



Effect of Fraud Management Practices on Non- Financial Performance of Selected Deposit Money Banks in Lagos State, Nigeria

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Abstract: The increasing trend of declined in non-financial performance of banks in recent years pose serious threats to the stability and survival of financial and real sectors and banks in particular. Studies have shown that most deposit money banks in Nigeria have experienced declined in non-financial performances due to poor fraud management practices which have resulted in financial losses to banks and loss of public confidence in the banking sector. The study found out that fraud management practices have positive and significant effect on bank efficiency and operational performance of the selected deposit money banks with ($P < 5\%$). The study concluded that fraud management practices have effect on bank operational performance and efficiency deposit money banks in Lagos State, Nigeria. The study recommended that management of banks should exert collective efforts in identifying the ideal mix of effective and efficient fraud management practices that matches their banking business scope so as to achieve targeted operational performance and bank efficiency.

Keywords: Bank operational performance; Bank efficiency; Detective fraud management; Preventive fraud management; Responsive fraud management

JEL Classification: G21; G32

1. Introduction

Deposit money banks as a profit oriented organizations have the objectives of maximizing shareholder wealth and the value of the firm. Attaining the goal of achieving these objectives depends on the management ability to institutionalized effective and efficient fraud management preventive practices. Fatoki (2015) stressed that deposit money banks top and lower managers were subject to internal fraud risks which have deleteriously affected their financial and non-financial performance across globe. Globally, all commercial banks are exposed to fraud risks. Extensive fraud activities in the banking industry have led to the collapsed, massive investment losses, significant legal costs, incarceration of key individuals, and erosion of confidence in the banking industry.

In USA investors lost \$180 billion in World Com fraud scandal of 2002, \$150 million in Tyco Scandal of 2002, \$1.4 billion in Heath South Scandal of 2003 (the largest publicly traded company) and \$3.9

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billion in America international Group (AIG) scandal of 2005, among several financial fraudulent activities affecting publicly quoted companies. Relatively, fraud activities and poor internal control system have been major challenges confronting most commercial banks in achieving their targeted performance. Uwaoma and Ordu (2015), Gitau and Samson (2016) and Kinyua (2016) pointed that most commercial bank especially developing countries like Kenya, Ghana, Nigeria and South-Africa among other African countries experienced declined in performance and collapsed of commercial banks due to failure of financial institutions to put in place high-tech controls that match the kind of fraud innovation strategies in the commercial banking industry.

The major problems confronting the Nigeria banking industry for the past two decades is the erosion fraud activities by top bank managers, which have resulted into financial distress, liquidation of some deposit money banks and lack of customer confidence. This increase in fraud activities in the Nigeria banking industry have led to poor management of depositor's funds and loss of customer confidence. The Nigeria justice system is very slow and, therefore, fails to act as a deterrent to fraud activities. This slow system of Nigeria justice towards fraud activities in the Nigeria banking industry enhance continuous fraud in the Nigeria banking system among the top, directors and executives, thus led to continuous declined in performance and collapsed of most these banks in Nigeria.

Deposit money banks in Nigeria have been experiencing problems associated with a persistent slowdown in operational performance and bank inefficiency service delivery due to increasing incidences of fraud and embezzlement of customer deposit funds by top management. The continuous poor performance and collapsed of commercial banks especially in Nigeria could be partly explained by the high degree of frauds activities by executives, top managers and ineffective preventive, detective and responsive fraud management practices. Other possible causes of fraud activities identified include information asymmetry, unethical banking practices, inappropriate governance mechanisms, moral hazard and untraceable insider loan (Kolapo & Olaniyan, 2018).

Previous studies have focused on the contribution of fraudulent practices on financial performance of deposit money banks in Nigeria (Abdulrasheed, Babaita & Yinusa, 2012; Fadipe-Joseph & Titiloye, 2012; Ikpefan, 2006; Inaya & Isito, 2016; Kanu & Okoroafor, 2013; Kawugana & Faruna, 2018; Odi, 2013; Owolabi, 2010; Uchenna & Agbo, 2013 among others). Majority of these studies in Nigeria have not focused on the link between fraud management practices and non-financial performance of deposit money bank performance in Nigeria. Kolapo and Olaniyan (2018) noted that there was notable lack of research in Nigeria regarding the direct association of deposit money bank fraud management practices (preventive, detective and responsive fraud management practices) and non-financial bank performance (efficiency and operational performance). Based on this identified problem and gaps, this study formulated two null hypothesis that;

Ho1: Fraud management practices (preventive fraud management, detective fraud management and responsive fraud management) have no significant effect on bank efficiency of selected quoted deposit money bank in Nigeria; and

Ho2: Fraud management practices (preventive fraud management, detective fraud management and responsive fraud management) have no significant effect on operational performance of selected quoted deposit money bank in Nigeria

2. Literature Review

Several studies relating fraud management practices and non-financial performance were reviewed across the globe.

