PERSONAL FINANCE DISCIPLINE, WORKING ENVIRONMENT AND FRAUD IN THE COMMERCIAL BANKS IN KENYA

By

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DECLARATION

This management research project is my original work and has not been presented for a degree in any other university.

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LIST of ABBREVIATIONS

CBK – Central Bank of Kenya

BBK - Barclays Bank of Kenya

CBA - Commercial Bank of Africa

IPPF -International Professional Practices Framework

KCB -Kenya Commercial Bank

KBA – Kenya Bankers Association

NIC - National Industrial Credit

NBK - National Bank of Kenya

SCB - Standard Chartered Bank

TMT - Top Level Management

LIST OF TABLES

LIST OF FIGURES

DEDICATION

This project is dedicated to my family: Dad - Jediel, Mum - Josephine, Wife-Joy, Daughter's-Paula and Claudia.

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ABSTRACT

The rampant fraud committed in the commercial banks has been of surprise to many. Banks have continuously come up with measures which can be used to reduce fraud especially the one committed or instigated by its own staff. Of notable surprise is the trend the banking fraud has taken as year in year out, central bank of Kenya has been reporting an increase in fraud committed by staff.

Personal Cash Management of individuals has come in to question as to whether poor personal finance discipline of staff can lead to staff involvement in fraud. It is also clear that staff instigated frauds are rampant in some areas more than others which is worth investigating.

This study sought to investigate the relationship between personal finance discipline of individuals, their working environment and fraud committed especially in the banking sector.

The study found out that individual personal finance discipline of staff as well as the environments where these staff work has a correlation to the instances of fraud committed by staff.

TABLE OF CONTENTS

CHAPTER ONE:

INTRODUCTION

1.1.1 Background

Personal finance is an important aspect of any employee. There is increasing quest by employees as well as employers to be equipped with personal finance knowledge. Exposure in this area is vital as it assist workers to manage their finances as well as limit stress related to financial mismanagement. Top Level Management (TMT) of organizations are increasingly finding themselves under pressure to lead a certain lifestyle, this lifestyle requires a lot of funds to sustain. The pressures emanating from financing such “super” lifestyles may result into mismanagement of individual finances. Studies have shown that only about a fifth of adult workers are well grounded on personal finance especially in spending on credit, savings, investments and retirement (Garman & Leech, 1996; Joo, & Garman, 1998).

There is increasing cases of fraudulent activities in most organizations in Kenya. Most affected is the banking industry (Nichols, Bruguier & Marcos, 2006). The case of fraud in majority of these organizations is related to lack of personal finance discipline of individual employees working in these organizations. Garman, Leech and Grable, (1996) argue that personal finance behaviour of employees if not positive or favorable, leads to employee stress related challenges. They purport that when employees have poor personal financial discipline, these employees fall pray of fraud attempts.

The banking industry has been faced with a lot of fraudulent activities ranging from their own staff moving funds internally to their own accounts and in some cases, staff moving funds to offshore accounts. The latest trend has advanced and some of these staff collude with customers to defraud the banks. CBK, (2011) reported that banks are increasingly losing funds through staff instigated fraud. This happens through collusion by staff and customers. The report goes further to report that about KES 500 M is lost monthly through fraud. CBK believes that the banks only attempt to report 60% of such fraud since they try to prevent negative publicity by attempting to deal with such disciplinary cases internally.

Although studies have been generally conducted about fraud, in organizations, a direct linkage of study which has attempted to relate personal finance discipline of employees and organization fraud in the context of the banking sector in Kenya has not been done. Lari, (2009) found out that employees who have personal finance discipline have less stress at work; Garman, Leech and Grable, (1996) indicated that 15% of Americans are facing stress emanating from personal finance behaviour ; and Albrecht, (2008) found out that employees benefit a great deal from personal finance education. The banking sector has continued to suffer as a result of the fraudulent activities surrounding it (Cheptumo, 2010). This study wishes to shed more light on how the relationship between personal finance discipline of employees and organization fraud unfolds.

Employees in organizations are entrusted with the noble role of ensuring that the financial health of the firm is met. Their role as employees is vital in ensuring that their organizations perform financially sound and that the shareholders get a reasonable return on their investments. On the other hand, employees of organizations are required to meet their personal as well as family financial needs at all costs. These employees are exposed to company finances which they are entrusted to dispense to ensure that the operations of their companies are kept sound to ultimately result into profits. Conversely, some employees are not well paid yet they are entrusted with company funds. This exposure is subject to abuse as it calls for high levels of integrity on the part of employees and very clear and strict policy by the company (Wanemba, 2010).

There are various environmental challenges which concern workers, some of the environment pose a lot of stress especially when it comes to cost of living. For instance it is more expensive to bring up a family in Nairobi than doing the same of equal pay if you are in Malindi or Kakamega. The fact that the environment is different also means that the personal financial challenges of the people working in different environment may also encourage one to consider fraud as a stop gap measure to cover up financial gap in ones life.

This research aims at studying the linkage between employee instituted frauds in organizations in relation to the employee personal finance management (discipline) in commercial banks in Kenya. The paper hypothesizes that employees with good personal finance discipline are dissuaded from taking part in fraudulent activities which lead to loss of organization's funds.

The banking sector has been heavily impacted with frequent frauds majority of them being organized and masterminded by their own staff. These fraudulent transactions are conducted by staff under the banking strict policies making it very difficult for banks to meet their objective as assigned by shareholders. These fraudulent activities mean that the take home of shareholders is significantly reduced as banks have to provide for these losses in their profit and loss accounts.

1.1.2 The Concept of Personal Finance

Personal financing is a personal initiative or skills to manage individual cash flows as well as savings. According to Jenkins (2010), most people do not understand how to gain financial independence. More often than not, people are hardly schooled on personal financing as the schooling system (syllabus) is heavily academically biased forgetting that personal financing is vital in the wholeness of an individual. However one is educated, if they are not well rounded in all aspects of life, they may not have a balanced life. This means that the person may not be perfect in their daily delivery of expectations. Jenkins (2010) believes that people need to learn the art of saving and planning for eventualities so as to have a nest whenever they are faced with financial challenges. In his explanation, he alludes to the fact that one needs to have both long term and short term savings.

