

**STRATEGIC APPROACHES ADOPTED TO COMBAT BANK
FRAUD AT KENYA COMMERCIAL BANK IN KENYA**

**BY
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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI**

2018

DECLARATION

I declare that this research project is my own original work and has not been submitted for a degree in any other University.

Signature..... Date.....

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D61/84105/2015

This research project has been submitted with my approval for examination as the University Supervisor.

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DEDICATION

I dedicate this work to my family and friends for their moral support and prayers.

ACKNOWLEDGEMENT

I take this opportunity to appreciate my supervisor, Dr. Margaret Muthoni Kariuki for the scholarly guidance and moral support in the writing of the project.

I also acknowledge the unfailing moral support I received from my bosses, Mr. Abdalla Komesha, Mr. John Kariuki and Tobias Abondo during this period of study because of their great understanding. Finally, I acknowledge all those who gave me support and prayers through the entire course.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

All over the world, cases of fraud are not new phenomenon in the banking industry. However, there were more cases of frauds that were reported in year 2009-2011 than previous years. The possible reasons behind this increase, is due to collusion of the banks staff and other fraudsters who target specific institution with a well calculated ways to defraud a bank (Beck, Demirguc, Maria & Martinez, 2011). Some of the methods used by the fraudsters to defraud banks include cash suppression, recruitment fraud, frauds through electronic funds transfer, IT frauds, identity fraud, advance fee fraud, false claims by staff, procurement fraud, forgery, cheque frauds, clearing frauds (KRA frauds), card fraud and frauds through staff conspiracy and collusion. The advancement of the technology has provided an opportunity for fraudsters to use technology to conduct fraud in the banks. They do so through mobile banking, EFT, internet banking and RTGS.

This study was grounded on the following theories Fraud Triangle Theory by Cressey (1971). The motivation of committing fraud is from the pressure to meeting expectations on hand. The executor believes that he or she would not be caught committing fraud. The study will also analyze routine activity theory which was advocated by Cohen and Felson (1979). Finally, the study will discuss resource dependence theory advocated by Pfeffer and Salancik (1978). The value of organizational resource is seen when it helps in firm to come up with strategies that prevent organization from risks.

For the last one decade, banking industry has been exposed to fraud threats from its operation process affecting the industry performance. The incidences of the fraud are unpredictable due to the changing approached adopted by the fraudster and at some point involving the bank staff. A good example is between 2009 and 2010 July, the banking industry in Kenya lost at least 2.4 billion through fraud where technology was rapidly used. Even though various methods that are employed in coping the incidences of the fraud in the banking sector, still there are more cases reported on fraud as fraudsters invents new ways. This has attracted the attentions of the banking industry as well as other financial institutions in Kenya (Ongore & Kusa, 2013).

1.1.1 Concept of Strategy

According to Freeman (2010) strategy is organization scope and direction that that matches the results of its changing environment and customers and markets in particular so as to meet the expectations of shareholders. Strategies management approach on the other hand is a set of actions and decisions that help organization meet its sets objectives, they include implementation and formulations of strategic plans (Grant, 2016). Strategy is a scope or direction over long term organization which delivers a competitive firm edge to its ever business changing environment. The operating organization environment changes constantly with different factors that influence an organization.

Charter (2017) states that a firm need to rethink their marketing strategies so as to cope with the current increasing competitive environment. Time is long gone when a firm waited for clients to beat the path of their door. Regardless of how good and services of an organization are they can't sell themselves (Ulaga & Reinartz, 2011). For a firm to

adequately meet its goals and objectives it must have an effective strategy so as to configure a firm core competencies and resource. The culture drawn by the strategy is in that a firm focuses on addition value to its mission and vision (Grant, 2016). Competitive strategy aims in creating good fit between capabilities of firm's internal resources and the faced environmental challenge. One important element in management is organization strategy (Wirtz, Schilke & Ullrich, 2011).

For organization to adopt effective strategies must be able to understand the environment in which it operates in and streamline those strategies with its long-term goals and objectives. The strategies must be imitable and be able to cope with the industry that the firm is operating in. Strategic position understanding of an organization and strategic choices consideration upon to is a small value unless the management or managers wishing to follow can be turned to organizational action (Leonidou, Fotiadis & Zeriti, 2013).

1.1.2 Strategic Approach

According to Poister (2010) a set of actions and decision that help organization in achieving set objectives and contains implementation and formalization of strategic plans is known as strategic approach. This approach assists organization in current position assessment on where they want to be and how to get there. Freeman (2010) stated that strategic responses involve strategic behavior change of the firm for ensured future environment transformation. López-Pelegrin (2015) gave three strategies an organization can use in identification of strategic approach which includes the sets goals and objectives, strategic direction outlining and competitive strategy adoption.

The organization adopted strategies are either strategic or operational in future. In the study by Bryman and Bell (2015) the application of strategic approaches is in areas like finance, human resource, marketing and development and research. According to Lichocik and Sadowski (2013) these approach main concern is on organization operation efficiency. The help organization in increasing the utilization of resources available so as to develop distinctive competence thus gaining a competitive edge. According to Rummler and Brache, (2012) the strategic approach is brought in by managers with the aim of guiding an organization on how to conducts its business and how to achieve its objectives.

Strategic approaches are brought in an organization so as to address environmental long-term challenges; members of the whole organization are required in the implementation of this approach. Implementation and development of strategic response includes; right climate, rational analysis, resources, experience, competence and capacity to respond by the organization (Pearce & Robinson, 2011). According to Biegelman and Bartow (2012) some of fraud strategic response includes; setting up fraud management units, establishing fraud policy, legislation of laws on bank fraud, establishing code of conduct for employees, strict regulations, establishing fraud policy, detection and prevention techniques, Management review and Risk assessments.

