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ISTANBUL AYDIN UNIVERSITY
INSTITUTE OF GRADUATE STUDIES

THE EFFECT OF FOREIGN DIRECT INVESTMENT IN THE BANKING SECTOR: A RESEARCH ON COMMERCIAL BANKS IN NIGERIA

MASTER'S THESIS

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Department of Business
Business Administration Program

MARCH, 2022

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ONAY FORMU

DECLARATION

I hereby declare with respect that the study "The Effect of Foreign Direct Investment in The Banking Sector: A Research on Commercial Banks in Nigeria", which I submitted as a Master thesis, is written without any assistance in violation of scientific ethics and traditions in all the processes from the Project phase to the conclusion of the thesis and that the works I have benefited are from those shown in the Bibliography. (.../.../20...)

OLUKAYODE GBOLADE ADELAJA

FOREWORD

Firstly, I want to thank the Almighty God for his guidance and protection throughout my stay and academic work in this citadel of learning. It was a long and strenuous journey with various ups and downs but I am grateful I am at the end of the completion.

I want to thank my immediate family and most especially my wife for her support, patient throughout the torrid time with the aim of getting this Masters Degree. Your prayers and words of encouragement were necessary and they have kept me even in times when I thought I was done and tired. I want to thank my thesis supervisor, Dr. Cüneyd Ebrar Levent. Achieving this feat would not have been done without your support, guidance, depth of knowledge and patient, may God bless you.

Furthermore, I want to thank this great institute for learning for giving me the opportunity to sit under the tutelage of great academicians, tutors and professors. The knowledge I have gained here will spore me to greater heights. To all the authors who made their papers, articles and journals available for me to use, the ten banks in Nigeria which were used for the study and the different databases which I also used for the study, my sincerest gratitude.

MARCH, 2022   OLUKAYODE GBOLADE ADELAJA

THE EFFECT OF FOREIGN DIRECT INVESTMENT IN THE BANKING SECTOR: A RESEARCH ON COMMERCIAL BANKS IN NIGERIA

ABSTRACT

The need for foreign direct investment in a growing economy is enormous because of the great importance attached to it. One of the greatest importance of foreign direct investment in a developing economy is that foreign investments provide labor force employment by creating new jobs in developing countries. Accordingly, it may become possible for the invested country to meet new technologies and corporate governance practices may accelerate. The flow of new information, new technology, new expertise, and most importantly, investment helps demonstrate that FDI is very important in any growing economy. In addition, it is expected that import rates will decrease and export capacity will increase due to domestic production of capital goods.

Foreign direct investment means that the investing unit gains control power in the decision-making processes of the invested unit. Foreign direct investment affects not only industry and service sectors but also financial markets in developing countries. In this context, the aim of this study is to investigate the relationship between foreign direct investments and bank performance. The study examines Nigeria, the most populous and highest GDP country in Africa. Nigeria, a member of OPEC, already has the 8th largest oil reserves in the world. It also has the world's 9th largest natural gas reserves and is the only natural gas exporter in Sub-Saharan Africa. In addition, Nigeria has an important place in its continent with South Africa and Egypt in terms of banking system and stock markets.

The scope of the research consists of commercial banks in Nigeria. The dependent variable of the research is the financial performance of the banks, represented by ROA. The independent variable is foreign direct investment. Control

variables such as bank size, retained earnings, deposit from customers were also added to the models. Financial performance data of the banks were collected from audited financial reports.

The time period of the research was between 2011-2019 and panel data analysis method was chosen. Lagrange Multiplier test, Honda test, King Wu test and Hausman test were used to determine the most appropriate panel analysis method. The research findings show that foreign direct investments do not have a statistically significant effect on the profitability of commercial banks in Nigeria. Another result of the research is that the bank size has no effect on financial performance.

The study discusses both these results and why Nigeria has not been able to attract foreign direct investment despite its great potential. Finally, suggestions about the banking system in Nigeria and expectations for the future of the financial sector are presented in the study.