Personal financing requires that one lives within their means, they also must invest in their retirement right from the time they receive their first pay. At an early age, young people when employed do not understand the need for savings. Their perception of life is to live large and enjoy life yet this is the time that they have no children, wedding bells are not any near, retirement is far off but funds are available for partying as well as taking care of their daily upkeep. At this time the new employees do not imagine that one day, they will be rendered jobless and may need to have some emergency funds to take care of such eventualities. The need to invest in one self financially is this time when all the energies and resources are at ones disposal to propel one for success.

1.1.3 Working Environment

Pearce and Robinson (1991) describe external environment as all conditions that affect a firm's options but which are beyond the firm's control. Ansoff and McDonnel (1990) noted that changing environment brings about unpredictability. They referred to this as environmental turbulence. Aosa (1992) noted that this environmental turbulence brings about challenges to management. Chandler (1962) argued that organizations are environmentally dependant and changes in the external environment shapes the opportunities facing the organization. Thus understanding the environment helps a firm to objectively and rationally develop strategies that can cope with challenges affecting these organizations. According to Porter (1996), the environment is important in providing initial insight that underpins competitive advantage. The required inputs, accumulated knowledge and skills over time are forces needed to keep progressing.

This study will look at personal finance discipline of employees to be affected by the environment in which employees live and work; location (town or rural area), working condition, personal lifestyle, pollution (noise) among other conditions which may affect the personal life of employees.

1.1.4 The Concept of Fraud

ACL(2009) looks at fraud to encompass a wide range of illicit practices and illegal acts and activities involving the intentional deception or misrepresentation or reporting. The Institute of Internal Auditors' International Professional Practices Framework (IPPF) separately defines fraud as:

"… any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage."

Fraud can affect organizations in many different areas such as financial, operational, and psychological. Whilst the financial loss owing to fraud is significant, the greater impact of fraudulent activity on an organization can be devastating as well as staggering. The greater impact of fraud would lead to losses of reputation, company or individual goodwill, and customer relations can be hampered. Fraud can easily be carried out by employees within an organization or by those from the outsiders. According to Albrecht (2008), classical fraud theory attempts to explain fraud as a triangle of three factors. These are; one, perceived opportunity, secondly, perceived pressure and lastly, rationalization. The bulk of the perceived pressure is the need for finance as well as to a lesser extent the pressure to beat the system and prove smatter. He emphasized the need to understand fraud as emanating from pressures and sources by saying that;

"….most pressures involve a financial need, although non-financial pressures, such as the need to report results better than actual performance, frustration with work, or even a

challenge to beat the system, can also motivate fraud. Research has shown that these pressures do not have to be real, they simply have to seem real to the perpetrator."

1.1.5 The Banking Industry

Central Bank of Kenya (2011) contends that there are a total of 43 commercial banks in Kenya today (see appendix 1). Inaddition, Out of these 43 banks, major players include Equity Bank of Kenya, Barclays Bank of Kenya (BBK), Kenya Commercial Bank (KCB), Standard Chartered Bank (SCB), Citibank N.A, Co-operative Bank of Kenya (Co-op Bank), National Bank of Kenya (NBK), Commercial Bank of Africa (CBA) and National Industrial Credit (NIC). Banks in Kenya according to CBK, are divided into tiers. These tiers range from Tier I to Tier III (Nyaoke, 2007).

The banking industry is bedeviled with frequent and uncalled for losses resulting from their staff committing fraud. It is disheartening to see your own employees turning their back and fleecing their own employer. Central Bank of Kenya (CBK) has continually published results of fraudulent activities affecting the banking industry, going through these activities; it is worrying that the bulk of loss as a result of fraud is committed by the bank's own staff. Each and every bank is continually worried to the extent that the term "trust" has lost meaning in the banking industry as fraud has become a major challenge that banks face nowadays.

1.2 Research Problem

Starting from cash in transit firms, to micro finance, to large and small banks, fraud instigated by staff is rampant. Existing literature blames it on greed but this study would want to think otherwise as it sees the problem emanating from inability of the employees to manage their own finances yet they are exposed to fund availability meaning they can craft ways of stealing this money with the hope that they will not be discovered. The loss of funds under fraudulent means by staff is a big issue in the banking sector going by African Economic Outlook (2005) and requires some concerted method of reducing the risk as this puts a lot of challenges and strain on the finances of the banking system.

A lot of studies have been done on fraud more so in the banking system. However, there is no study which has managed to relate employee fraud especially in the banking sector to personal finance discipline of the employees. This study will delve into this area so as to contribute to literature and assist in stamping the catastrophe that is threatening to bring down the banking industry. Meleis and Israel (2010) confirmed that many consumers feel that their financial affairs are out of control. This problem has exacerbated to most people getting into debt which is ultimately not manageable. The debt trap begins to pile pressure on individuals hence creating an appetite on employees to get a rescue through all means. Keynes (1936) confirms that individuals hold funds for transaction motive and for precautionary ('safety nest') motive. Whenever employees lack funds for emergencies, they get into stress. This stress leads to pressure to look for a solution which is a breeding ground for committing fraud.

As a custodian of the funds for the nation, the banking industry is the largest culprit where fraudsters target. This study chose the context of Kenyan Banking Industry since the fraud cases are increasing at an alarming rate (CBK, 2011) and it is necessary to reduce the trend and also help the nation address the problem at hand. As a finance study, this paper also would like to empower employees by addressing issues to do with their personal finances as this is an area which has seriously been neglected by the education system, employers and researcher.

