

# Nigerian Academy of Management Journal

Volume 2, Number 2

## ARTICLES

National Ethics and the Nigeria Project  
- G. B. Muhammad / M. S. Umar

Business Ethics: A Panacea for Sustainable  
Development in Nigeria - Oghene / G. O. Yomere

Foreign Direct Investment in Nigeria:  
Transparency and Management  
- O. Osamwonyi / Ibrahim Shaibu

Consolidation Unethical Practices in the  
Oil Industry (1989-1999) - Patrick Osiegbu

Ethics: The Challenges of Definition and Enforcement  
- A. Eziegbo

Entrepreneurial Perspective and Entrepreneurship in Nigeria  
- O. Ojide / Hassan / Ashamu

Organizational Behavior Decision Making Model in  
Organizations: An Exploratory Review  
- Okechukwu A.

Unethical Practices in Deposit Money Banks  
(DMBs), and The Nigerian Economy  
- Emeka Okereke

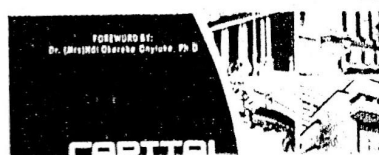
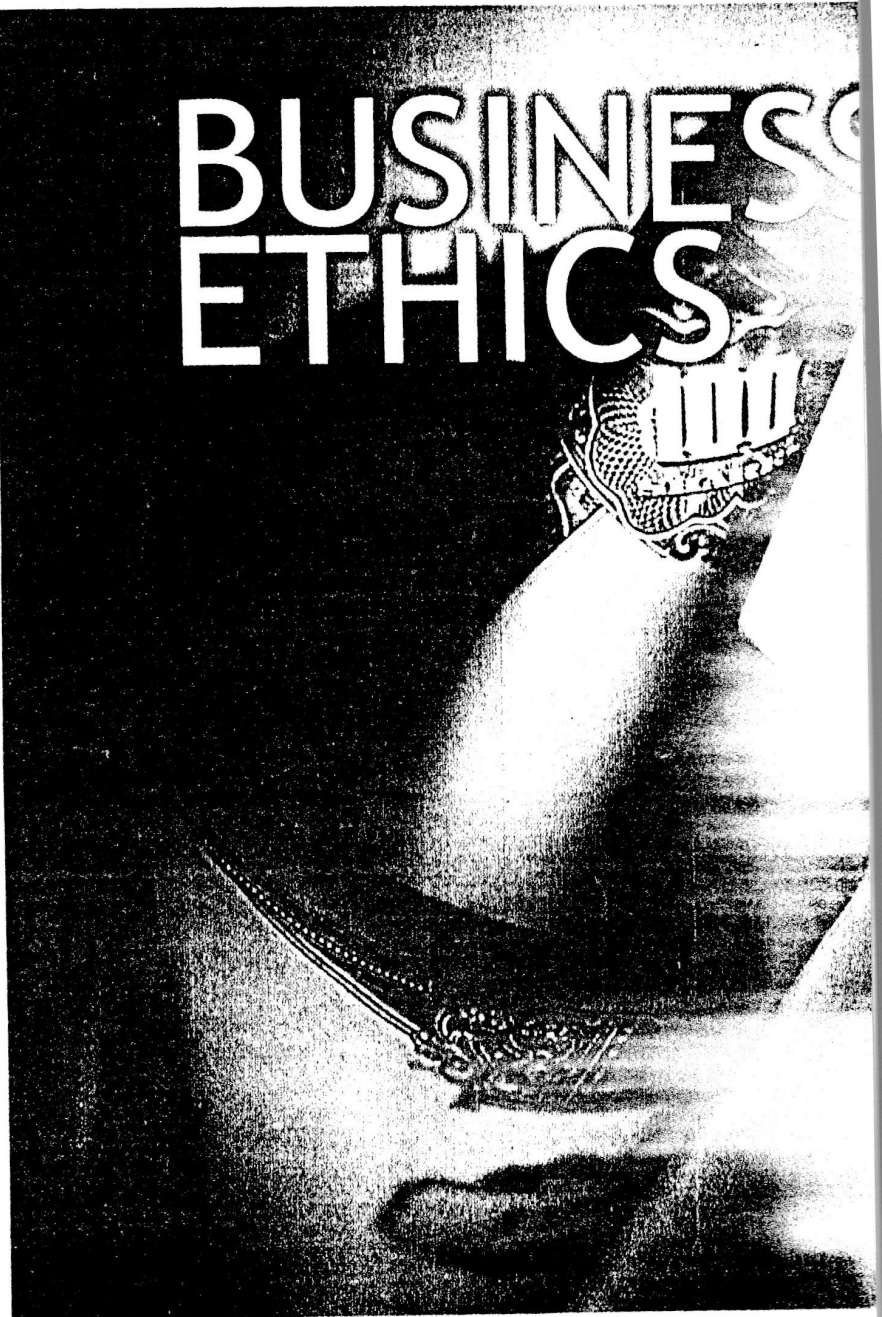
An Empirical Assessment of the Role of Ethics in  
National Development: Nigeria - A Case in Point  
- Abdulahi S. A.