BANKACILIK SEKTÖRÜNDE YABANCI DOĞRUDAN YATIRIMIN ETKİSİ: NİJERYA'DAKİ TİCARİ BANKALAR ÜZERİNE BİR ARAŞTIRMA

ÖZET

Büyüyen bir ekonomide doğrudan yabancı yatırım ihtiyacı, buna verilen büyük önem nedeniyle çok büyüktür. Gelişmekte olan bir ekonomide doğrudan yabancı yatırımın en büyük önemlerinden biri, yabancı yatırımların gelişmekte olan ülkelerde yeni işler yaratarak işgücü istihdamı sağlamasıdır. Buna göre yatırım yapılan ülkenin yeni teknolojilerle tanışması mümkün hale gelebilir ve kurumsal yönetim uygulamaları hızlanabilir. Yeni bilgi akışı, yeni teknoloji, yeni uzmanlık ve en önemlisi yatırım akışı, büyüyen herhangi bir ekonomide doğrudan yabancı yatırımın oldukça önemli olduğunu göstermeye yardımcı olmaktadır. Ayrıca, sermaye mallarının yerli üretimi nedeniyle ithalat oranlarının düşmesi ve ihracat kapasitesinin artması beklenmektedir.

Doğrudan yabancı yatırım, yatırım yapılan birimin karar alma süreçlerinde yatırım yapan birimin kontrol gücü elde etmesi anlamına gelmektedir. Doğrudan yabancı yatırım, gelişmekte olan ülkelerde sadece sanayi ve hizmet sektörlerini değil, finansal piyasaları da etkilemektedir. Bu bağlamda, bu çalışmanın amacı, doğrudan yabancı yatırımlar ile banka performansı arasındaki ilişkiyi araştırmaktır. Çalışma, Afrika'nın en kalabalık ve en yüksek GSYİH ülkesi olan Nijerya'yı incelemektedir. OPEC üyesi olan Nijerya, halihazırda dünyanın en büyük 8. petrol rezervine sahiptir. Aynı zamanda dünyanın en büyük 9. doğalgaz rezervine sahiptir ve Sahra Altı Afrika'daki tek doğal gaz ihracatçısıdır. Bunun yanında Nijerya, bankacılık sistemi ve borsalar açısından Güney Afrika ve Mısır ile birlikte kıtasında önemli bir yerde bulunmaktadır.

Araştırmanın kapsamını Nijerya'daki ticari bankalar oluşturmaktadır. Araştırmanın bağımlı değişkeni, ROA ile temsil edilen bankaların finansal

performansıdır. Bağımsız değişken ise doğrudan yabancı yatırımdır. Banka büyüklüğü, dağıtılmamış kâr, müşteri mevduatı gibi kontrol değişkenleri de modellere eklenmiştir. Bankaların finansal performans verileri, bağımsız denetim şirketleri tarafından denetlenmiş finansal raporlardan toplanmıştır.

Araştırmanın zaman aralığı 2011-2019 yılları arasında olup panel veri analizi yöntemi seçilmiştir. En uygun panel analiz yöntemini belirlemek için Lagrange Multiplier testi, Honda testi, King Wu testi ve Hausman testi kullanılmıştır. Araştırma bulguları, doğrudan yabancı yatırımların Nijerya'daki ticari bankaların karlılığı üzerinde istatistiksel olarak anlamlı bir etkiye sahip olmadığını göstermektedir. Araştırmanın bir diğer sonucu da banka büyüklüğünün finansal performans üzerinde etkisinin olmadığıdır.

Çalışma, hem bu sonuçları hem de Nijerya'nın büyük potansiyeline rağmen neden doğrudan yabancı yatırım çekemediğini tartışmaktadır. Son olarak çalışmada Nijerya'daki bankacılık sistemine ilişkin öneriler ve finans sektörünün geleceğine ilişkin beklentiler sunulmaktadır.

Anahtar Kelimeler: Doğrudan yabancı yatırım, ticari bankalar, finansal performans, Nijerya, ROA.

TABLE OF CONTENTS

ABBREVIATIONS

ABC	: Africa Banking Corporation
AMCON	: Asset Management Cooperation of Nigeria
ATM	: Automated Teller Machine
BBWA	: Bank of British West Africa
CBN	: Central Bank of Nigeria
FDI	: Foreign Direct Investment
FOREX	: Foreign Exchange
GDP	: Gross Domestic Product
GSC	: Global Supply Chain
ICT	: Information Communication Technology
MNB	: Multinational Bank
MNC	: Multinational Corporations
NDIC	: National Deposit Insurance Cooperation
ROA	: Return on Asset
ROE	: Return on Equity
SAP	: Structural Adjustment Program
UNCTAD	: United Nations Conference of Trade and Development

LIST OF TABLES

LIST OF FIGURES

I. INTRODUCTION

This chapter of the study will focus on background of the study, the research problem and gap, the objectives of the study, the research questions, research hypothesis, significance of the study, the research limitation and the definition of terms based on the study. The part of the study will give a general overview of what the study is all about.