Locally, studies have been conducted in the area of strategic management where researchers have looked at strategies employed by the banks to tame fraud (Cheptumo, 2010 and Wanemba, 2010). The two studies have highlighted the prevalence of fraud in the banking sector and attempted to come up with various strategies to prevent the vice. These studies have concentrated on fraud and how to prevent their occurrence. They have not attempted to relate personal finance of employees to the occurrence of fraud. This study considers the lack of correlation of personal finance of employees to fraud cases as a gap in knowledge and therefore attempts to fill the existing gap in knowledge.

1.3 Research Objectives

The objectives of this study is to;

i.) Establish the effect of working environment on personal finance discipline of employees, and

ii.) Establish the relationship between working environment of employees and fraud in the commercial banks in Kenya.

1.4 Value of the Study

This study will benefit mostly the banking industry as banks will learn on the strategies to be applied to bring down cases of fraud and loss of bank funds to fraudulent managers whose involvement with theft of customer funds has been on the rise. The study seeks to find out the causes of these thefts hence assist the banking industry control if not reduce the cases of such losses resulting from bank staff.

The second category of beneficiaries of this research will be general employers as they will also be educated on means and ways of cubing fraud instigated by their staff. Staff will be better informed on what lead to such fraud and they will be in a better position to prevent fraud by looking at the behaviour leading to such frauds. This study further seeks to empower organizations to concentrate on preventive measures towards fraud by ensuring that human resource functions of these organizations invest in personal finance education of employees as a deterrent measure towards curbing fraud.

Lastly, the study will contribute to existing literature on fraud and more specifically new literature on the relationship between personal finance discipline of employees and fraud in organizations. In addition, the output of employees will be improved when they have a balance between their own personal finances and that of the organization.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This study aimed at looking into the relationship between personal finance discipline of managers and relate their financial situation with fraud. This chapter therefore brought out the understanding of what personal finance entail as well as effect of working environment to personal finance. It further looks at Fraud and its causes as well as to relate fraud to poor personal finance.

Because the study is grounded in finance, it will be necessary to bring out the understanding of finance and financial management and attempt to relate personal finance of bank managers with fraud instances in organizations.

2.1 Financial Management

Financial management is the management of the finances of an organization in order to achieve financial objectives of that organization. It entails creating wealth for the organization, generating cash out of the capital of the organization, as well as providing reasonable return on investment bearing in mind the risks that the business is taking and the resources invested by the shareholders (Coping, 1996).

2.2 Personal Finance

Personal finance is concerned with the process of planning, and controlling personal finance resources for ones prosperity. Many workers are not well secured when it comes to personal finance management. Money matters are issues which pose a big challenge to workers. About one fifth of Americans say they have trouble paying their bills and worry about money (Coping, 1996). A number of workers have indicated that they have financial problems, such as inability to save for the retirement, delaying fees payments as well as utility bills, or having problems with a collection agency who attempt to pursue them for debt recovery (Garman, 1998; Chandler, 1998; Glassman, 1998) with the bulk living paycheck to paycheck which is very hard to sustain. This shows that there is a problem with personal finance within the work force. On the contrary, Fletcher, Beebout, & Mendenhall (1977) have indicated that financial education increase employee confidence in their investment decisions as well as changing employee attitude towards finances.

A study by Kratzer, et al, (1998) shows that increased financial wellness, lower household debt-to-income ratio, increased self-esteem, improved attitude about work, increased satisfaction with employer-provided fringe benefits, increased capability to participate in and contribute to retirement plans, increased savings for retirement are all elements of good personal finance education which result in to better employee productivity. The contrary is equally true as employees without good personal finance are likely to find distractions

2.3Organization Fraud

Coenen (2012) alleges that fraud is a huge risk to most organizations. He estimates that on average it costs organizations between 3% and 5% of revenue each year. In the banking industry which posted about Ksh 40 billion in 2011, this is about Ksh 1.5 to 2 billion loss to the shareholders through fraud (CBK, 2011). When profit margins are thin, internal fraud can literally put companies out of business.

2.4 Causes of Fraud

Research has shown that employee's personal finances are directly related to work outcomes. And that any problem in an employee's life will affect their psychological well being and mental state at work (Garman, 1998). Joo, (1998) and Glassman, (1998) noted that employee personal finance education can reduce employee theft and limit exposure to litigation.

According to Wells (2001), no employee joins an occupation with the sole purpose of committing fraud. He however wonders how good people go bad to the extent of committing fraud. To him, an obvious answer is greed. There are two theories about why employees commit fraud. The first is based on a 20-year-old Hollinger and Clark study of 12,000 employees in the workforce. A study which found out that nearly 90% engaged in workplace deviance, which included behavior such as goldbricking, workplace slowdowns, sick time abuses and pilferage. On top of that, an astonishing one-third of employees actually had stolen money or merchandise on the job including top executives who are also employees.

Figure 1 : Fraud Triangle

Source: Occupational Fraud and Abuse : Wells, 1997

Studies have concluded that the most common reason employees committed fraud are opportunity driven by motivation where the more dissatisfied the employee is, the more likely they will engage in criminal activities at place of work. Employees may commit fraud due to financial pressures. In the late 1940s, Cressey (1953) interviewed nearly 200 incarcerated embezzlers, including convicted executives. He found the great majority committed fraud to meet their financial obligations. Cressey observed that two other factors had to be present for employees to commit fraud. They must perceive an opportunity to commit and conceal their crimes, and be able to rationalize their offenses as something other than criminal activity (Wells, 1997).

The working environment has proved to be a cause of fraud as it contributes to the cost of living. People working in hardship conditions and are on low pay yet are exposed to shareholders funds at their disposal tend to be encouraged to commit fraud as opposed to people living in environments where cost of living is low. Theorists in the twentieth century believed crime was the result of the environment or that crime was symptomatic of an emotional disorder (Samenow, 2004)

2.5 Agency Theory

The theory originated in 1960s and early 70's when economists explored risk sharing among individuals or groups (Arrow, 1971). The theory describes risk-sharing as the problem that arises when cooperating parties have different attitude towards risk whereas agency problem occurs when cooperating parties have different goals and division of labour. Agency theory describes the relationship between the cooperating parties who are the principle and agent by resolving two problems; the desires or goals of the principle and agent conflict and the difficulties of principle in verifying agent behavior appropriately and efficiently.