The Role of Strategic Leadership in Achieving Good  
Governance and National Development in Nigeria  
- Murtala Sagagi

Integrity and Ethics: Imperatives for Economic Reforms  
- A. A. A. / Abdulazeez Abioye

Application of e-Marketing in Nigerian Banking  
- O. J. K. Ogundele / A. R. Hassan / Balogun

# BUSINESS ETHICS



FOREWORD BY:  
Dr. (Mrs) M. O. Oshinubi, Ph.D.

## BOOK REVIEW

# UNETHICAL PRACTICES IN DEPOSIT MONEY BANKS, (DMBs) AND THE NIGERIAN ECONOMY: A STATISTICAL TREATMENT (1990-2005)

Emeka J. Okereke Ph.D  
Department of Finance & Banking  
Faculty of Management Sciences  
University of Port Harcourt, Choba  
Erokereke77@yahoo.com + 234-0803-3795828

## Abstract

This paper is aimed at providing a statistical treatment of unethical practices in deposit money banks, proxy by fraud and the Nigerian economy (Gross Domestic Product-GDP). This is with a view to establishing a trend, causes of the trend and the impact on the Nigeria economy. Secondary data sourced from CBN and NDIC were used and analysis carried out using simple percentages, graphs and simple regression model. It was found, among others, that a direct and significant relationship exists between fraud in deposit money banks and GDP. Also fraud is growing at a faster rate than GDP. This called for preventive and curative dimensions involving a quartilite approach of planned commitment by major and minor stakeholders-government, professional bodies, banks and host communities.

## Introduction

Organizations are established to facilitate the economic, political, social and cultural wellbeing of individuals or groups in the society. Thus, every organization including the banking industry is purposive. It is established to achieve set goals and objectives and the extend to which they do this depends on how far they apply and comply to the 'rules' of their business area. These rules constitute the *ethics* of that business and become their approved way of *behaviour* or *conduct*. Ethics can therefore said to be a branch of philosophy that studies moral conduct, actions of knowing what is right or wrong, good or bad, acceptable or unacceptable, desirable or undesirable. It is a behavioural values and standards set which may be subjective, normative or applied and provides guiding principles to

human actions. Draft (1995) defined ethics as the code of moral principles and values that governs behaviour of a person or group with moral conduct, duty and judgment, formal or professional rules of right and wrong. (Thorndike and Bernhart, 1974).

The issue of ethics is a complex and controversial one and poses great challenge to Managers and their organizational goals and aspirations. This is because of the conflict of interest associated with its practices, as there are differences of opinion regarding what constitute ethical code of conduct and behaviour and how ethical decision should be made. In the midst of this confusion, Poznak (2006) proposed four approaches to dealing with ethical questions, as utilitarian which concerns itself with effects or consequences of any ethical decision i.e. if any action results to the greatest good and for the greatest number of people, it is ethical, otherwise it is not. Moral rights approach is concerned with the moral principles (actions) and not the consequences. Universalism, as an approach to ethical decision making applies the Golden Rule, which states that what you do to others, you will like others do same to you. Thus, the moral justification for any action should apply to others and self. Cost benefit approach is interested in balancing the costs and benefits of taking and not taking a particular action. The choice of any of these approaches depends on the objective of the decision maker. For the banking industry, it is an integration of the approaches especially the utilitarian and universalism approaches. Whichever approach used, any action(s) outside the approved code of moral principles and rules constitute unethical practice(s). Thus, unethical practices in deposit money banks (DMBs) are behaviours that run contrary to the objectives of Code of Ethics for the bankers and outside the principles of integrity, confidentiality, loyalty and legality. Unethical practices, in whichever form or name, is counterproductive and inimical to the banking industry in particular and the economy in general. Concerted and deliberate efforts have been made by regulatory and professional bodies to

check unethical practices of bankers in particular and other financial services workers in general.

In 2001, Bankers Committee Published Code of Conduct and Professionalism being an outcome of the recommendation of a Sub Committee constituted by Bankers Committee on Ethics and Professionalism in December 2000 with the mandate to develop an acceptable Code of Ethics and Professionalism and effective machinery for enforcing compliance. Statutorily, Section 39 subsections 8 and 9 of Central Banks of Nigeria (CBN) Act NO.24 1991 as amended; Part I Sections 45-47, Part II Section 56 and Part III Section 60 of Banks and Other Financial Institutions Decree (BOFID) NO. 25 1991, as amended and Part IX Section 14 of Chartered Institute of Bankers of Nigeria (CIBN) Act NO. 7 of 2007 provide for sanctions of unethical conduct for airing stakeholders.