1.1.3 Concept of Bank Fraud

There are various techniques that have been used to combat fraud in financial institutions such as banks. There are various life-cycle stages that entail fraud management. The first and main stage is the deterrence stage that is employed to combat fraud. This stage should involves various activities that aims to detect fraud even before it happens, for

instance in card fraud, deterrence method should be able to identify such a fraud or attempts. Another approach that can be used to combat fraud is exhausting available organization resources and training staff so that they can be able to identify any fraud attempt (Dolan, 2004).

Investigation is also a method employed by financial institution to combat fraud. Most of cases of fraud prosecution fail because during the detection process fraudsters were not identified, as such the cases ends up being terminated without culprit being identified. In the prosecution stage, the assets attached to the fraudster are recovered and freezed to compensate the looser, criminal proceeding are restructure and charges are made to a law court for hearing to determine the criminal offence (Yaukey, 2002).

1.1.4 Banking Industry in Kenya

The banking industry in Kenya is regulated and supervised by the Central Bank of Kenya and it composes of Forex Bureaus, Non-Bank Financial institutions and Commercial banks. By the end of year 2015, the banking industry was composed of 45 institutions where 43 banks and mortgage companies. Banking Act 488 and Prudential Regulations are used to supervise and monitor mortgage institutions and commercial banks and regulated by CBK Act Cap 491 which is enforced by Central Bank of Kenya (Ng'etich & Collins, 2011).

Out of Forty five (45) commercial banks, 43 are owned locally while 12 were foreign owned. Out of 43 locally owned commercial banks, 3 banks had majority of share owned by the government, 28 majorities of the shares were privately owned and 2 mortgage finance companies (NIFC's). This means that majority (71%) of the banks were locally

owned while 29% were privately owned. The rating of the banking sector was strong for achieving financial satisfactory financial conditions. Despite high market competition the operation results were very improved for a share of significant market. The raising competition has led to introduction of new products in the market. The system remained well capitalized. Shareholder's funds, deposits and assets increased by 35.2%, 27.7% and 31.9% respectively (CBK 2016). In the last 3 years, the profit before tax of the 11 listed banks which constitute 26% of all licensed banks averaged 74% of the industry totals. They have also suffered some of the highest losses arising from fraud as per the BFIU figures. The banking industry records some of the highest profits in Kenya. Individual banks like Equity Bank, KCB Bank, Barclays Bank and Standard Chartered Bank posted pre-tax profits in excess of kshs10 Billion each in 2014 (CBK Annual Report, 2015).

1.1.5 Kenya Commercial Bank

KCB bank limited is a financial service provider with its headquarters located in Nairobi, Kenya. Central bank of Kenya being the regulator has licensed it as the commercial bank in Kenya. The banks also run Agency banking model. Statistics of December 2015 shows that commercial bank was the largest bank in Kenya with more than US\$3.681 billion (KES: 366 billion) and US\$2.776 billion (KES: 276 billion) assets in deposits of the customers. By the end of year 2015, KCB had more than 250 branches across the country and was the bank with the largest network. The bank had also the largest network in term of ATMs and served over 7 millions of customers with account in the bank (CBK Annual Report, 2015). Later, in the year 2015, the bank was incorporated and allowed to operate as an independent identity after restructuring of KCB Group. Before this restructuring, KCB group was licensed to operate as a bank and as holding company as its subsidiaries.

This was to comply with Kenya finance Act No.57 of year 2012. The firm announced publicly of its aim to incorporate KCB as an independent entity that will be whole owned subsidiary. This bank would be conducting its business in Kenyan banking sector and its assets and liabilities will be solely to the institution. This restructuring provides an opportunity to the firm to operate as a non-trading institution that owns both banking and non-banking subsidiary companies (KCB, 2015).

1.2 Research Problem

In today's business environment, the most serious problem facing most of the business is fraud cases (Levi, 2013). Management and other stakeholders of commercial banks expect good returns from the banks. However, fraud threatens the achievement of this key objective hence the need to adopt proper strategies to manage or control it. Efficient management of the fraud menace would give a bank a competitive advantage over others hence the need to adopt strategies that will make this possible and ultimately enable the bank to achieve its objectives. In order to survive in this very dynamic environment, organizations need strategies to focus on their customers and to deal with the emerging environmental challenges. According to BFID (2014) the internal fraud frequency is increasing. Because of increased dishonesty of employees who are able to override system or collaborate with outsiders in defrauding their banks. The bank fraud unit shows that even through management frauds are rare when they happen they account the greatest financial losses. Because of position equal power managers and executives are able to commit fraud easily without being noticed (Angira, 2011). Organizations strive to come up with strategies that support their objective such as product development, service improvement, managerial process and support. Most of frauds conducted in banks are

conducted through electronic money transfer exposing banks to highest risk of being the main target of by the fraudster. Banks that are exposed to more risk of being raided are those with highest number of branches and those which have adopted technology in most of their operation KCB being not excluded in that category.

Several study, both internationally and locally have been carried out on fraud in the banking industry. Bhasin (2016) conducted a study in Malaysia on Combatting Bank Frauds by Integration of Technology. The study revealed that some separations of duties are limited, documentations are false, and little or no control account for 60 percent cases of fraud. Locally, Aduda, Kiragu and Ndwiga (2013) did a study on the factors influencing Kenya electronic fraud in banking industry targeting the KCB central region. Wanga (2013) conducted a study on commercial banks response strategies to fraud-related challenges. The study revealed that there are fraud detection strategies adopted by commercial banks in Kenya.