The unit of analysis in agency theory is the contract governing the relationship between the principle and agent. The theory focused on determining the most effective contract given the assumption about people, organization and information. The main aim is to determine behavior oriented contracts are more efficient than outcome oriented contracts. Agency theory has developed based on contracts and has proved to be effective in curbing agent opportunism. The theory has offered a more complex view of the organizations (Jensen, 1983). The heart of this theory is the tradeoff between cost of measuring behavior and the cost of measuring outcomes and transferring risk to the agent. Agency theory is relevant in situations in which contracting problems are difficult (Jensen, 1983). Agency theory is seen to be a regulator of manager's behavior when it comes to management of the organization finances. It therefore acts as a deterrent to instances of abuse by the managers as they are basically custodians of the finances and not owners of the shareholder's wealth. This therefore calls for the managers to be good caretakers and not embezzlers of these funds.

2.6 Empirical Studies

There are various studies which have been conducted in accounting and finance fields in relation to fraud. Instal & Linh, (2002) conducted a study in financial statement fraud and found out that management illegitimately manipulates the statements of accounts to injure other parties through misleading financial statements. Nichols , Bruguier & San Marcos, (2006) contend that personal finance education is an important element of workers and should be taught to students so that they can manage their finances well. In their study in 2005, they found that *"....50% of students have 1 to 3 credit cards, 35% of these students do not know the interest rate on their credit cards , only 51% of the students surveyed follow a budget, around 75% did not have insurance or a cell phone account in their name , 45% do not know which tax form they filed last year and 89% of the students surveyed do not know their credit score."*

Bejarano, (2008) in his study “mitigating financial fraud,” found out that employee fraud contributed USD 486,000 M loss in USA in 2007. He found out that the fraud is deliberate, requires planning, organization and trickery despite anti fraud legislation. His study established that mitigating financial fraud requires a concerted effort where employees require education, training, proper internal controls and fraud detection and prevention measures. Locally, there are various studies done in the area of fraud and the financial sector. Lari (2009) acknowledges that the financial sector loses a lot of funds through fraudulent means of misreporting by managers. Studies in the banking industry in Kenya have also been conducted to tame fraud. Cheptumo, (2010) conducted a study on Response strategies to fraud-related challenges by Barclays Bank of Kenya. His study recommended stricter recruitment as well as collaboration of banks to keep away fraudsters. Lastly, Wanemba, (2010) equally studied the commercial banks in her study ‘strategies applied by commercial banks in Kenya to combat fraud.’ She recommended the use of transaction surveillance and monitoring fraud through antifraud measures.

2.7 Summary

It has been observed that personal finance discipline is not very rich on literature going by the reviewed literature. Personal finance discipline of employees plays an important role in keeping off employees from getting attempted to commit fraud. This study will want to take the context of the banking industry and test whether this hypothesis hold.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the research design of choice as well as the way in which data was collected and analyzed. It provides steps that were used to identify the population and sample size, how the outcome was be analyzed, types of data in the study and the instruments that were used in data collection.

3.1 Research Design

This study made use of cross sectional survey to establish the relationship between personal finance discipline of managers in the commercial banks in Kenya, the environment and the prevalence of fraud using survey design. A survey was the most appropriate design to make this investigation as it takes place at one point in time. The industry has 43 banks which can better be studied through this design. The choice of survey as a design was appropriate in that it provided an avenue of relating incidences of fraud in the banking sector and attempting to relate the personal finance of the managers and staff in the same banks. Looking at the entire banking industry will make generalization easy (Nachmias and Nachmias, 1996). Similar studies have been carried out using this design method and the results were satisfactory. Cheptumo (2010) and Wanemba (2010) used similar designs and their results were successful.

3.2 Sample

The study relied on a census survey looking at the entire 43 banks in Kenya. The study sought to conduct a study on the entire population (43 banks). A complete enumeration of all banks was done (census) as shown in appendix I.

3.4 Population Size

The study sought to get responses from at least 215 respondents. This required that about 5 respondents be targeted from each bank spread out by departments. The study chose to use five respondents per institution since it is time consuming and untenable to look at the entire population of each bank. Furthermore, the study sought to gather data from key people of the banks. The bulk of the population targeted were the back office operations, procurement as well as relationship managers and finance departments since these are the areas which are heavily exposed in fraud in the banking (Lari, 2009)

Table 1 : Target Population

Sections	Population (Frequency)	Percentage %
Human Resources	43	16
Procurement Department	43	16
Finance Department	43	29
Relationship Management	50	24
Others	33	15
Total	**212**	**100**

3.5 Data Collection

The study targeted key units of the banks for data collection. Use of primary data (Questionnaires-Appendix III) was employed. At least one manager from Back office operations, Human Resource, Procurement, Finance, and Relationship management units. Questionnaires were administered through drop and pick method as well as delivered by email. The questionnaires had both closed and open-ended questions. This questionnaire also relied on Likert Scale type of 1 (strongly disagree or strongly negative) to 5 (strongly agree or strongly positive impact) to rank the respondents opinion on various statements as well as open ended questions. The years under review was pegged at 2007 to 2012 (5 years).The study in addition made use of interviews to collect data. The interviews were administered in exceptional cases where the senior management were concerned. Use of data from CBK related to fraud between years of study (2007-2012) was also employed as CBK is the custodian of banking data in relation to various statistics. Data was collated and presented in tables, graphs, and charts for ease of interpretation.

3.6 Data Analysis

Since it was impossible to get feedback from entire 43 banks, the study sought to use response from at least 30 banks and above, this was be considered adequate for analysis. Cheptumo (2010) and Wanemba (2010) received response rate was 30 out of 43 banks and their studies were successful. The study relied on correlation analysis to relate fraud to personal finance discipline of employees as well as the working environment. The most appropriate respondents were procurement, back office and relationship managers. Personal finance and working environment variables and fraud was be correlated.