These efforts notwithstanding, unethical practices have continued to thrive and this pose challenge to management of banks, regulators and Bankers Committee and constituting the greatest risk to bankers. The future of banks may be threatened if not checked especially given the fiduciary nature of banking business. The attitude of the banking public is highly influenced to the extent that they have confidence in the safety of their money. Banks' fundamental business is risk-taking and its major raw material is that of deposits which increases with increase in confidence in the banking system and vice versa. Unethical practices proxy by fraud and forgeries is a good source of erosion of this confidence and very unhealthy if allowed to thrive. This paper therefore provides a statistical treatment of unethical practices in banks and the Nigerian economy. This is with a view to establishing trends, causes of these trends, and their impact on the economy and possible ways forward

To put the paper into proper perspective, it is divided into four Sections. Section one introduced the paper while section two provided an overview

of fraud and the economy. Section three considered the statistical treatment of fraud in deposit money banks and the Nigerian economy. The paper proffered recommendations and conclusion in section four.

### **Fraud and The Economy**

Unethical practices in the banking industry varied in name, method, type and classification. Fraud as one of them has remained very worrisome among stakeholders in the industry especially given that banking is a marriage between the banker and customer built on trust and confidence. It is these two elements that continue to propel the customer to deposit his money with a banker but the presence of fraud kills the motivation. This is where the economy is affected. Thus fraud and the economy have an inverse relationship. The perpetration of fraud has a linkage negative effect on the economy. Fraud according to Thorndike Barnhart Advanced Dictionary is dishonest dealing, trickery or any deliberate misrepresentation of the truth or a fact used to take money, rights etc from person or persons. Okereke (1997) identified some characteristics/features of fraud to include deception, dishonesty, deprivation, sharp practices breach of confidence, criminality, litigation and failure to use approved procedures. These characteristics are reflection of the sources of fraud and their classifications. Committee of Chief Inspectors of Bankers (1987) classified fraud according to perpetration in which internal fraud, external fraud and mixed fraud can be identified. Adewunmi (1986) classified fraud based on the method used in which cashiering fraud, computer fraud, foreign exchange fraud, among others, were identified. Fraud may be caused by factors internal or external to the bank. The internal factors, which may also be called institutional factors arises mainly from poor management while external factors or socio-economic factors emanates majorly from personal and/or environmental causes. The causes are numerous and that is why banks have remained vulnerable to frauds, which constitute the most pervasive of unethical practices in the Nigerian banking system.

An economy is a system of managing the production, distribution and consumption of goods and services. It provides a picture of the economic status of a nation and can be captured in the nation's Gross National Product (GNP), National Income (NI) or Gross Domestic Product (GDP). Most economic experts prefer the use of GDP to describe an economy and this is applied in this paper. The Nigerian economy proxy by GDP for the various years is presented in Table 2. It has undergone multidirectional metamorphosis culminating in imbalances and robust periods. The imbalance period, has always prompted for either managed or regulated, deregulated and guided approach at different times. From the table, the Nigerian economy has nominally performed well with slight fluctuations and recently sharp down ward movement as shown in Fig 3.

The place of bank fraud in an economy cannot be overemphasized because of the devastating multiplier effect it has especially when one appreciate the role of banks in the intermediation process. Okereke (1997) pointed out that banks are said to be the engine of growth of the economy. Thus, bank fraud affects the various sectors of the economy thereby distorting the economic growth of the nation. Loss of confidence caused by persistent and excessive frauds has affected business transactions and earnings from the different segments of the economy thereby distorting the economic performance. Frauds have continued to fuel the Nigerian economic predicament. These statements point out to the fact that bank fraud and the economy are two chronic and eternal enemies as the former is cancerous to the later. This is the macro consequence of fraud. The micro dimension of fraud is to the banks and the entire financial system. There is a general loss of assets (human and material), confidence and trust, increased cost, disputes, parallel and unhealthy leakage from the informal sector and most devastating is distress or outright liquidation/failure, which at the macro level exacerbates unemployment.

### Statistical Treatment of Fraud in DMBs and the Nigeria Economy

This section provides a quantitative analysis of unethical practices and the Nigerian economy proxy by fraud and Gross Domestic Product (GDP) respectively. The data used are mainly secondary and were sourced from Central Bank of Nigeria (CBN) Statistical Bulletin (2005) and National Deposit Insurance Corporation (NDIC) Annual

Reports and Statement of Account (various issues) for the period 1990-2005. The choice of this period is to capture a number of changes in the banking industry in terms of structure, operations and legislation. The data for our analysis is presented in Tables 1 and 2. The analysis is carried out using single percentages, graphs and simple regression model. The results of our analysis are presented in Tables 3 & 4 and Figs 1-5 and the interpretations are herein articulated.

### Presentation of Data and Results

**Table 1: Fraud and Forgery Cases in Commercial / Deposit Money Banks in Nigeria 1990-2005**

Year	Total No. Of Fraud Cases	Total Amount Involved	Actual/Expected Total loss (N'M)
1990	91	804.2	22.4
1991	71	388.51	25.5
1992	89	411.75	64.8
1993	108	1419.2	241
1994	152	1399.38	883.5
1995	127	1006.28	226.38
1996	587	1542.91	371.08
1997	471	3590.31	224.54
1998	564	3129.16	673.5
1999	182	6367.69	2713.4
2000	400	2844.2	1077.89
2001	943	11243.94	906.3
2002	796	12919.55	1299.69
2003	850	9383.67	8507.47
2004	1133	8309.83	1804.45
2005	1229	10606.18	5602.05

Sources: NDIC Annual Reports and Statement of account (Various Issues) 1990-2005.