Despite studies being conducted on frauds in banking sectors, no study has specifically been carried out on strategic approaches adopted to combat bank fraud at Kenya Commercial Bank. This study therefore aimed to fill the existing knowledge gap by seeking to answer the following question, what are the types of frauds experienced at Kenya Commercial Bank? What are the strategic approaches adopted to combat bank fraud at Kenya Commercial Bank.

1.3 Research Objective

- i. To identify the types of frauds experienced at Kenya Commercial Bank.
- ii. To determine strategic approaches adopted to combat bank fraud at Kenya Commercial Bank.

1.4 Value of the study

This study may be of great benefit in a number of ways: The study may assist the Kenya commercial bank and the wider banking industry in the formulation of strategies, policies, standards, procedures and guidelines that may help in responding to fraud incidences in the sector.

It also will also address the existing knowledge gap in the field of strategies on strategic approaches adopted to combat bank fraud at Kenya Commercial Bank. It may therefore assist academicians and scholars interested in the response strategies to fraud as fraud has become a menace in bank sector.

It may be used as a resource document for the government and mostly the bank regulator (Central Bank of Kenya) in understanding the different strategies that banks have adopted to combat fraud and help in the formulation of further policies by the regulator for use in the banking industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is a discussion of studies and research done on strategic approaches adopted to combat fraud in banks. Literature review involves summarization of diversity of views about the adopted strategic approaches. This chapter also includes the empirical and theoretical review and research gap.

2.2 Theoretical Foundation

This study was based on three theories which are relevant to this study. They include The Fraud Triangle Theory, routine activities theory and resource dependency theory.

2.2.1 The Fraud Triangle Theory

Cressey in 1971 developed the theory of fraud triangle. Cressey states that people commit fraud because of three different factors which includes; Perceived Rationalization, Perceived Pressure and Perceived Opportunity making up a triangle. According to Cressey perceived pressure related to either individual or work confronts fraud executor. The motivation of committing fraud is from the pressure to meeting expectations on hand. The executor believes that he or she would not be caught committing fraud.

The triangle of Perceived Pressure, Perceived Opportunity and inadequate punishment if found it presents a weak internal controls which gives an opportunity to commit fraud. Fraud third driver is the fraudster ability to rationalize their actions in an acceptable way. People thinking about their performance, work and contribution within working place is

referred as rationalization. According to Chiezey and Onu (2013) the need a company derived value for making valuable deliveries and being productive. The study used the theory for it suggests that addressing the issues of rationalization, opportunities and pressure can reduce the rates of fraud.

2.2.2 Routine Activities Theory

Lawrence Cohen and Marcus Felson developed the theory of routine activity with a sociological theoretical perspective aiming to the United States criminal trends between 1947 and 1974 (Cohen & Felson, 1979). According Yar (2005) the routine activities of organization everyday life give a variable opportunity for a successful predation structure. There are the minimal elements in this theory conceptual framework of predatory violation direct contact which conceived to originally take care of assaults related to violence where people damage each other's property (Willison & Backhouse, 2006). These three elements are; absence of capable guardians, a suitable target and potential offender.

According to Willison and Backhouse (2006) the theory of routine activity is very instrumental in situational crime prevention informing techniques, and also used in crime science. USA experienced high fraud cases in the years between 1960 and 1980 due to society changes, leading to norms and moral value loose thus the increased crime rate. They also concentrated on investigating how economic, psychological, biological activities and situational factors contribute to the society increased crime rate. Routine activities can be used in analyzing on ways of coping with crime activities and fraud executors surrounding circumstances.

2.2.3 Resource Dependency Theory

According to Pfeffer and Salancik (1978) the theory of resource dependence is characterized by open system corporation, which depends on external environment contingencies. This shows that department or individual power can affect all critical resources organization takes in. This approach states that organization is active to its environment not passive. The decision affects the future (Kocel, 2012). The value of organizational resource is seen when it helps in firm formulating and strategy implementation that improves its effectiveness and efficiency (Henry, 2011). A firm can generate value with the help of corporate strategy through; risk reduction, growth maintenance, cash flow balancing, infrastructure sharing, and market power increment and core competencies capitalization. Gupta, Gollakota and Srinivasan (2007) indicates that all this are used as an evaluating criterion to any strategy corporate decision backward or forward integration, diversification related or not related, joint ventures, acquisitions or alliance strategies.

The concern of resource dependence is more than external organization that competes with the firm, distributes, finances and provides. The weight of an individual in executive decisions is more compared to decisions of non- executive, the collection impacts the organization greatly. Galaskiewicz and Bielefeld (1998) states that organizational fate depends on their resource access, even though it's so obvious in revenue terms, only the incentives of the organizational management makes customers look like a resource.

2.3 Types of Bank Frauds

In every financial institution there are different happenings of fraud. Some of the experienced frauds are; staff collusion and complicity fraud, transfer of electronic funds

fraud, frauds of IT, identity fraud, cheque fraud, card fraud, frauds of clearing, instruction letter fraud, fraud of recruitment, staff false claims, Procurement fraud, fraud of advanced fee, commission diversion and suppression of cash. The common fraud in the banking sector is the cheque fraud because many customers owning cash books are never careful in keeping their books in safe custody. The biggest challenge facing financial and business institutions are the cheque fraud. Customers, businesses or financial institution which accepts cheques remains to be the biggest victims. According to Banking Fraud Investigation Unit (2014) in the year 2011, 1st quarter cheque fraud was the leading fraud and forgery became the leading fraud in the second quarter.