A. Background Of The Study

Over the years, foreign direct investment in different sectors have been employed by many countries to improve the growth of their economy. The role of foreign direct investment in the development of developing countries is a key factor for gross development and economic growth. Korna et al. (2013) argued that foreign direct investment is viewed as a major stimulus to economic growth in developing countries.

Foreign direct investment (FDI) is fiscal policy which is employed to introduce and bring different opportunities in an economy. It has been studied to be an enabling factor which is used to instigate technological growth, economic development, provision of employment, increase in labor, increase in Gross Domestic Product (GDP), foster different levels of development in an economy and most importantly, improvement of the way of life in a country. Adeleke et al. (2014) opined that foreign direct investment helps developing economies in dealing with shortages of financial resources, increase in ICT and development of modern skills which is necessary for the development of an economy.

One of the major importants of foreign direct investment is the inflow of technology and diffusion of technology into a new market. Unlike what is generally miscontructed that FDI only brings advantage to the receiving country or economy, multinational corporations (MNC) or investors coming into a new country to do business gain so from FDI. The gains include lowered cost of doing business

especially in a country where labor is cheaper than what the FDI is used to in the home country (Makoni, 2015). For example, technology companies like Samsung and Apple have manufacturing plants in China, Taiwan and other South-east Asia countries where price of labor is cheap compared to what is obtainable in USA. FDI increases diversification for investors, it helps in increase profit margins and it also comes with other benefits.

Adeniyi et al. (2012) stated that FDI have been significant in the upshot of financial development on economic growth. The inflow of FDI into a country result in the increase in host country's capital stock, labor and knowledge capital. Asongu and Odhiambo (2020) mentioned that foreign direct investment provides investment and consumption opportunities, employment, social mobility and a plethora of avenues which helps in increasing the living standards and boost general wellbeing in society.

Nigeria has benefited so much from foreign direct investment. There have been inflow of foreign corporations (Multinational corporations) into Nigeria before the country gained her independence in 1960. FDI investments have been seen in the banking sector, educational sector, manufacturing sector, pharmaceutical sector, ICT and many other service sectors.

Nigeria is the second largest foreign direct investment recipient in Africa with billions of FDI inflow coming into Nigeria on a yearly basis. The banking sector like other sectors have also received influx of foreign direct investment. Officially, the first bank that operated in Nigeria pre-independence was a foreign bank; Bank of British West Africa (BBWA). The growth of the banking sector in Nigeria coincided with the SAP (structural adjustment program) of 1986. The program opened the flood gates of application for banking license from foreign banks.

The disinvestment in the financial sector by investors brought a standstill and hindrance to development of the financial sector in Nigeria. Oniore (2014) wrote that foreign direct investment was a critical factor for the economic growth and financial stability in the Nigeria banking sector. After the structural adjustment plan, Nigeria banks started embracing technological form of banking and improvements. These improvements were all facilitated with the growth of foreign own banks in Nigeria. The trajectory of banking performance and growth of the sector has improved and is still improving.

In this context, this study will reveal the effect of foreign direct investment in the banking sector of Nigeria. In this respect, it is expected to make important contributions to the existing literature.

B. Problem Statement

Foreign bank investments and other multinational establishments have been studied as being important catalyst for growth in developing countries. The impact of foreign banks in the performance of the banking sector in Nigeria is the basis of the study. After the establishment of the first bank in Nigeria which was a foreign bank, many banks have including indigenious and international banks have taken root in Nigeria and carried various forms of business in the country. Several studies have shown that these international banks have been the driving force of economic development in Nigeria, the banking industry, real sector growth and the growth of the manufacturing industry. This study is focused on analysing the impact of FDI in the banking sector of Nigeria. The study seeks to investigate the performance of the Nigeria banking sector using financial performance indicators to measure performance.

C. Objectives Of The Study

The major aim of the study is to investigate the relationship between foreign direct investments and bank performance. Therefore, this study is expected to contribute to the literature for both developing countries and African countries with similar structures.

As stated above the major aim of the study is to examine the performance of the banking sector in Nigeria. The study will focus on the commercial banks which are operating in the country including both foreign banks and indigenous banks. Other specific objectives;

- To investigate the impact of foreign direct investment on Return on asset

- To investigate the impact of foreign direct investment on Return on asset with total asset as control variable

- To investigate the impact of foreign direct investment on Return on asset

with total asset and retained earnings as control variables

- To investigate the impact of foreign direct investment on Return on asset with total asset, reatined earnings and deposit from customers as control variables.