Okereke E.J. (1997) Strategies for Effective Management of Bank Fraud in Nigeria, *Journal of Business and Social Sciences*, Vol. 1, NO. 1 March, pp58-9.



Table 2: Nigerian Gross Domestic Product (GDP) at Current Basic Prices (N'M) 1990-2005.

Year	GDP(N'M)
1990	267,550.3
1991	312,139.8
1992	532,613.8
1993	683,369.5
1994	899,383.2
1995	1,933,211.6
1996	2,702,719.1
1997	2,801,972.6
1998	2,708,430.9
1999	3,194,023.5
2000	4,537,540.0
2001	4,585,917.2
2002	5,403,006.8
2003	6,947,819.9
2004	2,531,255.1
2005	3,201,996.4

Source: Central of Nigeria (CBN) Statistical Bulletin, 2005.

Table 3: Growth Rate of Operational Variables

S/NO.	Years	No. of Fraud cases (%)	Amount Involved (%)	GDP(%)
1	1990-1995	406	50	6973
2	1995-2000	215	183	135
3	2000-2005	207	273	-29
4	1990-2005	1251	1218	1097

Source: Derived by the Author From Tables 1 and 2.

**TABLE 4: REGRESSION SUMMARY OUTPUT**  
SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.769485094
R Square	0.59210731
Adjusted R Square	0.562972118
Standard Error	1289040.827
Observations	16

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	3.377E+13	3.38E+13	20.32275	0.0004915
Residual	14	2.326E+13	1.66E+12		
Total	15	5.703E+13			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%
Intercept	1088557	481718.09	2.259735	0.040307	55372.972	2121741	55372.97
X Variable 1	342.6714	76.012778	4.508076	0.000492	179.64022	505.7026	179.6402

Y Value                      GDP  
X Value                      Total Amount Involved

Source: Regression analysis Results from Excel Programme

Resulting Operating Regression Model  
 $GDP = 1088557 + 342.67 X$ ..... 1  
 Where X = fraud