CHAPTER FOUR:

4.0DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presented the findings of the study based on the data collected from the questionnaires. The responses were compiled into frequencies and converted into percentages and presented in tabular form to facilitate easy analysis. Out of the 43 banks, 30 branches returned their questionnaires meaning that the response success rate was 69%. The analysis was done based on each question asked by the researcher in the questionnaire while the findings and interpretations were done on the basis of the two study objectives.

4.2 Financial Discipline

It is normally assumed that financial discipline is a preserve of the learned as these are people who are assumed to be knowledgeable and can take care of their finances. Not all workers are secure financially as they in most cases fail to plan and budget for their finances. This has meant that people have lived with constraints leading to financial stress in many instances. Financial stress has in most cases led to negative impact at places of work. This has affected staff performance something which has meant that human resources have to find a way to conduct personal finance education to equip staff with personal finance knowledge to enable staff balance their lives.

Workplace financial education programmes have been on the rise considering the difficult financial circumstances prevailing currently. The interest rate regime has equally not improved the already difficult situation as staff who had borrowed from banks are now required to pay more since the interest rates have almost doubled.

There are numerous programs, practices, and resources for facilitating self-directed learning have been created to support personal finance awareness. These resources include magazines, columns and regular features in daily newspapers, self-help books. Many workers are hardly saving for retirement leave alone emergency savings. This situation is alarming as when worker exit the employment scene without any savings, it means that their life expectancy is likely to be lowered as they will not be able to meet their medical obligations as well as living expenses, a situation which is scary to imagine.

4.3. Environmental Challenges

The working environment has a lot of opportunities and challenges that it passes on to staff as well as organizations. In Kenya, the environment shapes the way we do business. It is the environment which dictates the type of housing, lifestyle as well as the kind of food we consume. If the environment is not supportive, then the workforce will be strained and cost of living will be out of reach for most workers.

Kenya faces a mixture of conducive as well as difficult environmental offerings. You find that towns have their own challenges despite most amenities being available for use; the cost of acquiring these amenities has gone up tremendously making it difficult for staff to cope up. In the rural areas, also, life is slow and many life enhancing amenities such as good hospitals as well as entertainment places are missing making staff working in such areas be dissatisfied with life.

In addition, the environments we work in control our lifestyles and at the same time our ability to spend. You find that in urban areas, life is difficult due to cost of living making it impossible for people to cope financially. This has led to strain in the financial discipline of most workers forcing them to find alternative ways of sourcing for additional funds. This study find that there is a relationship between fraud and the working environment as most staff in difficult environments have sought to look for alternative ways of making additional funds to support their luxurious lifestyles.

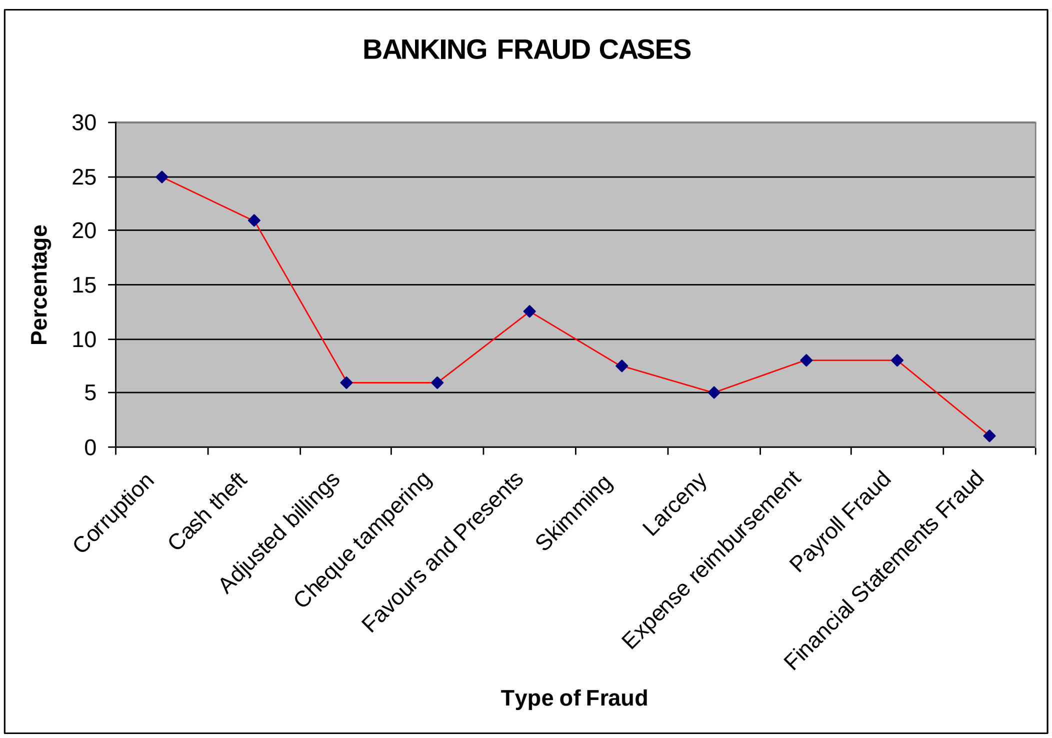
4.4 Fraud in the Banking Sector

Fraud in banking is a critical activity that spans a series of fraud schemes and fraudulent activity from bank employees and customers alike. Banking being a relatively highly regulated industry, one would not expect to find fraud rampant as it is nowadays. However, there are a number of internal as well as external compliance requirements that banks must adhere to in the combat against fraudulent and criminal activities.