Although banking online is considered much convenient and secure way of accessing bank services, there are new developed tactics by fraudsters to get access to personal accounts (Anderson, 2010). Thus they should all show report of any attempt by fraudsters of accessing the accounts of the customers. This can be done defrauding clients to hand over security information like memorable information, passwords or username. Fraudsters sometimes results banks to make transactions as it's just a test trick. Most banks including commercial bank experience fraud of identity theft. According to McNally (2011) documents of identification are easy to reproduce, for fraudsters to take over an account they make parallel passports, driving license and identity cards. Development of technology is making banking services easier, since anyone can conduct transactions through internet and ATM hence making banks to be more prone to fraud. There is little time to be keen with ones transactions as its process take less time. Although turnaround time has been increased by technology, fraudsters also use it to commit frauds (Finch, 2011).

There is an increment of law enforcement agencies and civilians concern by internet fraud. If employees of financial institutions are given access to customer's data which can be used to access online customers account, it's easy for that employee to commit fraud. Thus passwords and pin should be stored in encrypted format in any financial institution. Agwu, (2014) states that internal fraud committed through online banking in financial institutions is very costly. Although there is increased offering of online banking in financial institution they face a lot of internet customer confidence. Consumer wonders and has big concern on if internet is safe for online banking. Yes, it is safe, if customers cooperate with financial institutions to make it safe. So, it's critical important to build good control to protect customers and prevent fraud (Biegelman & Bartow, 2012).

Financial institutions also experience another fraud known as misappropriation fraud. Some employees are limited by integrity from assets misappropriation. There is a strong believe by some investigators that strong moral code prevents person from rationalization use to for illicit behavior justification (Dorminey, Fleming, Kranacher & Riley, 2012). The accomplishment of misappropriating of assets is by receipt embezzlement, stealing, creating entry to pay for services or goods (ACFE, 2011). Misappropriation can be motivated by pressures like preoccupation with being successful, greed, high personal debts, work-related pressures such as low pay, high medical bills and unfair treatment.

Card fraud is the most common area of fraud in the Bank. Card fraud involves fraud committed using a debit and credit card to conduct a transaction to another person account not known by the account holder (Chaudhary, Yadav & Mallick, 2012). Most banks issues debit and credit cards to customers. It also acquires merchants who accept both local and International card payments by customers on its behalf. BBK processes

payments on VISA, MasterCard and AMEX cards. Nowadays, fraudsters are selling through online, personal information and authentication codes such as ZIP codes using stolen cards information. And they're becoming cleverer about how they obtain that information.

2.4 Strategic Approaches

There are various techniques that have been applied by the financial institutions and commercial banks to manage the menace of fraud. One of such strategic approach used is corporate strategy planning. Arthur (2012) states that there should be scrutinization of recruitment and employment practices to make sure the employees are well checked. The main aim of deterrent security control is the creation of control compliance atmosphere, while the security of preventive control design should be able to control any attack possibility (Abu, 2010). Smith (2010) says that enforcement and introduction of control leads to reduction of fraud opportunities. Thus, there is need for each organization to train its staff on the procedures to be followed in everyday activities to avoid the cases of fraud (Cappelli, Moore & Trzeciak, 2012). To some extent all workers have a responsibility in controlling fraud risk, but the ultimate responsibility is by the accounting authority.

Due to high demand of qualified staffs and cases of high labor turnover, organization is forced to recruit new staffs to meet the demand of services sought by clients (Yang, Wan & Fu, 2012). This process exposes the firm to the risk of being the target of fraudster as they can be recruited as staff and later executes the fraud internally. Thus, there is need for clear procedure that is followed to thoroughly screen any candidate to the task to avoid cases of fraud. The investigator should have knowledge on administration system practices and own good knowledge and background skills required in security of

computer and various work concepts within investigation areas (National Research Council, 2012). Any financial institution and large firms are required to have an auditor who can be able to conduct auditing in order to detect fraud (Dyck, Morse & Zingales, 2010). Golden, Skalak, Clayton and Pill (2011) suggested that the triangle model involves; a sound, internal control comprehensive system, investigative board of directors and capable independent auditor's alerts.

2.5 Empirical Review on Strategic approaches to Combat Bank Fraud

Even though studies have been conducted on fraud risk management practices on banks performance in Kenya, no study has been conducted on strategic approaches adopted to combat bank fraud at Kenya commercial bank in Kenya (Okiro & Ndungu, 2013). Studies done on fraud risk management practices have focused on the management practices without linking them to how they help in reduction of fraud cases in banking sector. However, there are few studies that have been done on strategic management and fraud in commercial banks in Kenya and internationally.

Dominic (2015) did an international study on Canadian organization fraud cutting, Dominic analysis on the various internal effects control on occupational fraud losses reduction by affected organizations. The results suggest that regular ethics, hotlines, surprise audits, training and internal audits when used separately reduces fraud losses. However, surprise audits and hotline are good control when dealing with potential correlation between all internal controls. The reduction of 55 percent median fraud losses was associated with hotlines while median cut losses of 64 percent related to surprise audits (Gunduz & Onder, 2013).

Olodi *et al* (2014) did a study on forgeries and fraud of banks in Nigeria concentrating on prevention, detection, types and cause of forgeries and fraud in banking sector of Nigeria. The designing of the questionnaires was made to collect data from south west 81 bank branches. Their results show that the main play factor was internal control system effective problems and strict adherence enforcement. The suggested that there should be installation of effective internal control system and enforcement of strict adherence in all banks.