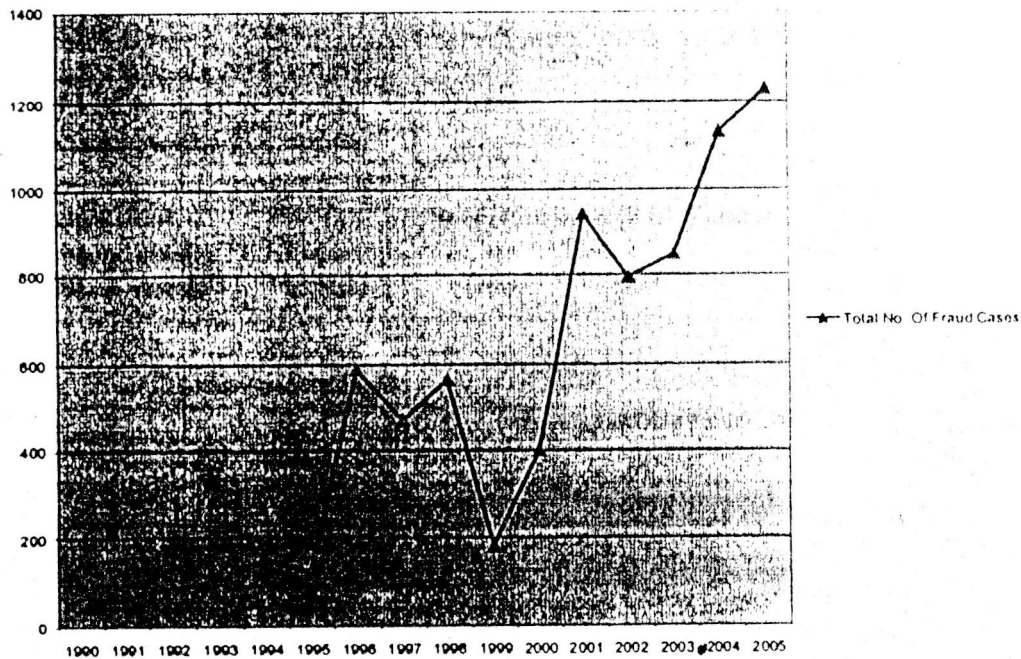


Figure 1: Yearly Behaviour of Total Number of Fraud Cases

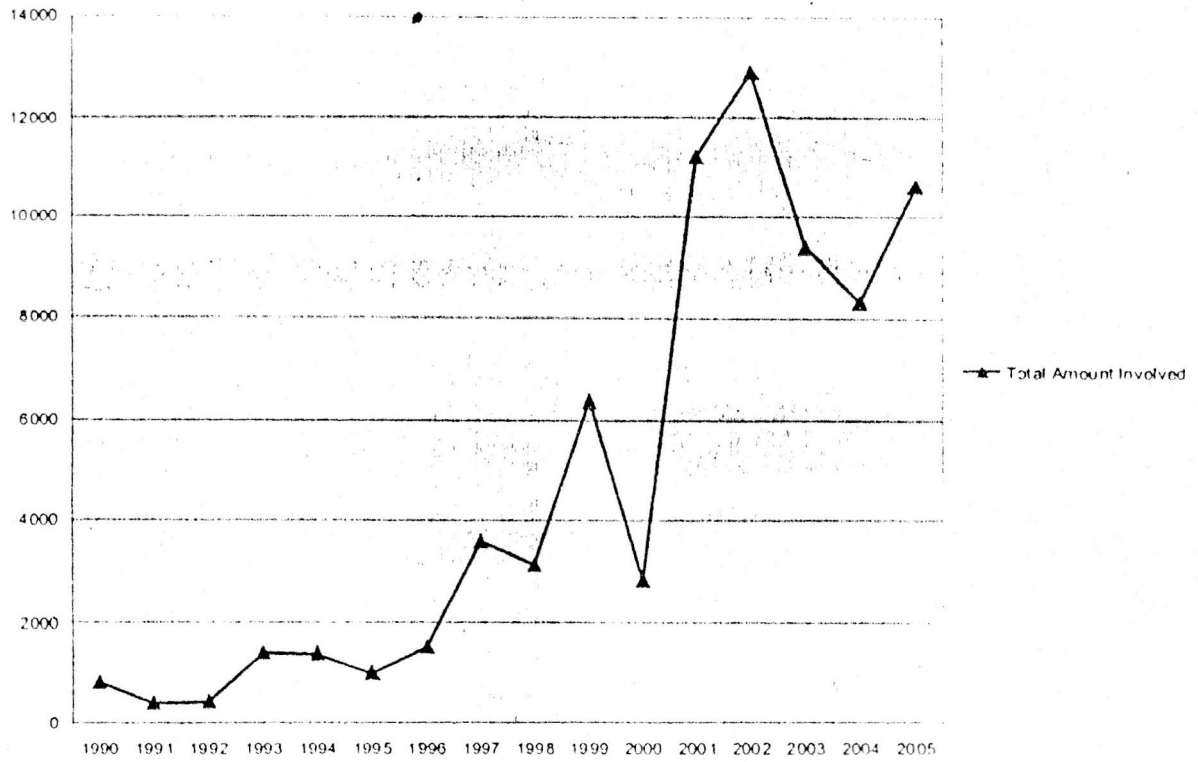


Figure 2: Yearly Behaviour of Total Amount Involved in Fraud Cases

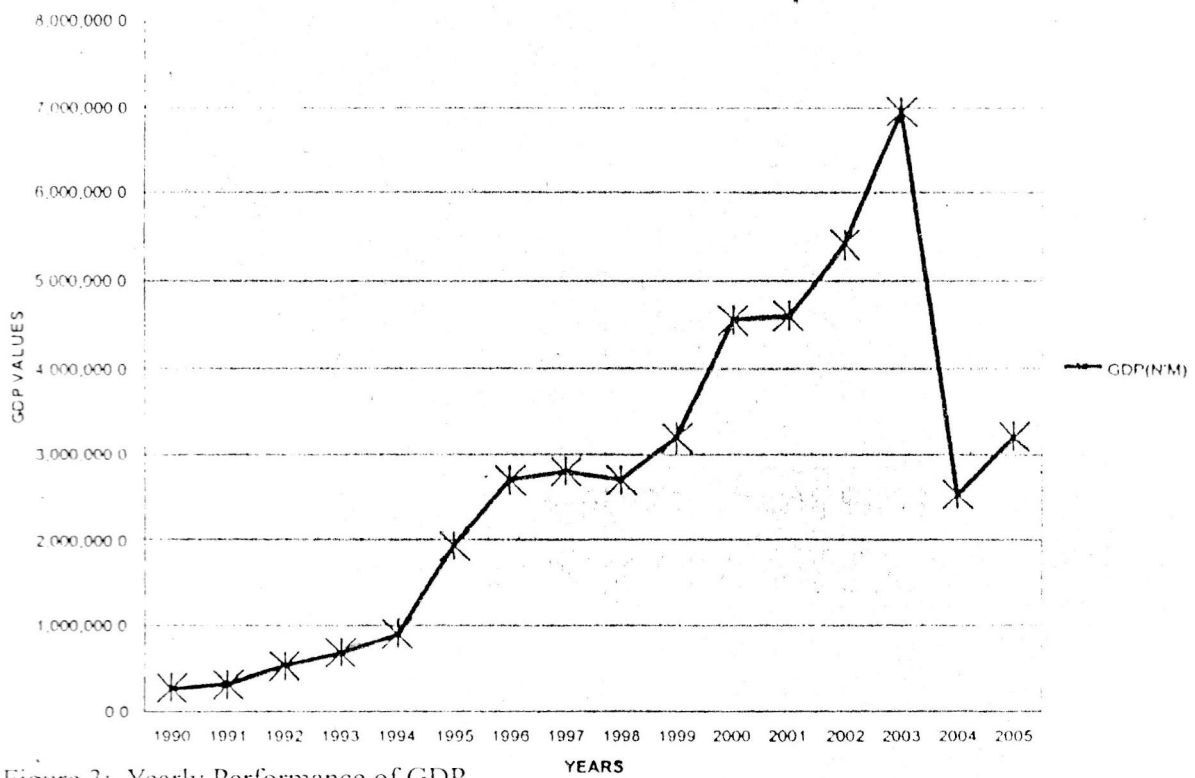


Figure 3: Yearly Performance of GDP



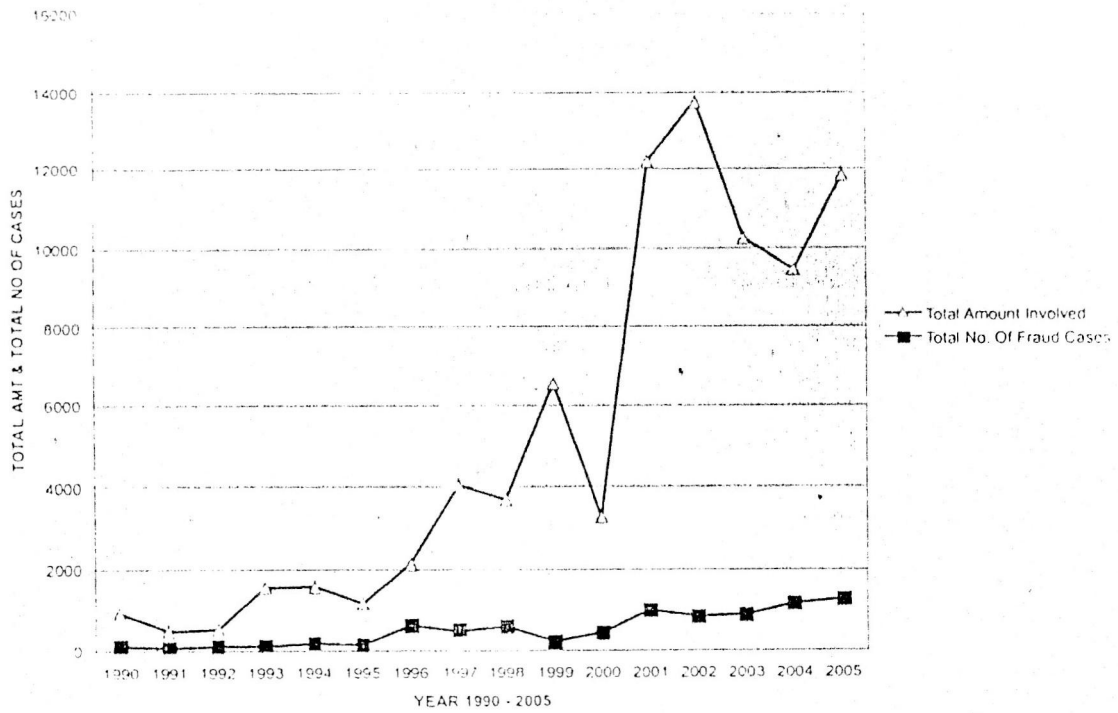


Figure 4: Yearly Behaviour of Total Amount Involved and Number of Fraud Cases

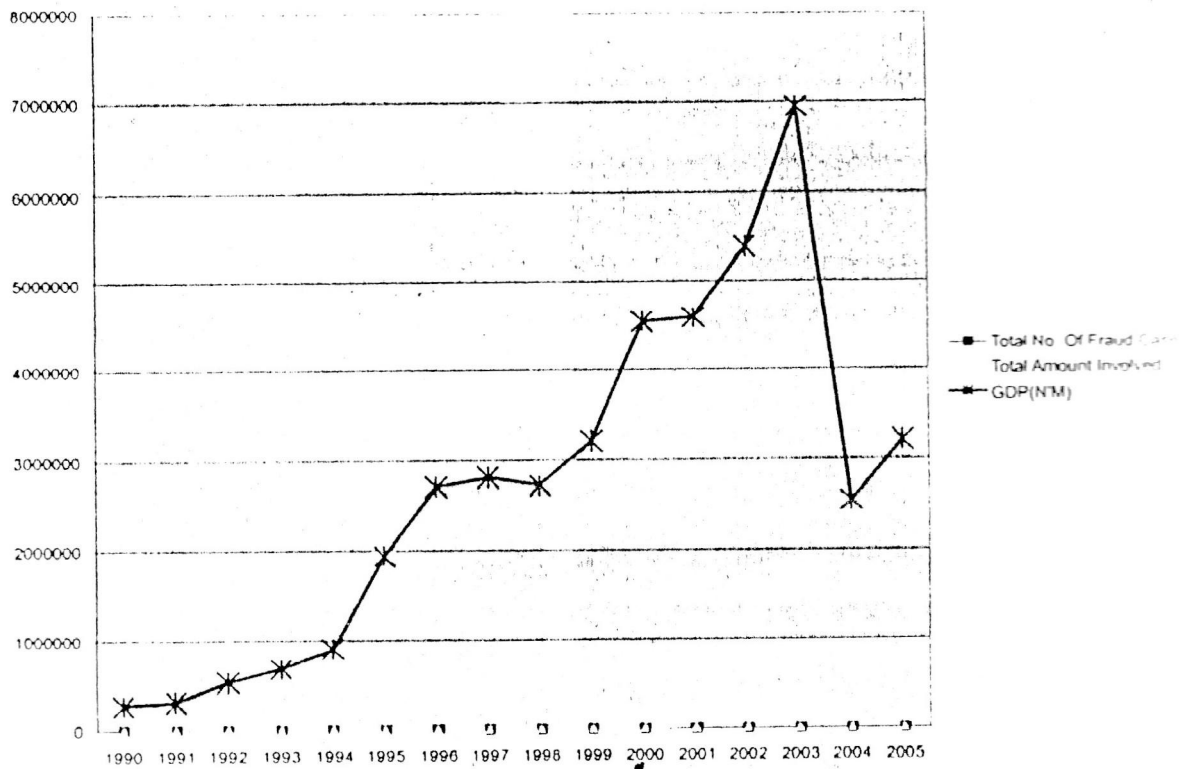


Figure 5: Yearly Behaviour of Number of Fraud Cases, Total amount Involved and GDP.

## Interpretation and Implications

The interpretation of the results of our analysis is hereunder presented. The regression result, as summarized in equation 1, shows a direct relationship (with a positive sign) between the dependant and independent variables. Thus, a 342.67% change in bank fraud will bring about same positive change in GDP. This is not a priori expected. Knowing that fraud is a deflector to the economy and therefore should have an inverse relationship, which should make any fraud to reduce the GDP to the extent of the coefficient. However, given the result in the regression model, one may want to believe that the fraud so committed is productively injected into the economy. This is the only reason that may make unethical practice like fraud to have a direct relationship to economy.