2.1. Empirical Review

Studies such as Kiragu, Gikiri and Nyamutelminza (2015) and Sang (2012) carried out a study on bank size, occupational fraud risk and explored the determinants of fraud control measures in Kenya commercial banks. Both studies employed survey research design, correlation and regression methods of analyses. They revealed that there is a positive and significant relationship between bank size and occupational fraud risk. These studies further revealed that lack of comprehensive measure militating against fraud and non-compliance of fraud mitigation methods have increase numbers of fraud activities in the banking system.

Khanna and Arora (2009) examined the reasons for bank frauds and the implementation of preventive security controls in Indian banking industry while Njanike, Dube and Mashayanye (2009) carried out a study on effectiveness of forensic auditing in detecting, investigating, and preventing bank frauds. Khanna and Arora (2009), Rahman and Anwar (2014) and Arivid and Cornelia (2012) empirically found that lack of training, overloaded staff, and low compliance level was the main reasons for bank frauds. Also, Njanike, Dube and Mashayanye (2009) found that the forensic auditing departments suffer from multiple challenges, amongst them being the lack of material resources, technical knowhow, interference from management, and unclear recognition of the profession, thus caused increase in bank fraud activities among the top bank staff. Rahman and Anwar (2014) and Arivid and Cornelia (2012) further found a positive association between customer familiarity with and knowledge about fraud prevention and the quality of customer relationship as a measured of satisfaction, trust and commitment.

In Nigeria, Amanze and Onukwugha (2017) and Olay and Dada (2017) examined the roles of auditors in loan fraud detection and prevention system for banking industries in Nigeria. These studies used survey research design and indicated that the level of fraud control in Nigerian banks was low; the result also revealed that risk assessment management, system audit and verification of financial reports adopted by the banking industry cannot curtail the fraudulent activities among the Nigerian banks. Similarly, these studies showed that audit roles captured by risk assessment, system audit and verification of financial reports were not statistically significant in determining the fraudulent act in banking industry in Nigeria and that establishment of multi-agent framework from regulatory authorities is a stand-alone system which can be integrated by banks to combat loan fraud system.

Adetoso and Akinselure (2016) investigated fraud control and fraud prevention in Nigeria banking industry. Management control was proxied as fraud control while internal audit and whistle-blowing were used as proxies for fraud prevention. The study shows that there was significant relationship between fraud control and fraud prevention because their proxies considered in the study such as; Management control, internal audit, and whistle blowing. The study further revealed that management policies must be able to strengthen both fraud control and fraud prevention of commercial banks based on the sample study since the proxies of both variables have significant effect on each other. Enofe, Abilogun, Omoolorun and Elaiho (2017) undertook an empirical review on bank fraud and preventive measures in Nigeria. Internal Control System (ICS), Corporate Governance (CG) and Compliance with Banking Ethic (CBE) were the variables considered to achieve the study objective. The study established that strong internal control system, good corporate governance and compliance with

banking ethics have positive and significant influence on fraud prevention in banking industry. This indicates that a commitment in the implementation of Internal Control System (ICS), Corporate Governance (CG) and Compliance with Banking Ethic (CBE) will reduce fraud, errors and misappropriations in the banking sector.

Akinyomi (2012) and Idowu (2009) examined fraud and means of minimizing fraud in the Nigerian banking sector and its prevention. Findings revealed that greed is a foremost cause of fraud, as greater part of the staff considered their remuneration as sufficient. It was also observed that banks' staff got involved at all stages of fraud, including: initiation, execution and concealment. Moreover, computer fraud accounted for the majority of the fraud perpetuated in the bank. The study further established that loss of income and loss of customers' confidence top the list of fraud consequences to the banks and that so many factors contributed to the incidence of frauds in banks amongst which are poor management of policies and procedures, inadequate working conditions, bank staff staying longer on a particular job and staff feeling frustrated as a result of poor remunerations.

3. Methodology

This study adopted a survey research design to explore the effect of fraud management practices on non-financial performance of selected quoted deposit money banks in Nigeria. The survey method involved the use of structured questionnaire, which was designed to obtain data from respondents on the instrumentation of fraud management practices as well as bank's non-financial performance through bank efficiency and operational performance. The study population cuts across all top and middle strategic managers of the 22 quoted deposit money banks in Nigeria which are categorized into international and national deposit money banks in Nigeria.

The international deposit money banks are; First Bank Plc, United Bank for Africa Plc and Zenith Bank Plc with population of 302 while for national deposit money banks are; Ecobank Nigeria Plc, Sterling Bank Plc, and Wema Bank Plc with population of 266. The grand total population of the study is 568.