D. Research Questions

The following research questions are answered and they include the following;

- Does foreign direct investment impact Return on asset in the Nigeria banking sector?

- Does foreign direct investment impact Return on asset with total asset as control variable?

- Does foreign direct investment impact Return on asset with total asset and retained earnings as control variables?

- Does foreign direct investment impact Return on asset with total asset, reatined earnings and deposit from customers as control variables.

E. Research Hypothesis

Hypothesis is a statement of possible explanation for some natural phenomenon and it is tested by drawing conclusions from it. In this thesis, it is aimed to test the following hypotheses.

- There is a statistical significant relationship between foreign direct investment on Return on asset

- There is a statistical significant relationship between foreign direct investment on Return on asset with total asset as control variables

- There is a statistical significant relationship between foreign direct investment on Return on asset with total asset and retained earnings as control variables

- There is a statistical significant relationship between foreign direct investment on Return on asset with total asset, retained earnings and

deposit from customers as control variables.

F. Significance of the Study

The result of this study is expected to contribute to the literature for both developing countries and African countries with similar structure. The result of the study will seek to affirm the postulation of different studies which focused on the same topic but with different variables. The study will be significant to different governments especially the Nigerian government, multinational banks (MNBs), indigenous banks operating in Nigeria and in other developing countries which attract FDI to their countries especially in financial services FDIs.

G. Operational Definition Of Terms

- **Foreign Direct Investment** – foreign direct investment is any investment which brings about a business relationship and also create control by a resident entity in one country in an organization of business or business resident in an economy other than that of the foreign direct investor. Foreign direct investment happens when an organization invests in another country or foreign market. The direct investment is either focused on producing a product in the foreign market or promote the product in the foreign market.

- **Outward flow** outward flow are all the transactions which increases the investment that the direct investor in the home country have in enterprises in the host country. The increase in investment can be done through the purchase of equity or reinvestment of earnings and decrease of any transactions which slows down the investment. The investors in the home country have in the foreign establishment in a foreign country which include selling of equity or the borrowing carried out by the resident investor from the foreign enterprise.

- **Inward Flows** – Inward flow of FDI shows the transaction which helps in increasing the investment which the foreign investors have in an enterprise that is located in the foreign or deporting economy. Inward flow or inward direct investment is done by a none-resident in an enterprise in the host economy. For the reporting country, the investment by the investor is an

inward investment. It should be noted that the different flows of FDI are measured in USD and as a share of GDP.

- **Mode of entry -** Mode of entry is the way by which a firm ventures into a foreign market. Entry mode by a foreign investor can be successful based on certain factors. These include acquiring more knowledge of the oversee market, knowledge of what the new market needs and scale economies. Firms venture into another economy based on the advantages of the new economy.

- **Bank Size –** This is the ratio which shows the ownership of the various assets by the bank. In measuring bank size, the natural logarithm of the total value of assets in a bank is calculated in US Dollars.

- **Total Assets (natural logarithms) –** This variable focuses on representation of the total financial worth of what the bank or any other organization owns after putting into consideration the assets and liabilities of the institution.

- **Retained Earnings –** This focuses on expressing the net income of an organization which is retained by the organization in a certain point in time.

- **Deposits from customers –** In banking, deposits from customers is the total deposit which is made by the customers of a bank in a particular period of time.

II. LITERATURE REVIEW

In this chapter, the concept of foreign direct investment will be critically studied. This chapter will include subtopics on the definition of foreign direct investment, types of foreign direct investment, mode of entry and inflow/outflow of foreign direct investment. The chapter will also discuss the Nigeria financial sector, the Nigeria economy, foreign direct investment in Nigeria, the theoretical framework of the study and the conceptual framework.

A. Defining Foreign Direct Investment.

Waliu (2017) wrote that foreign direct investment happens when an organization invests in another country or foreign market. The direct investment is either focused on producing a product in the foreign market or promote the product in the foreign market.

