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GLOBALIZATION AND BANK PERFORMANCE: THE NIGERIAN EXPERIENCE

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ABSTRACT

The paper examined the impact of globalization on bank performance in Nigeria for the period of 2006 – 2015. The paper made use of secondary data sourced from Central Bank of Nigeria StatisticalBulletin andCentral Bank of Nigeria

Fact book of various years. The paper made use of regression analysis (OLS) to analyze collected data. The paper reveal that there is positive relationship between globalization and banks performance The paper recommendedthat Nigerian government should formulate macroeconomic policies to enable banks compete favorably with foreign banks.

KEYWORDS: Globalization, Foreign Direct Investment, Profit after Tax, International Investment, Gross Domestic Product

INTRODUCTION

Contemporary globalization process begins with the capitalist mode of production and the industrial revolution, aimed at the acquisition and increaseprofits. As a result of globalization the majorintegration processes in the world economy, withthe same goals: endless accumulation that knowsno boundaries and national economy, maximizingprofits and efforts richer and more powerfulcountries to increase their wealth by exploiting thenatural and human resources of other countries (Ibrahim, 2013).

The effects of the globalization reflected in thefreedom of movement of capital, especially amongdeveloped countries, primarily the United States,European Union and Japan, who have experiencedthe positive effects of globalization, while thenegative effects of globalization are felt by most developing countries like Nigeria in transition of globalization,which is imposed on a unique model of transition to a market economy, including: liberalization,privatization, deregulation (Mitrovic, n. d.).

Globalization has been defined by various authors, depending on the background of the author and the variables of interest. According to Asogwa (2004), economists defined globalization as encompassing declining barriers to trade, migration, capital flows, technology transfers and foreign direct investment (FDI). In this sense, globalization affects three types of market: commodities – goods and services of all varieties; labour – workers who produce goods and services; assets and debts – securities, bank loans and deposits. Markets of the third type fall under the umbrella of financial globalization, which refers to the global integration in both the “capital market” and the “banking sector”. Financial globalization is the process by which the financial markets of various countries of the globe are integrated. Before financial globalization became a popular term, financial liberalization was the key policy believed to bring efficiency in the financial sector. Many African countries embarked on financial liberalization reforms as part of their recommended structural adjustment programmes (Soyibo, 1994; Aryeetey, 2000; Asogwa, 2004).

This triad and the development of informationtechnology has spawned a process of globalizationthat has lifted all barriers between the national andinternational markets, a transnational corporation (TNC) provided the conditions for faster and easiermanagement of the world economy. In anenvironment where the constellation ofrelationships facing the side of big business, in anenvironment of increased liberalization andderegulation of financial markets, aided the processof globalization is inevitable occurrence of certaininstability, lack of control of key participants (Mitrovic&Ljubic, 2015).

An important development from globalization in the banking industry is the removal of entry barriers leading to inflow of international banks and enhanced competition in the industry. To survive therefore, banks would require effective product formulation and aggressive promotional strategies (Obasan, Ariyo&Soyebo, n. d.).

While many studies have examined the effects of globalization on the performances of firms in general in Nigeria, there is paucity of studies on the effects of globalization on banks performance in Nigeria using foreign direct investment, exchange rate and international investment market to capture globalization,this study intends to bridge this gap. In pursuit of this goal, a pertinent question to be addressed is: Does globalization have any effect on the performance of banks in Nigeria? The paper is divided into five sections, this section is the introductory section, section two the literature review, section three the method of the study. While, the section four is the result and five conclude the paper.

REVIEW OF RELATED LITERATURE

Globalization is seen as the process of shifting an autonomous economy into the global scene (Fekekuty 1995). Hence, the concept of globalization portrays the logical and calculated integration of economic activities and the production, provision of goods and services at the global market. More so, Agugua (2012) argues that globalization is the trend of increasing integration of world economies, and the free flow of goods, services, ideas, managerial and technical ability and technology at the global scene effectively.

Malcom (1995) and Ninsin (2002) see globalization as the social process in which the people's ideas, interaction and culture are integrated towards the global scenario with the view to receding the local socio-cultural phenomenon consciously and holistically. For instance Nwosu, (2000) opined that globalization is a complex phenomenon which has superlative interface and bridges the incompatibilities and institutional imbalances.

Globalization according to Omoweh (2000) and Okpalaobi (2014) encompasses opening up borders and thetranscendence of the political, environmental, social, technological and economic phenomenon to increasethe relationship between and among nations for the purpose of better economic and social wellbeing of thecitizens.