Table 2: Showing Types of Fraud in Commercial Banks in Kenya

Banking Fraud Cases - 200 respondents		
Fraud Scheme	**Number of Cases**	**Percentage of cases**
Corruption	50	25
Cash theft	42	21
Adjusted billings	12	6
Cheque tampering	12	6
Favours and Presents	25	12.5
Skimming	15	7.5
Larceny	10	5
Expense reimbursement	16	8
Payroll Fraud	16	8
Financial Statements Fraud	2	1
Total	**200**	**100**

Figure 2: Graphical Presentation of Fraud in the Commercial banks in Kenya



4.5 Interpretation of the Fraud in Commercial Banks in Kenya

Commercial banks in Kenya have lost funds using various staff instigated avenues. Below are some examples of banking fraud in commercial banks in Kenya;

4.5.1 Corruption

Banks find themselves losing money due to corrupt activities where some staff are bribed to write off debt or extend a repayment period. In some instances, customers have been colluding with staff so that they do not offer adequate collateral but borrow funds or collaterals which may not compensate the bank should there be a default. This is a serious criminal activity which banks are struggling to overcome.

4.5.2 Cash Theft

This is a situation where staff of the bank either intentionally steal from the customers of the bank or from the bank itself. A good example is when the staff in collusion with outsiders arranges to move funds to fraudsters with the assumption that the funds are being issued to genuine owners just to raise the flag after these funds have left the bank. A good example of such has happened in major banks such as BBK, Co-op Bank, Chase bank, KCB among others. Cash in transit security firms have also been used to move money in such a manner.

4.5.3 Theft through Billing

This is applicable where bank staff takes part in the billing or charging of customers fess such as cash handling, arrangement fees, insurance fees etc. Once these bills are passed to the customer, you find some staff pocketing the money of only passing a potion to the bank as the hoard the balance. Such staff would identify unusually large number of waived fees by branch and take advantage of these bills to enrich themselves.

4.5.4 Check Tampering

This is theft by erasing or exaggerating the face value of a cheque through manipulation of Cheques. Staff will in this case, identify missing, duplicate, void or out of sequence check numbers and forge them for their own gain through falsification.

4.5.5 Skimming

Staff in this case will target very short time deposit and withdraw this deposit on the same account for their benefit. This is referred to us check kiting in some cases. Staff can as well duplicate credit card transactions and skim them for their own benefits.

4.5.6 Larceny

This is theft from account directly. Staff in such instance identify customer accounts and take them over. Such deals will engage co-opting customer account information to staff businesses so as to make the theft authentic. Such theft will target dormant customer accounts and the discovery of such theft can be done by identifying those who are processing transactions against these accounts.

4.5.7 Financial Statement Fraud

This in our study did not have a lot of weight since our study was related to staff fraud in relation to personal finance. However, this type of fraud is exis6ting in situations where the company wants to manipulate its results especially if they are interested in a loan or are listed in the securities exchange and would not want their shares to tumble.

4.6 Findings about Working Environment on Personal Finances of Employees

The environment shapes a lot of our behaviour as well as out lifestyles. The study found out that the bulk of employees working in the urban areas had financial constraints in one way or the other. This was attributed to high cost of living in the urban areas. The environment also shaped the lifestyle of employees and it came out clear that those working in urban areas had expensive lifestyles where they are required by society to dress well, visit certain entertainment joints, drive certain cars as well as dress in a certain way which is permeated by society.

The pressure of environment ultimately leads to some financial pressure which means that workers will be on the wrong side of financial discipline as they are unable to stretch their earnings to accommodate the expensive lifestyles. Considering that staff in the banking industry have access to cheap loans as well as availability of quick credit in the way of credit cards and overdrafts, such staff will attempt to utilize these credit facilities in the hope that things will be better with time. Before long, such staff will be caught in a rat race where they live from hand to mouth, borrowing here to fill a gap there. Ultimately such staff may resort to shylocks in the hope that they can bail themselves out by borrowing short term.

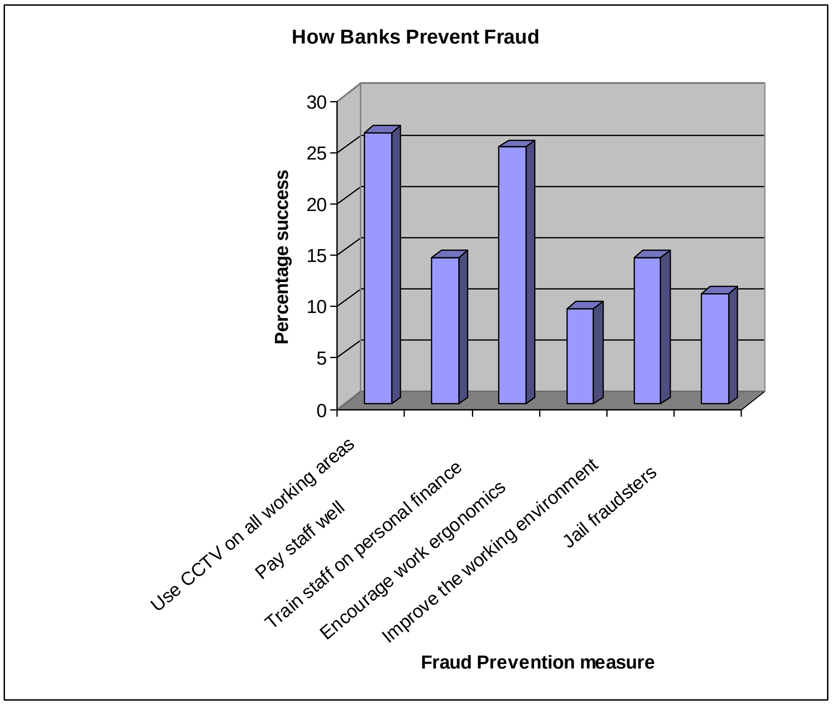
Staff with such behaviour have not performed well at work and such financial difficulties have led to performance of the affected individuals going from bad to worse often leading to disciplinary measure meaning even promotion to such staff is not possible. No promotion means, no salary increment therefore leading to the staff remaining in a very difficult position for the better part of their career. The study also found out that staff who work in a rural setup and earning the same salary as one in the urban setting has a lot of leeway in the way they can multiply their revenue. The staff in the rural environment has a benefit of cost of living since prices of goods are low therefore meaning that they always are in surplus when it comes to expenditure. The staff is equally not spending much on transport as in most cases; such staff lives very close to the work place.