Asongu and Odhiambo (2020) opined that foreign direct investment is any investment which brings about a business relationship and also create control by a resident entity in one country in an organization of business or business resident in an economy other than that of the foreign direct investor. The resident entity in this definition is the foreign direct investor or the parent enterprise. The authors opined that the foreign direct investment simply implies that the foreign investor have a certain degree of influence on the management of the enterprise which is resident in the other economy or country. The investment which is seen involves all the transactions between the enterprises including the initial investments and all other investments which will be done or carried out in the future.

Adeniyi et al. (2012) further implied that foreign direct is focused on obtaining a lasting interest or share by an organization (investor) in another organization (investment enterprise) which is located in another country. The authors opined that the implied lasting interest or shares focuses on having a long-term relationship between investor and investment and having certain degree of control of the investment. Based on the on the IMF's Balance of Payment manual, a direct

7

investor (foreign investor) must own 10% or more of the company's capital. Adeniyi et al. (2012) defined the term direct investor and direct investment enterprises;

1. **Direct Investor**

This is an individual or an incorporated or unincorporated private or public enterprise, government or group of individuals which have a direct investment enterprise that is operating in a country of residence of the direct investor.

2. **Direct Investment Enterprise**

This is any enterprise either incorporated or unincorporated in which a foreign investor own 10% or more of the ordinary share. It also includes voting power of the enterprise. Adeniyi et al. (2012) opine that direct investment enterprise can be achieved through three different ways and they include subsidiaries, associates and branches. In defining subsidiary, the authors opined that a subsidiary is an enterprise in which the foreign investors own more than 50% of the shares of the enterprise and has immerse voting power. An associate is an enterprise whereby the foreign investors own between 10%- 50% of the shares of the organization while branch is an enterprise which is wholly owned or jointly owned incorporated enterprise.

Adeleke, Olowe and Oluwafolakemi (2014) defined foreign direct investment as any direct which is carried out in a country other than the home country of the investor (individual or company). The authors opined that the foreign direct investment is carried out either by purchasing the company in the home country or through the process of expansion of an existing business operation in the new country. Most times the purpose of the investor is to gain a prominent voice in the management affairs of the organization. Adeleke et al. (2014) further implied that foreign direct investment is carried out through the process of mergers and acquisitions, building of new facilities in a new country, investing the new profits which are earned from other operations and taking of company loan. In a common sense, the concept of foreign direct investment focuses on the building of new facilities.

Asiamah, Ofori and Afful (2018) wrote that foreign direct investment is the monetary resources which a foreign individual or company invest in companies and

organization which are not in their home country and are listed in the host country's stock exchange. Foreign direct investment is an important ingredient which helps in sustainability and growth of any nation or economy.

Makoni (2015) in defining the concept of foreign direct investment, wrote that foreign direct investment is any international investment made by one economy's resident entity in the business operation of an entity residence in a different economy with the purpose of gaining a lasting interest in the foreign economy or foreign establishment. Musah et al. (2018) foreign direct investment happens when an investor which is based in one country (the home country) buys or acquires an asset in another country (the host country) with the sole aim of managing the asset. They wrote that the foreign investor must meet the 10% voting share threshold commonly referred as the recommended benchmark.

Bajrami and Zeqiri (2019) focused on the transfer of important assets which includes financial capital, technology, human resources, knowledge and expertise from the home country to a host country. The different definitions of foreign direct investment according to the authors are all focused on shift of capital and control through significant equity of shareholders. According to UNCTAD (United Nations Conference on Trade and Development) World Investment Report and International Monetary Fund's Balance of Payment Manual, the main purpose of foreign direct investment are as follows;

- To make profit

- Transfer of resources

- Having long lasting interest

- Taking control

- Effective voice of management

In differentiating foreign direct investment from portfolio investment, long lasting interest is the important variable. There is lack of long lasting commitment in portfolio investment.

Sabina and Manyo (2017) opines that foreign direct investment is the net inflow of investment to acquire lasting management interest in an enterprise operating in an economy other than that of an investor. It focuses on capital

transactions which is carried out between the host country and the foreign investor.

Foreign direct investment is an important and vital ingredient which is employed to bring about growth which can be sustainable. Asiamah et al. (2018) opined federal direct investment serves as critical factor which helps in pushing the growth of an economy. Musah et al. (2018) opined that foreign direct investment is the engine of growth for developing.

B. FDI Flows and FDI Stock

The flow of foreign direct investment is the movement or flow of physical capital, labor, firm, specific advantages which includes brand names, human capital, patents, trademarks and technology and externalities from one country to another (Waliu, 2017).