The sample size was determined using Cochran (1997) formula sample size determination. The formula is:

$$n = \frac{NZ^2pq}{d^2(N-1) + Z^2pq}$$

Where:

n = sample size;

N = Total number of staff of the selected banks (N=568)

Z = 95% Confidence Interval (Z = 1.96);

p = 0.5, = p is the estimated proportion of an attribute that is present in the population. q is 1-p. (p) (q) are the estimate of variance; q = 1 – p; d = degree of accuracy or estimation (d = 0.04). Therefore;

$$n = \frac{568 (1.96)^2 (0.5) (0.5)}{(0.04)^2 (568 - 1) + (1.96)^2 (0.5) (0.5)}$$

$$n = 292$$

3.1. Reliability and Validity Results

The construct validity of the research instrument was further established through confirmatory factor analysis. Average Variance Extracted (AVE) greater than 0.5 were used as an additional evidence of construct validity of all variables in the research instrument. The Cronbach's Alpha coefficient for all the study variables are above 0.70, which suggests that the instrument used for evaluation was highly reliable. Hence, the researcher affirms that the research instrument used is reliable. The result of the Cronbach Alpha for each of the variable is presented in Table 1. In this study multiple regression method of analysis was used to examine the effect of fraud management practices on non-financial performance of selected quoted deposit money banks in Nigeria.

Table 1. Validity and Reliability Statistics

S/N	Variable	No of Items	KMO	Bartlett's Test	Average Variance Explained	Composite Reliability	Cronbach's Alpha
1.	Detective Fraud Management	11	0.756	664.343	0.714	0.859	0.940
2.	Responsive Fraud Management	11	0.668	753.143	0.861	0.921	0.712
3.	Responsive Fraud Management	11	0.720	574.987	0.874	0.942	0.722
4.	Bank Efficiency	5	0.864	674.198	0.882	0.924	0.843
5.	Bank Operational Performance	5	0.871	588.714	0.839	0.969	0.881

Source: Researcher's Field Survey (2020)

3.2. Model Specification

The model for the variables is denoted in the equations below:

Y = Dependent Variable

X = Independent Variable

Y = Bank Performance (BP)

$Y_{BP} = (y_1, y_2)$

y_1 = Bank Efficiency (BE)

y_2 = Operational Performance (OP)

X_{FMP} = Fraud Management Practices (FMP) = Independent Variable

$X_{FMP} = (x_1, x_2, x_3)$

Where; Y = Bank Performance (BP)

y_1 = Bank Efficiency (BE)

y_2 = Operational Performance (OP)

X_{FMP} = Fraud Management Practices (FMP)

x_1 = Preventive Fraud Management (PFM)

x_2 = Detective Fraud Management (DFM)

x_3 = Responsive Fraud Management (RFM)

Model One

$$BE = \beta_0 + \beta_1PFM + \beta_2DFM + \beta_3RFM + \varepsilon_i \quad 1$$

Model Two

$$OP = \beta_0 + \beta_1PFM + \beta_2DFM + \beta_3RFM + \varepsilon_i \quad 2$$

Where; β_0 = the constant of the equation; β_1 - β_3 = the coefficient of variables in the equations;

ε_i = Error Term

A Priori Expectation β_1 , β_2 and $\beta_3 > 0$

4. Presentation of Analysis and Result Interpretation

Table 2. Model One: Multiple Regression Results on the Effect of Fraud Management Practices on Bank Efficiency of Selected Quoted Deposit Money Banks in Nigeria

Model	B	Std. Error	Beta	t	Sig.	R	Adj. R ²	F-Value	Sig.	Durbin-Watson
(Constant)	.647	.394		1.642	.102	0.758	0.718	69.612	0.000	1.783
Preventive Fraud Management	.092	.025	.218	3.643	.000					
Detective Fraud Management	.187	.028	.165	3.189	.000					
Responsive Fraud Management	.245	.033	.241	6.752	.000					

Dependent Variable: Bank Efficiency

Source: Authors' Computation (2020)

Table 2 for model one, revealed that coefficient of multiple correlation ($R = 0.758$) shows a strong positive correlation exists between fraud management practices dimensions (preventive fraud management, detective fraud management and responsive fraud management) and bank efficiency. The adjusted coefficient of determination ($Adj. R^2$) of 0.718 shows that a combination of preventive fraud management practice, detective fraud management practice, and responsive fraud management practice can only be explained by 71.8 % of variation in bank efficiency. However the model did not explain 28.2% of the variation in bank efficiency, implying that there are other factors associated with bank efficiency which were not captured in the model. Furthermore, Table 2 also shows the ANOVA result. The result revealed that overall, the explanatory power of the model was considered statistically significant with the F ratio output of the model reporting a p-value of .000 ($F = 69.612$, $p < 0.05$). This indicated that fraud management practices dimensions (preventive fraud management, detective fraud management and responsive fraud management) have positive and significant effect on bank efficiency of selected quoted deposit money bank in Nigeria. Therefore, this study rejected the null hypothesis one that; **H₀₁**: Fraud management practices (preventive fraud management, detective fraud

management and responsive fraud management) have no significant effect on bank efficiency of selected quoted deposit money bank in Nigeria.