Expenditure on lunch and entertainment is equally very low. This staff is likely to have a good balance in their savings account and contented in life as life to them is good and enjoyable. Comparing these two environments, it is reasonable to conclude that the environment is a catalyst for fraud as response from our study suggest. A stressed staff, who is incapable of feeding their family will always look for a way out and should they equally find a match in a customer who is willing to defraud the bank, they will bond and jell very well and commit criminal activities at the disadvantage of the bank.

Table 3 : Showing How Banks Prevent Fraud

	How Banks Reduce Staff Instigated Frauds	**Frequency**	**Percentage**
1	Use CCTV on all working areas	37	26
2	Pay staff well	20	14
3	Train staff on personal finance	35	25
4	Encourage work ergonomics	13	9
5	Improve the working environment	20	14
6	Jail fraudsters to scare staff	15	11
	Total	140	100%

Figure 3: Graphical Presentation of Fraud Prevention by Banks



4.7 Findings on Relationship between Working Environments and Employee Fraud in Banking

The initial objective of this study was to relate personal finance to the working environment. This objective has been confirmed by this study already. The second objective was to test the relationship between working environment and fraud in commercial banks. Response received from the study show that there is increased cases of fraud in the banks in urban centers as opposed to those in the rural areas. This is a manifestation that the environment has an effect on fraud.

Most response supported the fact that the lifestyle in rural areas is not as demanding as that in the urban areas. This was supported by the fact that if one has a car in the rural area, even their consumption on fuel is not as heavy as that of the person in town. A worker in town spends more on fuel due to traffic jams and long distances covered to get home.

The disparities in lifestyles therefore mean that if bankers are to be enticed to commit fraud, chances are likely that those in the urban areas are more likely to take part in the fraud than those in the rural areas. The study supported this understanding too as most fraud cases in the banking sector over a span of 5 years have concentrated in the urban areas. CBK (2011) data also supported this position as most fraud cases in commercial banks in 2012 occurred in Nairobi as opposed to other towns. It is on this ground that we support the objective that there is a relationship between the environment and fraud in commercial banks in Kenya.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings as analyzed in the previous chapter. The summary is based on the objectives of the study. The purpose of the study was to study personal finance discipline, working environment and fraud in the commercial banks in Kenya.

5.2 Summary of Major Findings

The findings of the study have demonstrated that there is a strongly relationship between working environment and personal finance discipline. In addition the study has equally demonstrated that that the working environment has a bearing on workers committing fraud as it shows that more frauds occur in urban centers as opposed to rural areas. The study has equally been supported by CBK (2011) report of its analysis of fraud committed in 2010 where CBK has shown that there is prevalence in fraud instances commercial banks in Nairobi than any other towns in Kenya.

The study has demonstrated further that financial awareness contributes to financial discipline. This has meant that banks need to empower their staff when it comes to financial awareness to curb fraud.

5.3 Conclusion and Recommendations

From the study, many banks in Kenya need to embark aggressively on personal finance training of its staff. Financial education is necessary as soon as staff joins the workforce. This training should be continuous and human resources should be the steer of such training as they are better placed to enforce a culture of financial discipline.

In addition, the banks should pay staff based on working environment so that if one is working in hardship areas, they should be compensated for extra effort they are putting up. This will encourage staff to work harder and not get distracted on how to commit fraud. Salary should equally be pegged on the environment and not just grade. Banks need to enforce a multi tied strategy to curbing fraud as only personal finance discipline alone is not adequate to cub fraud.

5.4 Limitations of the Study

This study would have taken a different dimension had it been conducted as a case study in a bank of choice. A case study would have been more in depth than a cross sectional survey. Some responses were not accurate in our opinion as we noted some contradictions in the responses offered especially on questions which were intentionally made to look almost the same to emphasis specific response. Some staff did not feel comfortable enough to openly expose the ills in their banks due to the secrecy auth bankers take. This might have hampered full disclosure.

5.5 Suggestions for Further Research

This study recommends that a similar study be carried our as a case study in specific bank of choice to verify what this study has established. We would also recommend that a study of a similar magnitude be conducted among the CFO of leading industry to corroborate the results of this study.

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APPENDICES

Appendix I: LIST OF COMMERCIAL BANKS OPERATING KENYA

1	African Banking Corporation, Nairobi
2	Bank of Africa Kenya, Nairobi
3	Bank of Baroda, Nairobi
4	Bank of India, Nairobi (foreign owned)
5	Barclays Bank of Kenya, Nairobi (listed on NSE)
6	CFC Stanbic Bank, Nairobi (listed on NSE)
7	Chase Bank Ltd, Nairobi
8	Citibank, Nairobi (foreign owned)
9	City Finance Bank, Nairobi
11	Commercial Bank of Africa, Nairobi
12	Consolidated Bank of Kenya Ltd, Nairobi
10	Co-operative Bank of Kenya, Nairobi
13	Credit Bank Ltd, Nairobi
14	Development Bank of Kenya, Nairobi
15	Diamond Trust Bank, Nairobi
16	Dubai Bank Kenya Ltd, Nairobi
17	Equatorial Commercial Bank Ltd, Nairobi
18	Equity Bank, Nairobi
19	Family Bank, Nairobi
20	Fidelity (Commercial) Bank Ltd, Nairobi
21	Fina Bank Ltd, Nairobi
22	First Community Bank Ltd, Nairobi
23	Giro Commercial Bank Ltd, Nairobi
24	Guardian Bank, Nairobi
25	Gulf African Bank Ltd, Nairobi
26	Habib Bank A.G. Zurich, Nairobi (foreign owned)
27	Habib Bank Ltd, Nairobi (foreign owned)
28	Housing Finance Co. Ltd, Nairobi (gov) (listed on NSE)
30	I&M Bank Ltd (former Investment & Mortgages Bank Ltd), Nairobi
29	Imperial Bank, Nairobi
32	Kenya Commercial Bank Ltd, Nairobi (gov) (listed on NSE)