Several studies have been conducted on Kenyan bank strategic responses on fraud. Mbugua (2013) conducted a study on strategies response on commercial bank in Kenya. The results show that investigation strategies, detection, preventative, training and prosecution are used by all listed banks to curb fraud. The staff involvement level in the process of fraud was very high. The financial commitment issue and strategies of inadequate rewards were pointed to be reason for staff involvement in fraud. The whistle blowing policy existence and fraud policy was found to be a rigorous commensurate with the fraud risk of a company and with consideration of applicable legal. All the banks were reported to have gone through various forms of growth in the last 5 years during which time the study found out that fraud was effectively and adequately addressed. The law enforcement agencies play a critical role in fraud management in any jurisdiction. This study concluded that they were moderately successful in the fight against fraud. The fraud investigations by listed commercial banks were found to be successful.

Wanga (2013) studied on commercial banks response strategies to fraud-related challenges. The study found that there are fraud detection strategies adopted by commercial banks in Kenya. There was no single test that a fraud has been committed.

The study found that there are fraud prevention strategies adopted by commercial banks. The banks adopted fraud prevention strategies to great extent. There is a Group Fraud Policy that's applicable to all Commercial banks in the world. The bank also carries out a random check christened "the Eye-ball". This is a random selection of account opening documents by a dedicated team of Fraud Samplers. The study revealed that a whistle blowing facility is existent in the Bank.

Odhiambo (2016) did a study on fraud management strategies evaluation adopted by Kenyan insurance company. According to the study these companies uses normal internal control systems like external and internal audit functions, IT and management committees, claims management and underwriting in fraud management. The study shows that adopted strategies to curb fraud by insurance company are not effective causing an increase in fraud cost and cases.

Akelola (2012) did a study on fraud in the banking industry with focus to Kenyan banking industry. According to the study fraud prevention and detection methods used are very standard and are the same standards used globally. In predicting fraud, the fraud triangle was effective in predicting the fraud pattern respondents described. However, in explaining Kenyan bank fraudster collusive and predatory nature the fraud triangle according to the study is not effective. There is also identification of internal and external factors of Kenyan fraud, weak industry cooperation included, lack of enough trained prosecutors and police, justice system ineffectiveness and government framework regulatory are very weak (Akelola, 2012).

According to Kinyua (2011) in her study of equity bank strategic response to risks related to fraud recommends the judiciary to be empowered through reforms to enable them deal with incidents related to fraud, fraud legislation review, security documents features and management of staffs through screening of employees, monitoring staff accounts, and staff motivation. The study of Githecha (2014) on how performance of commercial bank is affected by fraud risk management strategies confirmed the alternative hypothesis that commercial banks of Kenya performance is affected by fraud risk management. Regulation and government positively affected performance of commercial bank measured by ROA.

Kuria and Moronge (2013) in the study on how the Kenyan insurance company's growth is affected by fraud management practices concluded that the growth of insurance firm can be determined greatly by governance and technology if applied as a control mechanism. The study also states that regulation is not as major consideration as far as industry growth is concerned. The study clearly shows that insurance firms' regulation is not related with industry fraud risk management practices.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The section contains study methodology that was used in conducting the research. Additionally, it contains the target population, data collection, research design and data analysis.

3.2 Research Design

According to Fraenkel, Wallen and Hyun (2011) research design is the outline, scheme, or plan used in generating research problems answers. This research was conducted through a case study since it is a research targeting one organization. The study method gives in-depth information on strategic approaches adopted to combat bank fraud at Kenya Commercial Bank in Kenya. In this study, the researcher narrowed down on strategic approaches adopted by Kenya Commercial Bank to combat bank fraud but comprehensively enough to give representative information in the entire industry. This research was therefore free from any material bias and enabled the researcher to study intensively a particular unit.

3.3 Target Population

According to Mugenda and Mugenda, (2003), Population is a group of people or objects with common characteristics. The target population for this study were senior managers working in KCB headquarter in the following departments; operation department, branch managers, forensic manager, general manager, credit manager and risk manager. In each department, two managers were targeted thus contributing to 12 respondents. The

researcher used face to face method of data collection where each respondent was required to respond to the question as the researcher highlights the response in the interview guide. The study aimed to establish strategic approaches adopted to combat bank fraud at Kenya Commercial Bank.

3.4 Data Collection

The researcher collected first hand data which was gathered using an interview guide. The data instrument was administered to the research sample. The interview guide was divided into two; section A covered respondent general information and section B covered the study specific objective where it consisted of open-ended questions. The interview guide collected the information about the strategic approach that the study employs.

3.5 Data Analysis

For consistency and completeness, the completed interview guides were edited before processing the response. The study used content analysis because information was collected using interview guide. In analysing the views of the interviewees on strategic approaches adopted to combat bank fraud at KCB bank. It's an analysis using messages qualitative techniques and scientific method including; replicability, objectivity-intersubjectivity attention and generalizability (Zivkovic, 2012). It looks into why, to whom, who says what, to what extend and with what effect of any technique for inferring and identifying systematically and objectively special character of messages. The information developed from the research data was then presented in prose-form.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section gives analysis of field collected data. The presentation of data highlights major findings. The findings are presented according to the study research objectives. The study targeted senior managers working in KCB headquarter such as operation manager, branch managers, forensic manager, general manager, credit manager and risk manager. Responses to the interview guides were qualitative in nature and were analyzed through content analysis to highlight the convergence of ideas from respondents.

4.2 General Characteristic of the Respondents

The study requested interviewees to show the duration over which they had worked in the current position. All the senior managers interviewed were found to have served the organization for ten or more years with over six years in senior management. This illustrates that the interviewees have the appropriate knowledge and experience of managing fraud. Results shows that most of the interviewees had attained the highest level of education which is Bachelor's degree, followed by those who had a Master's degree, Higher National Diploma and those who had professional qualification. The researcher also requested respondent to indicate the department they were working at. Most of interviewees work in the departments that were targeted by the study such as forensic, credit and risk departments. Interviewees were in middle management level and senior levels and can therefore be relied upon to give accurate information on strategic approaches adopted to combat bank fraud at KCB.