The equation 1 revealed that the value of the correlation coefficient (R) is .592 or 59.2%, which indicates that the degree of association between the regressand (GDP) and the regressor (fraud) is about 59.2%. This means, as categorized in Okereke (2004), a significant positive relationship, which is against a priori expectation. The coefficient of determination ( $R^2$ ) of .769 shows that the explanatory power of the model is about 76.9%, which suggests that 76.9% of the variations in Nigerian GDP is explained by fraud in deposit money banks. The remaining 23.1% is explained by other internal or external factors not included in the model. The implication of this is that the model provides good predictor for the economy. The issue of fraud is therefore a critical variable to watch for a stable economy.

The growth rates of the operational variables, as shown in Table 3, are revealing. The period 1990-2005 showed that both the numbers of fraud cases and the amount involved outgrew the GDP rate. While GDP growth rate is 1097%, that of number of fraud cases and amount involved is 1251% and 1218% respectively. This should be worrisome. The other grouped years 1995-2000 and 2000-2005 showed similar trend of results except for the period 1990-1995 that recorded

higher GDP growth rate. Specially, 1995-2000 shows that number of fraud cases and amount involved is growing at 215% and 183% respectively while GDP is growing at 235%.

Also in 2000-2005, while GDP carried a negative growth rate of 29%, Number of fraud cases and the amount involved is swimming in increasing growth rate of 207% and 273 respectively. This again calls for sober reflection. Interestingly, however, GDP recorded a jumbo growth rate of 6973% in 1990-1995 as against 49% and 50% growth for number of fraud cases and the amount involved respectively.

From the graphical results, in figures 1-6, the number of fraud cases as in figure 1, showed a sluggish but steady upward trend up till 1998 when it dropped but picked up again to take its normal upward trend. The total amount involved as shown in figure 2 witnessed wave-like fluctuations with upward sharp movement especially from 2000 to 2002. A slight drop is observed in 2003 and 2004 but moved up again in 2005. The implication of this interpretation is that fraud activities in our Deposit money banks are still not under control. The control and security measures already in place over the period studied have not been able to achieve a stable positive result and therefore either inadequate, or obsolete or not applied at all.

The performance of GDP, as shown in figure 3, is observed to have a steady upward movement from 1990 to 2003 with very slight and invisible drops in 1998 and 2001. The gains in the peak of the upward movement in 2003 sharply dropped in 2004 but started a slow upward movement in 2005. The implication is that fraud may not have affected the economy significantly. However, the economy needs to be broadened especially when one look at the oligopolistic structure of the economy with the oil sector accounting for more than 95% of her exports. Statistics show that non-oil sector contributed only 3.06%, 2.46% and 1.46% of total exports in 2003, 2004 and 2005 respectively. It can be observed that the contribution decreased significantly from 2003 to 2005. This is rather unhealthy.

