has been secured. Given the participant's explanation that the evaluation of contracts and budgets occurs after a bid is won, fraudulent schemes may never be caught if they are entered into the contract in the pre-project planning stage. Interpretation of these findings indicates the need to enhance strategic planning in the pre-project planning stage of contract negotiation by developing risk assessment and fraud prevention strategies. These findings indicate an absence in determining the appropriateness of cost estimates by comparing subcontractor bids. Additionally, specific breakdown of work structures, including materials, quality, time, and budget, are significant areas of potential risk that should be closely monitored before bid submission. Without a proper framework for evaluating cost and work structures, organizations may enter into a bid where opportunities for fraud schemes were possible. Identifying these potential fraud schemes may be difficult after contract signing, given the time constraints of project management.

Strategic planning, fraud prevention, and policies and procedures were the primary themes driving this interpretation. Although participants viewed years' worth of experience in construction as a key factor in evaluating risk, the policies and procedures overseeing negotiations were absent. The use of situational analysis in the pre-project stage would enhance the strategic planning of organizational projects. A situational analysis, or SWOT analysis, helps a company to determine internal strengths and weaknesses and external opportunities and threats to discover potential risks (Williams, 2019). The SWOT analysis is one element in the



preliminary stages of strategic planning. Strategic planning using a SWOT analysis may assist organizations in developing strategies to counter possible weaknesses and threats in operational tactics. Further, strengths found within the project management stage of risk assessment and fraud prevention may be implemented in the pre-project planning stage.

Moreover, oversight and controls for fraud prevention were in place to oversee the project administration phases but were deficient in the pre-project stage of contract negotiation. Implementing a strategic plan to detect risk and potential fraud opportunities may assist in preventing fraud occurrences. Internal controls and separation of duties are central to fraud prevention strategies (ACFE, 2020). Focusing on implementing these factors concerning the internal strengths and weaknesses of contract negotiations may help direct risk assessment where it is most needed and enhance fraud prevention strategies.

Small businesses have been found to place significant amounts of trust in their employees (ACFE, 2018). In addition, small businesses experience 33% of all fraud schemes, with over 15% occurring in operations, due to fewer anti-fraud controls compared to larger organizations (ACFE, 2020). Anti-fraud controls and oversight of operations are essential for small businesses to prevent, deter, and detect fraud appropriately. Furthermore, controls overseeing the pre-project stage of contract negotiations are imperative to identify areas of risk where fraud prevention measures are needed. Prior research has shown that small businesses are more vulnerable to fraud, given the lack of resources to implement appropriate controls (Kramer, 2013). However, participants viewed the evaluation of risk as a time constraint rather than a cost constraint, indicating a need for proper guidance in this area of pre-project planning. Further, the evaluation of risk occurred continually in all organizations in the project administration phase, indicating that the awareness of risk was clear for this stage. While the absence of fraud prevention was

found in the pre-project stages, significant risk assessment and preventive measures were implemented in the project management stage. These findings show that SMEs are aware of fraud but focus their time and resources on the latter stages of the project cycle. Given the emphasis on a lack of time in the planning and contract negotiation stage, increased attention to appropriate timetables for bid submission may be an area of interest for the construction industry. Although project completion times are important, owners' project schedules are typically planned for several years. Ensuring that bid submission processes adhere to reasonable timetables may assist in minimizing fraudulent schemes within this industry. These findings indicate an evaluation of risks could be completed using a prepared framework that could be used across various projects. Identifying potential weaknesses in project planning may assist organizations in their decision-making and problem-solving to maximize strength areas and meet project objectives. Additionally, implementing a framework for evaluating risk in the planning stage may contribute to identifying weakness areas and potential opportunities for fraud schemes.

Participants in the study had a significant number of years' experience in construction and project management and administration. The compressed nature of submitting bids may contribute to the absence of risk assessment in the pre-project phase of contract negotiations. A shared appreciation of swift bid submission was found among all participants. Given this information, key directives for evaluating risk in the pre-project stages of negotiations would enhance this industry's evaluation of risk and implementation of fraud prevention measures.