4.3 Types of Bank Frauds

In today's business environment fraud is believed to be the biggest challenge amongst all serious corporate. Many businesses, business environment and government environment suffer different kind of fraud. In every financial institution there are different happenings of fraud. This study revealed that online banking, card fraud, internet fraud, defalcation, forgeries, false identity, money laundering, computer fraud, and fake payments were the most cited frauds. A lot of frauds are committed through false payment instruments. Common known fraud type includes; Card fraud, Cheque fraud, computer fraud and Mail order fraud that are commonly referred to as internet fraud. Fraud reduces the asset number and increases the company's liability. Theft and Embezzlement, Unofficial Borrowings, and Card Fraud were also cited. Other frauds mentioned by the interviewees include; identity theft, forex fraud, cheque fraud, money transfers, theft by directors and Embezzlement were also mentioned. The response portrays that the interviewees have knowledge of the major types of fraud experienced in the banking industry and are therefore well placed to respond to the threat of fraud.

4.4 Strategic Approaches to Combat Fraud

Set of actions and decision in the implementation and formulation of design plan to achieve the objectives of a firm is referred to as strategic responses. They are part of competitive strategies that organizations develop in defining goals and policies. Banks fraud threat comes from both external and internal environment. Rationalization, opportunity and pressure are the key things for a successful fraud. To manage the fraud threat banks must impose an effective strategies response. The following were the strategies adopted by the KCB as revealed by the study

4.4.1 Involvement of Law Enforcement Agencies

Law enforcement agencies and the criminal justice system are a major component in the fight against fraud. At early stages of investigation KCB involve the police. However, this only happen if they feel that the police will want to prosecute the involved individuals. Law enforcement agencies were successful in the fight against fraud. Interviewees also pointed that the banks have effective investigation mechanisms in place which translate to high success rates. In in formal intervention, they implemented some measures like training, Education, and awareness programs. This creates some apathy in involving the law enforcement agencies which in itself could work for the fraudsters.

4.4.2 Strategic approach

According to the bank employed strategic approaches, the interviewee says that there was staff impartial treatment, were staffs included in fraud are not aware of status of staff treatment. The study also revealed the top management high concern on prevention and detection of fraud. Confirming that organizations don't tolerate fraud.

4.4.3 Investigation

One of the strategic approaches which KCB is using to determine fraud as indicators have suggested is investigation. This involves collecting enough evidence of the fraud discovered. All investigation of computer fraud should start with a plan for evidence gathering and handling. Investigators, internal auditors, security personnel, lawyers, and other specialists from inside or outside of the organization are the one who takes part in investigating fraud. The investigators know well all good system administration and have deep skill and knowledge background needed in security of computer and different work concept in investigation area. Same as performing background checks can reduce

fraud. The background check levels performed should be similar with risk associated with the position level. Workers have the highest chances of being a fraudster. Thus the only way of curbing fraud is employing trustworthy and reliable employee mostly in responsibility position.

4.4.4 Deterrence Security Control

The deterrent control security aims at creating control compliance atmosphere, while the preventive control security reduces attack possibilities. Interviewees pointed that KBC has adopted deterrence security control to combat fraud. The detective control helps to identify harm occurrence and breach security once the system is violated. The interviewees indicated that transactions in the bank are screened for normalcy and for anti-money laundering (AML). The Bank's IT infrastructure is designed to support the monitoring process by producing daily reports and alerts to be auctioned. The business sets out parameters to be used for monitoring and the parameters are reviewed consistently to be in tune with the market. Transactions that are not in sync with customer operating range will be picked as red flags and will be looked into by relevant arms of the bank. The interviewees also indicated that credit and debit card transactions are monitored by a team of Fraud Analysts who operate 24hrs. Their role is to check for any unusual transactions on customer's accounts. For any irregularities, the customer is contacted to verify a transaction. When a customer declines a transaction, the Fraud Analyst will caution the card to avoid further usage. An incident will also be raised at this stage for the matter to be investigated. This applies to usage of banking instruments such as cheques and transfer instructions (SWIFT, EFTs and RTGSs). Any abnormal usage or eye catching transactions detected on a customer's account that are not in synch with a

customer's behavior, the bank will call the customer to verify the transactions. Some transactions that may fall on the AML radar are investigated and may be reported as suspicious transactions reports (STR's) to CBK for further action under the prudential guidelines. Corporate and Premier Customers have fully dedicated relationship managers who keep an eye on their accounts on a regular basis and alert the customers for any suspicious transactions.

After occurrence of loss corrective controls reduces the impact of the threat. So corrective control reduces or helps in recovery of harmful effects damage. Processing controls ensures that transactions put in CAIS are accurate and valid, no losing or altering of external data and correcting of external data and making sure they are not lost or altered and that invalid transactions are reprocessed correctly. The output control security controls ensures no making of unauthorized copies of output and directing printout to only authorize persons. Storage control security makes sure all data stored and programs are safe from unauthorized manipulation, access, disclosure and alteration.

4.4.5 Staff training

Staff training on fraud is one of the fraud management strategies developed and used by KCB in managing fraud menace. Fraud training was conducted on a quarterly basis in some department and annually in other departments. Interviewees pointed that the leading causes of fraud in the bank were lack of controls within different processes, staff frustrations, insufficient procedures, collusion and compromise of existing controls and lack of management controls as well as lack of product knowledge. It was clear that lack of control and staff frustrations are major causes of fraud in the listed banks. This depicts that the organization has sought employee training opportunities in the fraud risks that

threaten their business thereby empowering staff to respond to the threat of fraud appropriately.