Foreign direct investment according to World Bank (1996) is the investment that is made to obtain a management returns in an enterprise and operating in the country other than that of investors country. Eckes (1999) and Adeolu (2007) defined foreign direct investment as the form of international capital flow such as raw materials, skills, ideas, technology and goodwill across border for purpose of improved profitability. More so, Jerome and Ogunkola (2004) conclude that foreign direct investment either direct investment or creation of subsidiary abroad by a cooperation with the aim of improved productivity, better return and the promotion of social and economic wellbeing to the investors and the benefiting nation. Conclusively, Alfaro, Chanda, Kalemi and Sayek (2004) and Durham (2004) explore the effect of foreign direct investment on the domestic financial markets of the host country and posit that it enhances economicgrowth on the long run to both the investors and the host nation

Foreign exchange rate is the link between nation's money price and cost structures (Dangana 2012). More so, Jhingan (2010) sees foreign exchange as the rate at which one currency is exchanged for another. Thus foreign exchange price is measured in relation to another country's currency. More so, the foreign exchange rate is seen as the price of one unit of the foreign currency in terms of the domestic currency. Charles (2006) argued that exchange rate is an important economic tool which helps in connecting the price mechanism and guide investment decisions between two or more countries. The consequences of globalization are manifested through the reality of currency differential, how it affects the local currency and living standard of the citizenries (Owoeye&Ogunmakin 2013)

Uiboupin (2004) and Bayraktar and Wang (2004) investigated the impact of foreign bank entry on the performance of domestic banks;using two variables measuring the income of bank: net interest margin and non-interest income to total assets. Secondly, a bank's profitability is characterized by a ratio of before tax profits to total assets. Thirdly, bank's costs were measured by two variables: overhead costs to total assets and loan loss provisions to total assets. They found that foreign banks entry affect negatively domestic banks' revenues. Another result was that foreign banks entry can also raise the overhead costs of the local banks in short term.

Di Patti and Hardy (2005) studied the potential benefits and cost of Pakistan banking activities on bank productivity and relative efficiency using various techniques. He showed that: (A)Bank productivity in terms of profits has increased, and new entrants have been efficient, but the dispersion of efficiency remains wide. (B)The privatized banks improved their profit efficiency in the period immediately following their privatization, but in the subsequent years only one significantly improved its efficiency, whereas the other did not differentiate itself in terms of efficiency from the remaining state-owned banks.

Denizer and Dinc (2007) and Huang and Lin (2011) examined the effect of financial liberalization on the banking efficiency using Data Envelopment Analysis(DEA). Where Denizer and Dinc (2007) studied the banking efficiency in a pre and post liberalization environment by drawing on the Turkish experience, and Huang (2007) used a sample of Top 10 banks in Taiwan. Their findings suggest that liberalization programs were followed by an observable decline in efficiency. Denizer and Dinc found also that one major reason for such system wide efficiency decline has been the growing macroeconomic instability of the Turkish economy in general and financial sector in particular. While Hermes and Vu (2010) and Mwenda and Mutoti (2011) showed a positive effect of financial liberalization programmers' on bank efficiency in investigating the effects of market-based financial sector reforms on the competitiveness and efficiency of commercial banks.

According to Gilbert (2007) survey of 56 studies conducted during the period of 1964-1983, among the main approaches to measure banks' performance are the elasticity of loan demands, the interest rates on business loan, on time deposits, on passbook savings, the value of net income per dollar of total assets or capital and others. Along with these conventional measures, Neuberger (1998) suggests the use of productive (cost and profit) efficiency and allocative efficiency as a bank performance measure. Since banks are special players in the market for information, the conditions of this market are of importance to their structure, conduct and performance. Therefore, the usual SCP-framework has to be completed by aspects of incomplete information to be useful for the analysis of banking markets.

METHODOLOGY

The study made use of a quantitative approach on data extracted from financial statements. According to Abu Bakr and Tahir (2009), multiple linear regression analysis is a technique for modeling the linear relationship between two or more variables. It is one of the most widely used statistical methods. In banking and finance literature, regression analysis is a very common method used to find the determinants of bank performance.

To accomplish the objectives of this paper, the study employs multiple regression technique, and the model specification is thus,

$A = f(\pi r^{2¿} ¿)$ …………………………………………………………….. i

Equation 1 is restructured to incorporate variables that are relevant to this study, therefore, the model is:

PAT = f (FDI, ER, INI) ……………………………………………………ii
Where:
PAT = Profit after tax
FDI = Foreign Direct Investment
ER = Exchange rate
INI = International Investment
The model for this study is expressed thus:

PAT = $\beta o + \beta FDI + \beta 2$ER + $\beta 3\, INI + \mu$ ……………………………….. iii

Where
PAT = Profit after tax
FDI = Foreign Direct Investment
INI = International Investment
μ = error term
βo – β3: parameters of the variables

The paper made use of Ordinary Least Square (OS), the use of this method is justify based on the fact that the method is able to examine the relationship among variables

The data for the study was sourced from Central Bank of Nigeria Statistical Bulletin, and Central Bank of Nigeria Fact book of various years

RESULTS AND DISCUSSION OF FINDINGS

From the regression result, there is no significant relationship between the dependent (profit after tax) and the independents variables (foreign direct investment, exchange rate, and international investment position), this was indicated with adjusted R square of 0.197. The foreign direct investment and exchange rate both have negative relationship with profit after tax, the coefficient beta is -.037 and -.972 respectively. A change in the two independent variables (i.e. FDI and ER) has negative relationship with PAT (profit after tax) at the value stated above.