### **Conclusions Based on the Results**

Risk assessment evaluates the controls that oversee organizational operations to identify areas of improvement and prevent opportunities for fraud (Mohd-Nassir et al., 2016; Oluwatoyin

Muse et al., 2015). Formal policies and procedures overseeing pre-project planning and contract negotiations have been found to be pivotal in the mitigation of risk (Pinto et al., 2015; Shang & Yang, 2015). By identifying risks in operations, organizations effectively identify opportunities for fraud and subsequent prevention methods (Kamaliah et al., 2018; N'Guilla et al., 2018; Rayaan et al., 2016).

### **Comparison of Findings**

The construction industry witnesses many contract negotiations every year and contributes annually over \$800 billion to the U.S. GDP (Associated General Contractors of America, 2019). Small businesses experience the highest rate of fraud among all businesses, with annual instances of over 30% (ACFE, 2020). Given the high rate of annual fraud occurrences in small businesses, with median losses of \$140,000 - 150,000 across all sectors (and median losses of \$200,000 in construction), fraud risk assessment in this industry is unsurprising (ACFE, 2020). While large businesses have been found to have tight monitoring and control procedures overseeing operations and assisting in fraud prevention, small businesses are increasingly found to be vulnerable to fraud schemes due to the lack of internal controls (ACFE, 2018; Kramer, 2013). Small businesses account for 4.5 million employees in the U.S. and constitute over 99% of all U.S. businesses (SBA, 2018). Exploring this group and its perceptions of risk and fraud prevention concerning contract negotiations may enhance its sustainability in the industry and contribution to the U.S. economy.

The research study was conducted using fraud theory and the constructs of risk assessment, governance, controls, and fraud, as outlined in chapter 2. The use of fraud theory was essential to understanding the opportunities for fraud schemes in contract negotiations of SME construction companies. Research questions for the study addressed the underlying

constructs used in the study and were the foundation for interview questions. Considering the prevalence of contract negotiations in the construction industry and the research emphasizing the need for an increased evaluation of risk in pre-project planning, exploring the perceptions of participants from this population is beneficial to understanding opportunities of fraud in the area. The study identified instances where governance and control procedures were implemented to prevent fraud schemes from occurring. In addition, participants' perceptions of and attitudes toward risk and fraud prevention assist in identifying areas of improvement where risk assessment may be incorporated. The research found small businesses to be deficient in available resources to implement appropriate oversight and controls (Omar et al., 2016). By exploring the perceptions of this group, an improved understanding was gained where deficiencies in resources were to be found. The construct risk assessment was used as a foundation for understanding organizational controls, governance, and fraud prevention strategies. The study provided further insight into opportunities for fraud in this sector. Furthering findings of opportunities for fraud expands upon the understanding of fraud theory and the conditions that facilitate fraud schemes. Findings from this study align with previous research identifying small businesses to be vulnerable to fraud due to a lack of proper oversight and controls. Although the areas of oversight and controls were adequate in the project management stage, the elimination of this area shows that the pre-project stage is a significant area of vulnerability for the construction industry, especially given the results of this study and the median losses suffered by this industry. The absence of risk assessment in the planning stage of the project cycle creates deficiencies in identifying opportunities for fraudulent behavior. Further, when circumstances of pressures arise, employees may be more apt to rationalize fraudulent behaviors. A perceived pressure, opportunity, and ability to rationalize behavior must

exist for fraud to occur (Albrecht et al., 2016). Identifying opportunities for fraud through risk assessment mitigates fraud occurrences and, consequently, the pressures and rationalization that may follow.

### **Interpretation of the Findings**

This phenomenological study supports fraud theory and the criteria that pressure, opportunity, and rationalization must exist for a fraud to occur. The study focused on the opportunities within an organization and the measures organizations can implement to prevent fraud schemes. Opportunities for fraud were explored using the construct of risk assessment as a basis in examining controls, governance, and fraud within the organization.

Participants perceived risk assessment as an essential component in project planning but confirmed that formal review in this area was absent. Findings from the study are significant to existing research that has identified pre-project planning as an area of significant importance in the overall scope of a project. Overall, the research study findings contribute to the need for risk assessment overseeing organizational operations to appropriately prevent fraudulent activity (Oluwatoyin Muse et al., 2015; Rayaan et al., 2016; Rendon & Rendon, 2016).