4.4.6 Screening of Employee in Procurement Process

Screening of potential employees involves background checks of criminal history, credit worthiness, verification of previous employment and education documents etc. all interviewees indicated that the bank's pre-employment screening was very rigorous. New employees have to be screened to ensure that only those candidates with clean records are taken on board. Applicants are required to submit certificates of good conduct obtained from the Director of CID. For those employees who have worked with other institutions within the banking industry, recommendations from their former employers are sought. The banks will also talk to the former employer directly to verify any information required. Otherwise all applicants for employment in Commercial have to submit at least three referees who must be reachable at short notice. The group code of conduct and Ethics sets out the standards to be embraced by all staff. It's mandatory for new employees to the Bank to go through induction training on Fraud Management. They will also sign attestations that they have been trained and will strive in their employment to make the banks premises free from Fraud. According to the results workers screening programs should be commiserating with the fraud risk of the company and take into account applicable legal considerations.

4.4.7 Internal Control

The design and fraud prevention strategy and plan implementation is the responsibility of the accounting officer. For a successful fraud prevention plan, understanding of how the overall risk is related to fraud risk is critical. According to the interviewees the internal

control value is important in both detecting and preventing fraud for prevention is better than cure. Interviewee outlined four internal system control; measure compliance with management's prescribed policies and procedures, those are to safeguard assets of the firm, to promote efficiency in the firm's operation and to ensure the accuracy and reliability of accounting records and information. Management integrity largely determines internal control effectiveness. Fraud opportunities are reduced by the introduction of control system. Potential fraudster is warned that there is active monitoring of the business by the management and frauds are detected. Thus any organization seeking to contain frauds related solutions for to computer should ensure implementation of broad intervention range, be informal, formal and technical. A solution for specific problems has been provided making the control have dysfunctional effects. This solution ignores other existing controls and their contexts. Thus, personal control should be important and complements each other. This necessitates an overarching policy, which determines the nature of controls being implemented, and therefore provides a comprehensive security to the organization.

4.4.8 Auditor Approaches

Failure to prevent and detect fraud has serious consequences for organizations. Although rare in occurrence, financial statement fraud can result in devastating losses to investors, creditors and auditors. The study established that regular auditing is exercised in the banks as a way to combat fraud. If the internal auditors establish or identify a fraud inform the appropriate management and the audit committee. This is both internal and external auditing which helps strengthen internal controls. These strategies help counter the challenges of authentication of account documents and irregular/unusual transactions

monitoring and reporting. The finding still established that a possible auditor's strategy in this problem light is to assess fraud likelihood. The auditor's ability to assess risk accurately is important to the initial assessment of risk of material misstatement during the planning of the audit stage. The audit tests design is affected by risk misstatement. Incorrect assessment of risk may lead to either ineffective and inefficient audit.

4.5 Discussion of findings

On the types of bank frauds, the study established that online banking, card fraud, internet fraud, defalcation, forgeries, false identity, money laundering, computer fraud, and fake payments were the types of frauds that were cited as being the most common. The finding also agrees with Chaudhary, Yadav and Mallick (2012) who asserts that card fraud is the most common area of fraud in the Bank. Also, the study established that falsified payment instruments were the most used to perpetrate most of the bank frauds. This study finding agrees with Banking Fraud Investigation Unit (2014) that, in the 1st quarter of the financial year 2011, fraud was cited as the leading fraud and forgery became the leading fraud in the second quarter.

On the strategic approaches adopted by the bank to combat fraud, Kenya Commercial Bank employs strategies such as creation of fraud and investigations units, investment in technology e.g. the current migration from magnetic strip cards to chip technology in the plastic card area, creation of avenues for whistle blowing, inclusion of fraud management in the performance contracts of all staff, periodic training and refreshers for all staff etc. This response revealed that various strategies that have been adopted to combat fraud in

the banking industry. The study finding agrees with a study undertaken by Oloidi *et al* (2014) on forgeries and fraud of banks in Nigeria concentrating on prevention, detection, types and cause of forgeries and fraud in banking sector of Nigeria which established that the main play factor was internal control system, effective problems and strict adherence enforcement. They suggested that there should be installation of effective internal control system and enforcement of strict adherence in all banks.

Likewise, the study revealed that other strategies employed to combat fraud in banks includes identification-Know Your Customer. This is the most commonly employed strategy across the banks. This study finding agree with Mbugua (2013) who conducted a study on strategies response on commercial bank in Kenya and found out that investigation strategies, detection, preventative, training and prosecution were used by all listed banks to curb fraud. It is the simplest but very effective because it relates to the first contacts of the banks with potential fraudsters. The findings show that, banks that fully complied with the policies reported few cases of fraud. This illustrates that effectiveness of Know Your Customer policies adopted by Kenya Commercial Bank has helped to reduce money laundering. Technology advancement was also mentioned where bank has made considerable effort to keep up with the technological advances in combating fraud. This study results also agree with a study undertaken by Odhiambo (2016) on fraud management strategies evaluation adopted by Kenyan insurance company. The study established that insurance companies uses normal internal control systems like external and internal audit functions, IT and management committees, claims management and underwriting in fraud management.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presented the summary of the study findings, study conclusion and the recommendation drawn based on the study findings. Therefore, the chapter begins with the summary of the study. Next, the chapter provides the study conclusion and lastly the recommendations made.

5.2 Summary of Findings

On the types of the bank frauds, the study established that online banking, card fraud, internet fraud, defalcation, forgeries, false identity, money laundering, computer fraud, and fake payments were the types of frauds that were cited as being the most common. The study also established that falsified payment instruments were the most used to perpetrate bank frauds.

