

## **The Small Fraud Paradigm: An Examination of Situational Factors that Influence the Non-Reporting of Payment Errors**

**Stefanie L. Tate<sup>\*1</sup>, Charles W. Bame-Aldred<sup>2</sup>, Ryan Krebs<sup>3</sup>  
and Atipol Suwandee<sup>4</sup>**

<sup>1</sup> University of New Hampshire, Durham, NH USA

<sup>2</sup> Northeastern University, Boston, MA USA

<sup>3</sup> Clark Nuber, LLC, Bellevue, WA USA

<sup>4</sup> Deloitte Touche Tohmatsu Jaiyo, Bangkok, THAILAND

---

The investigation of ethical behavior of accounting and business professionals typically uses vignettes or surveys provided to participants to measure their ethical sensitivities, individual characteristics, or reactions to situational variables. In this study, we introduce to the accounting literature the small fraud paradigm experiment and investigate two situational factors (the likelihood of future investigation and the amount of overpayment) on the percentage of students that report a small overpayment. Results from this experiment suggest that threatened future investigations increases the likelihood that students will report minimal overpayments, while the amount of the overpayment has little effect on their behavior.

---

### **INTRODUCTION**

In a scene from the movie, *The Family Man*, an angel stands behind the counter of a convenience store and takes a \$1 bill from a young woman who is purchasing a \$0.99 beverage. The angel counts out change for \$10 and hands the overpayment to the woman. The customer stares blankly at the clerk, takes the money and the beverage, and leaves. The angel is left to lament the lack of ethical behavior for just \$9. "Character, and for what, \$9, that is so disappointing" (MCA Home Video, 2000). This lapse in ethical behavior is not uncommon. KPMG's Fraud Survey (2003) found that 75% of the 459 responding organizations experienced some form of fraud during the prior 12 month period. Sixty percent of the companies experienced some form of employee asset misappropriation, and 32% reported some type of consumer fraud. The increase in reported fraud has focused organizational attention on anti-fraud programs designed to detect and prevent fraud (KPMG, 2003).