The international investment position haspositive but insignificant relationship with profit after tax of Nigerian money deposit banks. A change in the international investment position has 1.145 changes on the profit of Nigerian banks. The study revealed that globalization has insignificant relationship with the operations of Nigeria money deposit banks for the period under study

Conclusion and Recommendations

From the results above, the paper concludes that globalization is a salient tool foreconomic growth and development. Though, Nigeria has witnessed economic growth as banking operationshas created employment opportunities for the citizens but this has not translated into economicdevelopment resulting from high cost of doing business, infrastructural deficiency and inability todomesticate the local raw materials to expand the economy hence, the gross domestic product has beenadversely affected.

This paper shows that globalization has insignificant effect on the money deposit banks in Nigeria.

On that note the paper recommended the following:

i Foreign direct investment should be geared towards the diversification of creating balance betweenthe services and manufacturing sectors to increase local resource utilization, economic sub –contracting and broadening of the economic fortunes.

ii Financial and business environment reforms should be strengthened especially improvement ofNigerian basic infrastructure.

iii Macroeconomic policies should be aggressively implemented to enable domestic banks competefavorably with their foreign counterparts. And the exchange rate should also be regulated to encourage both foreign and local investment.

iv Trade policies in favor of export expansion should be encouraged.. Nigeria government should enhance her international investment portfolio

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APPENDICES

Regression

Notes

Output Created		09-NOV-2017 10:31:58
Comments		
Input	Data	C:\Users\Ayowumipc\Documents\ BACKUP TO 190516\DOCUMENTS\ STAFF JOB\DR OWOLABI ABUAD CONFERENCE DATA.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	10
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on cases with no missing values for any variable used.
Syntax		REGRESSION /MISSING LISTWISE /STATISTICS COEFF OUTS R ANOVA CHANGE /CRITERIA=PIN(.05) POUT(.10) /NOORIGIN /DEPENDENT PAT /METHOD=ENTER FDI EXR INI /RESIDUALS DURBIN NORMPROB(ZRESID).
Resources	Processor Time	00:00:03.52
	Elapsed Time	00:00:02.64
	Memory Required	1980 bytes

	Additional Memory Required for Residual Plots	296 bytes

[DataSet1] C:\Users\Ayowumipc\Documents\BACKUP TO 190516\DOCUMENTS\STAFF JOB\DR OWOLABI ABUAD CONFERENCE DATA.sav

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	VALUE OF INTERNATIONAL INVESTMENT, FOREIGN DIRECT INVESTMENT AS A PERCENTAGE OF GDP, EXCHANGE RATE[b]	.	Enter

a. Dependent Variable: PROFIT AFTER TAX AS A PERCENTAGE OF GDP
b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.443[a]	.197	-.205	7.31079	.197	.490	3

Model Summary[b]

Model	Change Statistics		Durbin-Watson
	df2	Sig. F Change	
1	6[a]	.702	1.590

a. Predictors: (Constant), VALUE OF INTERNATIONAL INVESTMENT, FOREIGN DIRECT INVESTMENT AS A PERCENTAGE OF GDP, EXCHANGE RATE

b. Dependent Variable: PROFIT AFTER TAX AS A PERCENTAGE OF GDP

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	78.503	3	26.168	.490	.702[b]
	Residual	320.686	6	53.448		
	Total	399.189	9			

a. Dependent Variable: PROFIT AFTER TAX AS A PERCENTAGE OF GDP
b. Predictors: (Constant), VALUE OF INTERNATIONAL INVESTMENT, FOREIGN DIRECT INVESTMENT AS A PERCENTAGE OF GDP, EXCHANGE RATE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	36.205	61.103		.593	.575
	FOREIGN DIRECT INVESTMENT AS A PERCENTAGE OF GDP	-.218	4.521	-.037	-.048	.963
	EXCHANGE RATE	-.306	.379	-.972	-.807	.451
	VALUE OF INTERNATIONAL INVESTMENT	1.077E-008	.000	1.145	1.164	.289

a. Dependent Variable: PROFIT AFTER TAX AS A PERCENTAGE OF GDP

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-3.4217	5.8751	-.0100	2.95340	10
Residual	-14.77831	5.84116	.00000	5.96923	10

Std. Predicted Value	-1.155	1.993	.000	1.000	10
Std. Residual	-2.021	.799	.000	.816	10

a. Dependent Variable: PROFIT AFTER TAX AS A PERCENTAGE OF GDP