On the strategic approaches adopted by the bank to combat fraud, Kenya Commercial Bank employs strategies such as creation of fraud and investigations units, investment in technology e.g. the current migration from magnetic strip cards to chip technology in the plastic card area, creation of avenues for whistle blowing, inclusion of fraud management in the performance contracts of all staff, periodic training and refreshers for all staff etc. This response revealed that various strategies that have been adopted to combat fraud in the banking industry.

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strategy across the banks. It is the simplest but very effective because it relates to the first contacts of the banks with potential fraudsters. The findings shows that banks that fully complied with the policies reported few cases of fraud. This illustrates that effectiveness of Know Your Customer policies adopted by Kenya Commercial Bank has helped to reduce money laundering. Technology advancement was also mentioned where bank has made considerable effort to keep up with the technological advances in combating fraud.

5.3 Conclusion

Based on the study findings, the study concluded that the most notable bank frauds in Kenya were online banking, card fraud, internet fraud, defalcation, forgeries, false identity, money laundering, computer fraud, and fake payments. Also, the study concluded that falsified payment instrument such as cheque were the most used to commit bank frauds.

The study also concluded that, Kenya Commercial Bank has employed various strategies which include creation of fraud and investigations units, investment in technology, creation of avenues for whistle blowing, inclusion of fraud management in the performance contracts of all staff, periodic training and refreshers for all staff among others. The study further concluded that the most common and simplest strategy adopted by banks to combat fraud is identification-know your customer as this is the first way a bank can identify a potential fraudster.

5.4 Recommendation

Based on the study results, the study recommended the following:

Banks should make sure that their employees in all the departments are aware of various set procedures, rules as well as other guidelines touching on mitigation of fraud so as to

minimize fraud cases. Banks should also ensure that they create anti-fraud department which should be under the supervision of experienced fraud risk officer who will be responsible for interpreting various policies to the employees so as to ease their understanding on the policies.

The study also recommended that banks should set various rules and guideline relating to their customers and other legal requirement which should be adhered to ensure that fraud cases are mitigated to zero. Also, banks should ensure that sensitive customer information such as PIN should be kept confidential and placed electronic gadgets used in transaction should be retrieval free from previous gadget used PIN so that to minimize cases of fraud in individuals accounts.

The study further recommended, banking institutions should conduct adequate auditing on their system so as to mitigate risk. Additionally, banking institutions should come up with strict guidelines and procedures to mitigate fraud that should be fully adhered to in the operation of the bank in all departments to ensure no fraud cases are reported hence precise performance.

5.5 Limitations of the Study

The researcher encountered various limitations that tend to hinder access to information that the study sought. The main limitation of this study was its inability to include more banks; this study focused only at KCB. The study could have covered more banks across the three tiers or entire banking sector so as to provide a more broad based analysis. The researcher also encountered other challenges and limitations such as none-cooperation by bank staff since they felt that the information they were to give could be used to portray a

negative image of bank in general. However, the researcher assured the respondents that the information to be acquired was purely for academic purpose.

5.6 Recommendations for Further Studies

This study aimed to determine the strategic approaches adopted to combat bank fraud at Kenya Commercial Bank. The overall effect of bank fraud can however not be ignored at any cost. There is therefore need to respond to these fraud related risks. Therefore, the study recommends that, further studies need to be undertaken across all banks un Kenya so as to establish if appropriate mitigation strategies have been put in place to combat cases of bank frauds.

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APPENDICES

Appendix I: Introduction Letter

Dear Sir/Madam,

REF: REQUEST TO CARRY OUT DATA COLLECTION.

I am a student at UON pursuing a Masters degree in Business Administration. As a requirement in fulfillment of this degree, am carrying out a study on the “**STRATEGIC APPROACHES ADOPTED TO COMBAT BANK FRAUD AT KENYA COMMERCIAL BANK IN KENYA**”.

You have been chosen as you are well positioned to provide reliable information that will enable the study achieve its objectives. I intend to research the above through the use of interview guide.

Any assistance accorded to me in my noble cause and information given shall be treated as confidential and will be used purely for the purpose of this research and a final copy of the document shall be availed to you upon request. Your cooperation will be highly appreciated and thank you in anticipation.

Yours Faithfully,

SIMON SANCHAN LOKADIO

Appendix II: Interview Guide

Section A: General Information

1. How long have you worked in this organization?
2. What is your highest level of education?
3. Kindly, indicate the department you are working in.
4. Indicate position that you hold in the department.

Section B: Specific Objectives

Part I: Types of Bank Frauds

1. Kindly indicate the type of fraud perpetrated in your bank? [Tick where appropriate]

- i. Online Banking fraud
- ii. Identity theft
- iii. Internet fraud
- iv. Card fraud
- v. Computer fraud
- vi. Fake payments
- vii. Forgeries
- viii. Money laundering

Any other specify (.....)

Part II: Strategic Approaches to Combat Fraud

2. Do you know of any strategic approach employed by KCB to combat fraud? Explain your answer.

3. Is there any corporate strategic planning approach adopted by your bank to cope with cases of fraud? Explain your answer.
4. Is deterrence security control applied to combat cases of fraud in your banks? Explain your answer.
5. Is there any training conducted in your bank to familiarize employees to detect fraud in their department of working? Explain your answer.
6. Does your bank conduct thorough screening when recruiting its staff? Explain your answer.
7. Are there effective control systems that are able to detect unusual activity in a given account? Explain your answer.
8. Does your bank use auditor approach to verify and investigate possibility of successful fraud cases in your bank? Explain your answer.

THANK YOU FOR YOUR TIME