



## ACCOUNTING MATTERS

# Fraud risk management: A small business perspective

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**Abstract** Small businesses face big challenges when it comes to managing fraud risks. Financial strain, rapid growth, and a lack of resources and expertise create ample opportunity for motivated fraudsters to take advantage of small businesses. In this article, we draw upon insights from our years as fraud investigators to offer seven practical recommendations to help small business leaders prevent and detect fraud in this unique environment. These strategies can help even the smallest company make a big difference when it comes to fraud risk management.

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## 1. Introduction

Small businesses provide the backbone of the American economy. According to a 2014 report by the U.S. Small Business Administration, businesses with fewer than 500 employees employ 48.5% of private-sector workers, provide 63% of net new private-sector jobs, and produce 16 times more patents per employee than large firms (SBA, 2014). Unfortunately, this important segment of our economy is also one of its most vulnerable. According to a 2014 survey by the University of Cincinnati, 64% of small businesses have been victimized by fraud (Kennedy, 2014). What is even more concerning than

the rate of fraud in small business is its far-reaching impact. Recent research suggests that companies lose roughly 5% of their revenues to fraud each year, and fraud is a significant contributing factor to small business failure (Association of Certified Fraud Examiners, n.d.). The total cost of fraud, however, cannot be measured in dollars alone. Fraud also takes an emotional toll on its victims, diminishing worker productivity and morale.

Making small businesses more resilient to fraud could provide real benefits to their owners and to the overall economy, but small businesses frequently lack the resources and the expertise to fight fraud. In this article, we explore the unique challenges and opportunities facing small businesses when it comes to fraud risk management. As fraud investigators, we have seen these struggles firsthand, and we empathize with small business owners' despair when they unwittingly find themselves a victim of a fraud. Drawing on our experiences in the

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