These findings suggest the need to implement proper oversight and controls in significant areas to deter fraud effectively in small businesses. The findings of this study present further understanding into the project planning stage and the absence of risk assessment in this area. The potential opportunities for fraud in pre-project stages provide an understanding of potential weaknesses that could be addressed by construction companies using risk assessment strategies. Further, using the construct of risk assessment to evaluate the governance, controls, and potential fraud in this sector, the study identified instances where an assessment was absent.

This study addressed the gap in research findings regarding risk assessment and the implementation of controls over contract negotiation procedures. The findings of this study provide additional confirmation that identifying risk areas assists in deterring unfavorable outcomes in contract obligations (Palanisamy et al., 2015). Additionally, the findings indicate that guidelines for identifying risks in critical stages of project planning are imperative to developing proper fraud prevention strategies.

Based on a review of existing literature, perceptions of owners and managers in the construction industry have not been thoroughly examined. This study provides additional knowledge to existing literature relative to perceptions gained specifically from participants working in this industry. Given the construction industry's high volume of contract negotiations and a significant contribution to the U.S. economy, the significant areas for risk assessment may add to the knowledge of fraud prevention in this industry.

### **Limitations**

Interpretations of the study outcomes are subject to limitations impacting the overall results. Inherent limitations exist in oversimplifying the study results as applicable to small businesses more broadly across the construction industry. The limitations associated with this phenomenological study involve the sample frame and research design.

The sample used in the study was limited to the geographical area of a specific state in the Midwest. In addition, the pool of organizations was limited to OCA member organizations. The participants found within this population may have different perceptions than other organizations given the specialized focus of construction areas. The results of the study may not reflect the broader construction industry and all its various areas given that the focus of

construction areas comprised predominantly transportation, and in one case, vertical construction build, the insight of the study was limited to perceptions obtained from these two groups.

Therefore, generalizing the outcome of the study to all areas of the sector may not be appropriate. Exploring the other areas of construction may further understanding of risk assessment in the pre-project stages. However, incorporating all areas of construction has exceeded the scope of this study.

The research study employed a phenomenological design that explored the perceptions of SME owners and managers. Using a design that focused solely on the perceptions of this group limited the number of perceptions to be explored. Therefore, applying the perceptions of this group to all members of SME construction companies may not be appropriate. Exploring other members of construction companies may further understanding of risk assessment and fraud prevention. However, using all members, regardless of their involvement in contract negotiations, may alter the scope of the research study.

### **Implications for Practice**

The study explored the perceptions of and attitudes toward fraud prevention in small to medium-sized enterprises. While the study did not directly identify the influence of risk assessment on contract negotiations in SMEs, a lack of risk assessment in pre-project planning was discovered. The implications of this phenomenological study include an expansion of understanding into small businesses' shortfall of effective controls and where areas of weakness may be of focus. Owners and managers perceptions of risk assessment developed further insight into the influence these perceptions have on contract negotiation and fraud prevention. Although the influence of risk assessment on fraud prevention was found in project administration, the use of these measures was determined to be absent in the contract negotiation stage. These findings

are consistent with prior research studies that found a lack of controls overseeing key operational areas (Gates et al., 2016; Omar et al., 2016; Patterson et al., 2018). Implications for small businesses in the construction industry indicate the owners and managers should consider implementing measures to assess risk in all areas of operations to identify areas where opportunities for fraud could occur properly. Given the frequent response of participant's views towards risk assessment as a method completed by using gut feelings or tenured experience, formal oversight in key operational areas may contribute to clearer control methods. Specifically, a focus on existing vendors, suppliers, and subcontractor pricing should be instated. In addition, reviews should be conducted regarding employee's associations with vendors and subcontractors. Rotating employees and project managers could mitigate the potentially adverse effects of continuous association with returning companies.

Practical implications of the study findings could be to incorporate risk assessment in overseeing pre-project planning and contract negotiation. Developments in risk assessment and fraud prevention are increasingly found to be a significant factor in the reduction of fraud among small businesses (ACFE, 2018; Kramer, 2013; Rayaan et al., 2016). Theoretical implications of the study could be to focus on contract and procurement fraud. Fraudulent schemes found in the contract negotiation phase may include bribery, conflicts of interest, embezzlement, and kickbacks (Rendon & Rendon, 2016). Changes to controls and oversight of operations continue to impact the overall percentage of fraud occurrences in small businesses and the median annual losses experienced. Focusing on specific areas where fraud may occur supports fraud prevention efforts and potentially reduces the fraud losses experienced by this group.