Table 3. Model Two: Multiple Regression Results on the Effect of Fraud Management Practices on Operational Performance of Selected Quoted Deposit Money Banks in Nigeria

Model	B	Std. Error	Beta	t	Sig.	R	Adj. R ²	F-Value	Sig.	Durbin-Watson
(Constant)	.612	.014		1.902	.410	0.831	0.792	79.642	0.000	2.193
Preventive Fraud Management	.085	.013	.203	3.941	.001					
Detective Fraud Management	.179	.013	.101	4.108	.020					
Responsive Fraud Management	.281	.021	.161	3.812	.015					

Dependent Variable: Operational Performance

Source: Authors' Computation (2020)

Table 3 for model two, revealed that coefficient of multiple correlation ($R = 0.831$) shows a strong positive correlation exists between fraud management practices dimensions (preventive fraud management, detective fraud management and responsive fraud management) and bank operational performance. The adjusted coefficient of determination ($Adj. R^2$) of 0.792 shows that a combination of preventive fraud management practice, detective fraud management practice and responsive fraud management practice can only be explained by 79.2% of variation in bank operational performance. However the model did not explain 20.8% of the variation in bank operational performance, implying that there are other factors associated with bank operational performance which were not captured in the model. Furthermore, Table 3, also shows the ANOVA result. The result revealed that overall, the explanatory power of the model was considered statistically significant with the F ratio output of the model reporting a p-value of .000 ($F = 79.642$, $p < 0.05$). This indicated that fraud management practices dimensions (preventive fraud management, detective fraud management and responsive fraud management) have positive and significant effect on bank operational performance of selected quoted deposit money bank in Nigeria. Therefore, this study rejected the null hypothesis two that; **Ho2:** Fraud management practices (preventive fraud management, detective fraud management and responsive fraud management) have no significant effect on bank operational performance of selected quoted deposit money bank in Nigeria. Several studies (Amanze & Onukwugha, 2017; Olay & Dada, 2017; Adetoso & Akinselure, 2016; Enofe, Abilogun, Omoolorun & Elaiho, 2017) are in line with our finding that fraud management practices have positive and significant effect on bank operational performance and bank efficiency. Furthermore, Zuraidah, Mohd and Yusarina (2015), Sang (2012), Njanike, Dube and Mashayanye (2009), Rahman and Anwar (2014), and Khanna and Arora (2009) established that fraud management practices significantly affect bank operational performance and bank efficiency. On the other hand very scanty study such as Bierstaker, Brody and Pacini (2006) established that bank preventive fraud management does not determine bank efficiency. Considering majority of empirical findings, it is established that fraud management practices significantly affect bank operational performance and bank efficiency. Based on these majority findings, this study rejected the null hypothesis one and two that fraud management practices do not significantly affect bank operational performance and bank efficiency of selected quoted deposit money banks in Nigeria.

5. Conclusion, Recommendations and Implication of Findings

The study concludes that fraud management practices (preventive fraud management, detective fraud management and responsive fraud management) have positive and significant effect on operational bank performance and bank efficiency of selected quoted deposit money banks in Nigeria. Based on the findings, the study recommends that; (i) the management of deposit money banks should exert collective efforts and put policies in place in identifying and preventing frauds before it occur, this will serve as an effective and efficient fraud management practice; (ii) The management of deposit money banks should exert collective efforts and put policies in place in identifying and detecting fraud when it occurs, putting measures in place to guide against a re-occurrence and lastly, (iii) the management of deposit money banks should exert collective efforts and put policies in place for adequate response to fraud when it occurs.

Implication of Findings

The findings of this study have implications for the banking industry in Nigeria, the general public and prospective researchers.

Bank Operational Management: The finding of this study implies that deposit money banks should improve policies that strengthen its fraud management practices (preventive, detective and responsive) as this will enhance both bank operational performance and bank efficiency of selected quoted deposit money banks in Nigeria.

Regulators: Deposit money banks regulators such as Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) in line with the findings of this study should put policies in place that access the fraud management practices in banks, these policies should be tested frequently by examiners/regulators to know if they adequately prevent, detect and response to fraud in the banking industry.

General Public: The finding of this study gives insight to the general public that deposit money banks efficiency and operational performance could improve putting in place adequate fraud management practices. The confidence of the public will be restored if adequate fraud management practices are in place as their funds and investment will be better secured.

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