31	K-Rep Bank Ltd, Nairobi
33	Middle East Bank, Nairobi
34	National Bank of Kenya, Nairobi (gov)
35	National Industrial Credit Bank Ltd (NIC Bank), Nairobi (listed on NSE)
36	Oriental Commercial Bank Ltd, Nairobi
37	Paramount Universal Bank Ltd, Nairobi
38	Prime Bank Ltd, Nairobi
39	Southern Credit Banking Corp. Ltd, Nairobi
40	Standard Chartered Bank , Nairobi (listed on NSE)
41	Trans-National Bank Ltd, Nairobi
42	UBA Kenya Bank Ltd., Nairobi
43	Victoria Commercial Bank Ltd, Nairobi

Source: CBK(2011)

Appendix II: Letter of Introduction

UNIVERSITY OF NAIROBI

School of Business

Telephone: +254-2-318262	Anthony Muthike
Telegrams: "Varsity", Nairobi	P.O.Box 2324 00100
Telex: 22095 Varsity	Nairobi, Kenya

Dear Sir/Madam,

<u>RE: REQUEST OF PARTICIPATION IN MBA RESEARCH PROJECT</u>

The bearer of this letter, Anthony Muthike is a Postgraduate student undertaking a Master of Business Administration (MBA- Finance Major) degree at the School of Business, University of Nairobi. As part of his course work assessment, he is required to submit a research project report on Personal Finance Discipline, Working Environment and Fraud in the banking sector.

We request you to kindly assist him by completing the attached questionnaire. We assure you that the information provided is purely for academic purpose only and will be treated with utmost confidentiality.

Should you be interested in the findings of the research, a copy will be availed to you on request by the student.

Thanks you for your cooperation.

Mr. Nganga	Anthony Muthike
MBA Department	MBA Student
Tel 318262	0720788583

Appendix III: Questionnaires

<u>Section A: Respondent's profile</u>

Which of the following best describe your function?

1. a.) Marketing [ ] b.) Relationship Management [ ] c.) Finance & Accounting [ ]

d.) Procurement [ ] e.) Back Office Operations [ ] f.) Other (Please specify)…………..

2. For how long have you held your current position?

a.) Below 2 Year [ ] b.) 2-5 Years [] c.) 6-10 Years [ ] d.) Above 10 Years [ ]

<u>Section B: Company's Profile & Personal Finance, working environment in relation with fraud</u>

1. Name of Bank (optional) …………………………

2. What is your understanding of fraud………………………………………….

3. What are the current trends of frauds happenings in your department

……………………………………..............……………………………………………

………………………………...

4. Does your bank offer personal finance education/seminars to staff?

   a.) Yes [ ] b) No [ ]

   If yes how often? Please specify……………………………………………………

5. Please indicate the extent to which staff in your organization engaged in fraud?

Very much 1. ☐ 2. ☐ 3. ☐ 4. ☐ 5. ☐ Not at all

6. How would you rate the rate at which your bank is losing funds?

Very High 1. ☐ 2. ☐ 3. ☐ 4. ☐ 5. ☐ very low

7. Which category of staff in your bank are more susceptible to committing fraud?

Entry level 1. ☐ 2. ☐ 3. ☐ 4. ☐ 5. ☐ senior level

8. Why would you think the level (in 7 above) is likely to be involved in fraud?.............

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

9. What is the approximate number of employees who have been dismissed due to fraud? a.) Less than 10 [ ] b.) 11-15 [ ] c.) 16-20 [ ] d.) Above 20 [ ]

10. To what extent do you think the following motivate employees to commit fraud?

Please Circle one for each row.	Not at all		To a great extent		
i.) Low pay	1	2	3	4	5
ii.) Poor Personal Finance discipline	1	2	3	4	5
iii.) Peer pressure	1	2	3	4	5
iv.) Pressure from environment (stress, family)	1	2	3	4	5
v.) Other, please specify					

11. How can you describe the management of your organization in relation to fraud prevention and awareness?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

………………………………………………………………………………………………

12. To what extent can the bank use the following to prevent/reduce fraud instances?

Please Circle one for each row.	Not at all			To a great extent	
i.) Use CCTV on all working areas	1	2	3	4	5
ii.) Pay staff well	1	2	3	4	5
iii.) Train staff on personal finance	1	2	3	4	5
iv.) Encourage work ergonomics	1	2	3	4	5
v.) Improve the working environment	1	2	3	4	5
vi.) Jail fraudsters to scare staff	1	2	3	4	5

9. Which environment(s) in the bank (locations) will you say is fraud prevalent?

Please Circle one for each row.	Not at all			To a great extent	
i.) Towns and urban Centers	1	2	3	4	5
ii.) Rural areas	1	2	3	4	5
iii.) Front Office (customer facing)	1	2	3	4	5
iv.) Back office (processors)	1	2	3	4	5
v.) System (ICT, Internet banking etc)	1	2	3	4	5
vi.) Relationship management	1	2	3	4	5

10. What is your view with regard to the relationship between working environment, and the instances of fraud in your organization. Does environment contribute to fraud instances?……………………………………………………………………………….

----

11. What is your bank doing to eradicate staff fraud related instances………………….

----

12. What should be the role of KBA and CBK in reducing fraud in banking?

----

13. What risk management system is the bank having in place to cub fraud…………..

----

14. In your view, if the working environment contributing to instances of fraud

Yes [ ] No [ ] if yes specify how and why……………………..

----

15. How do you measure fraud as a bank?...

----

16. How do you prosecute fraud within staff and is the prosecution effective?...............

----

17. Any other information about how you would relate personal finance discipline of employees, their working environment and the fraud committed in your bank………………………………………………………………………………………

………………………………………………………………………………………………

~Thank You~