## **Recommendations and Conclusion**

### **Recommendation**

Our recommendation is dually approached. One angle sees the preventive remedy while the other side amplifies the cure. In this order, banks should as a matter of priority, ensure that security measures- physical, procedural or methodological, are consciously put in place and strictly adhered to. There must be update of these security measures, in line with current technology and demands, which often arises from the sophistication of fraudsters. It should be part of the bank's plan, abinitio. Security gadgets, controls and checks are examples. Concerted effort should be put in place to ensure implementation and compliance. Bank staff should be trained on the basic security concepts, principles and techniques. This will help to create security consciousness among members of staff at various levels. Good detection of fraud provides for good prevention of similar fraud in the future and should start with a comprehensive and detailed preliminary management report. This calls for the reporting of all cases of fraud no matter the seize and magnitude to the Central Bank of Nigeria and NDIC promptly. The continued discrepancy and deficiency observed in the data on fraud filed by banks with CBN and NDIC should be discouraged. The Acts or Decrees on ethical misconduct (Bank fraud) should be made functional, effective and some of the omitted provisions that would have strengthened the law should be incorporated and made proactive. The delays in the enforcement of the law should be watched by our courts and police. The regulators and self regulators mainly CBN, NDIC and Chartered Institute of Bankers in Nigeria (CIBN) should set realistic and attainable code of ethics and ensure compliance.

A quartilite approach should be adopted to ensure effectiveness and promptness in bringing perpetrators to book. This involves the

collaboration of bank, government, professional body like Chartered Institute of Bankers of Nigeria(CIBN) and the host community as schematized in a rectangular-shaped design and presented in Appendix I.

The productive base of the economy should be broadened to sustain the recovery witnessed in 2005 and dilute the concentration of the oil sector, as a source of revenue. This involves, among other things, provision of infrastructural facilities especially electricity, good road network, etc at all levels. Also the current poverty alleviation and skill empowerment programmes at the three tiers of government should be strengthened and the implementation carried out objectively and promptly too. This will go a long way in addressing the problem of unemployment.

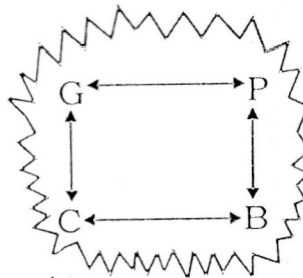
### **Conclusion**

Unethical practices in deposits money Banks, proxy by fraud, is a deflector not only to banks' profitability but also to the entire economy. It is a critical variable to watch in managing the banks and the Nigeria economy in general, given the significant positive relationship recorded in our statistical analysis and the issue of fraud growing at a faster rate than GDP. Therefore, deliberate and conscious efforts should be made to reduce if not eliminate the cases of fraud in our banks. This requires curative and preventive dimension involving a quartilite approach of planned commitment by major stakeholders Government, professional bodies, banks, and host community. This and other recommendation preferred will no doubt provide a solution pack for fraud prevention and detection in particular and other unethical practices in general in Nigerian Deposit Money Banks.

References

- Adewunmi W. (1986) Ed; *Fraud in Banks*, Landmark Publishers, Lagos
- Committee of Chief Inspectors of Banks (1987) Report on Frauds and Forgeries, CBN, Lagos.
- Banks and Other Financial Institution Decree (BOFID) No. 25 1991 as Amended
- CBN Statistical Bulletin 2005
- Central Bank of Nigeria (CBN) Act. N0.24 1991 as Amended
- Chartered Institute of Bankers Act N0.5 2007 Federal Republic of Nigeria Official Gazette N0. 55, Vol.94 4<sup>th</sup> May, Lagos.
- Draft R. L. (1995) *Understanding Management*, London: The Dryden Press.
- Okereke E. J. (1997) "Strategies for Effective Management of Bank Frauds in Nigeria," *Journal of Business and Social Science*, Vol.1 N0.1, March.
- Okereke E. J. (2004) Exchange Rate Fluctuations and Macroeconomic Stability in Nigeria (1970-2001) Unpublished Ph.D Dissertation Federal University of Technology, Owerri.
- Poznak Law Firm (2006) Approaches to Ethical Decision Making  
Http:"www.poznak/wacom/articles/bizethic.shtm.
- Thorndike K. L. and Barnhart C.L (1974) *Thorndike Barnhart Advanced Dictionary 2nd Edition*, Dallas Texas: Scott, Foresman and Company.

Appendix 1: Quartilite Approach to Bank Fraud Management



- G – Government
- P – Professional Body (Chartered Institute of Bankers of Nigeria-CIBN)
- C – Community (Host)
- B - Banks

- ↔ Exchange of information among the four Stakeholders.
- ▨ Information flow should be within the four stakeholders only.

Note: In Quartilite Approach to Bank Fraud Management, there is a planned interaction among the four stakeholders with the Government and Professional body taking upper hand in the implementation while Banks and Community concentrates more on information gathering.