## **Recommendations for Further Research**

The research study was limited to a geographical area of a specific state in the Midwest region. Although the study found risk assessment and fraud prevention to be deficient in the pre-project planning stage of contract negotiation, these findings may not apply to all construction businesses. Further research is recommended for a broader population of SME construction businesses from various states across the U.S. to capture better the perceptions and attitudes of fraud in this industry. Although the outcome of the study did provide understanding into the perceptions of fraud and risk assessment, broadening the study may elicit additional information and areas of improvement among participant organizations.

In addition, further research into different sectors of construction outside of transportation and vertical build is recommended better to identify differences among these groups in pre-project planning. Expanding the population of the study to include other sectors of construction may elicit diverse methods of risk assessment and how these influence contract negotiation procedures. Further research may also provide different methods of evaluating risk and the subsequent methods of fraud prevention. The current study did not intend to explore the perceptions of all construction sectors. Although the outcome of the study provides areas for improvement in contract negotiation, changes may only be altered through arbitration. Opportunities for further research may help to reduce instances of fraud and the frequency of arbitration. The evaluation of vulnerable areas of operations improves small businesses' ability to develop specialized risk evaluations with a standardized situational analysis that prevents opportunities for fraud. Using (SWOT) analyses, organizations can identify opportunities to implement risk assessment and fraud prevention measures, already used in project management in pre-project planning stages. Previous research underscored the need to use diverse methods to

gain a better understanding of fraud prevention (Anand et al., 2015). Using a general analysis to evaluate risk in small business operations may contribute to lower occurrences of fraud found in this group. Furthermore, given the significant time constraints for evaluating risk in pre-project planning, applying a standardized analysis to each project may provide a straightforward approach without undercutting the budget. Although the project budget and completion timeline are thoroughly tracked, a similarly thorough review of the appropriateness of each line item is not forthcoming due to a lack of time. Further resources for this area, therefore, may be essential to mitigate fraud effectively. Previous research found only 9% of small businesses complete a formal fraud risk assessment (ACFE, 2020). Although participants indicated that risk assessment was completed in the project management stage based upon prior experience in the field, these assessments were rarely used in the pre-project stages. The outcome of this study provides a pathway for further research into identifying fraud risks unique to different industry areas. Although the construction companies from this study fall into the category of SMEs, the industry has unique qualities that apply specifically to it.

### **Conclusion**

Small businesses have a significant contribution to U.S. GDP; however, this group experiences high instances of fraud coupled with disproportionate losses compared to larger organizations (ACFE, 2108; Kramer, 2013; SBA, 2018). Within the construction industry, considerable losses in annual revenue have been attributed to fraudulent activity (Le et al., 2014). Research has found the use of risk assessment as a means to identify control weaknesses (Mohd-Nassir et al., 2016). In addition, identifying control weaknesses assists in detecting opportunities for fraud in operations (Oluwatoyin Muse et al., 2015). This study explored the perceptions of fraud prevention and the influence of risk assessment on contract negotiation procedures.

Findings from this qualitative phenomenology study identified a lack of oversight and controls overseeing pre-project planning and contract negotiations. The study was significant in providing credibility to past research on the need to incorporate risk assessment of operations (Rendon & Rendon, 2016).

The results of the study indicate the need for small to medium-sized construction businesses to incorporate risk assessment to identify opportunities for fraud and prevention methods subsequently. The researcher discovered that the participants predominately viewed risk assessment completed through an intuitive process rather than formal procedures. Future research opportunities were provided for broadening the scope of the study to further geographical areas and the inclusion of other sectors of construction to generate a better understanding of the perceptions of risk in this industry. Significant research has been completed to understand fraud in small businesses better. Although research studies provide insight into the reasoning behind fraud schemes, the specialized focus of unique industries is deficient. Understanding key areas of strain for different industries may provide better tools to combat fraud.

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