Adeniyi et al. (2012) opined that flows of foreign direct investment comprises of the capital which was provided by the foreign investor to the enterprise either directly or through other related enterprises. It can be capital which was received from an investing enterprise by a foreign direct investor. According to the organization for economic co-operation and development (OECD) foreign direct investment flows is the record of the value of cross-border transactions which is related to direct investment carried out during a specific period of time.

The flows might include the following;

- Equity transactions

- Reinvestment of earnings

- Intra-company debt transaction

Equity capital or transactions are the shares the investor purchase from the enterprise which is located in the host country or foreign country. Reinvested earnings include the share of the investor (which is based on the direct earning participation) earnings which is not shared or remitted to the investor as dividend and are reinvested back into the foreign investment enterprise. The intra-company debt transaction or intra-company loans are short or long term borrowing and lending of funds between direct investors and the foreign investors enterprise.

Foreign direct investment flows can be differentiated into outward flows and

inward flows.

- **Outward Flows** – Aigheyesi (2017) wrote that outward flow are all the transactions which increases the investment that the direct investor in the home country have in enterprises in the host country. The increase in investment can be done through the purchase of equity or reinvestment of earnings and decrease of any transactions which slows down the investment. The investors in the home country have in the foreign establishment in a foreign country which include selling of equity or the borrowing carried out by the resident investor from the foreign enterprise.

- **Inward Flows** – Inward flow of FDI shows the transaction which helps in increasing the investment which the foreign investors have in an enterprise that is located in the foreign or deporting economy. Aigheyisi (2017) opined that inward flow or inward direct investment is done by a none-resident in an enterprise in the host economy. For the reporting country, the investment by the investor is an inward investment.

It should be noted that the different flows of FDI are measured in USD and as a share of GDP.

Foreign direct investment stock is used to measure the total level of direct investment which is seen at a given point in time. The stock of FDI is measured or calculated usually at the end of every quarter or it is carried out yearly. Waliu (2017) opined that FDI stock is the accumulated amount of foreign direct investment which is seen at a given period of time. Foreign direct investment stock can be differentiated into two forms. Waliu (2017) opined that FDI stock can be divided into Outward and Inward FDI stock. Aigheyisi (2017) opined that outward FDI stock is the value of the resident investors' equity and net loans to enterprises in the foreign country. While inward FDI stock focuses on the value of the foreign investors' equity in and net loans to enterprises resident in the reporting economy. Just like FDI flows, FDI stocks are measured in US dollars and are seen as a share of GDP.

Musah et al. (2018) opined that foreign direct investment have been researched to be the stimulus which brings about growth of certain economies and industries and they provide the needed financial investment which will help in boosting an economy. The authors further wrote that FDI inflows helps in increasing

competition in different market niche in a host country. It helps indigenous countries to embrace newer technologies, increase efficiency and also increase organizational productivity and performance. Adeleke et al. (2014) implied that FDI inflows contribute significantly to the host economy especially in human and physical capital.

Waliu (2017) wrote that FDI inflows can include physical capital, labor, superior technology, scale economies, superior management styles, knowledge capital which can be seen in superior brand names, superior human capital, patents, trademarks and other externalities. In calculating FDI inflows, the summation of equity capital, reinvestment of earnings, long term capital and short term capital are put together.

C. Types of Foreign Direct Investment

Based on this study, foreign direct investment is divided into three types and they include the following:

- Horizontal foreign direct investment

- Conglomerate foreign direct investment

- Vertical foreign direct investment

1. Horizontal Foreign Direct Investment

According to Bajrami and Zeqiri (2019), horizontal foreign direct investment is the process whereby a foreign investor or a multinational corporation investor in the same type of business in another economy or country like the one which the MNC is operating domestically.

Oniore (2014) opined that in horizontal FDI, the foreign organization manufactures products or carry out services which are almost similar or similar to what the investing form does in its home market. It is referred to as horizontal because, the MNC duplicates the exact same activities. The author opined that most FDI are horizontal in nature. Horizontal form of foreign direct investment gives room for the foreign investment organization or MNC to share technical knowhow, technology and both human and physical resource which the host country. Horizontal FDI is carried out by two or more countries who have similarity in their sizes,

population and both natural/human endowment. Horizontal FDI focuses on how best the MNC focuses on serving the host market (Yokota and Tomohara, 2009). Yokota and Tomohara (2009) opined that horizontal form of FDI primarily serves the local or host market and are focused on accessing the new market they are venturing into.

2. Conglomerate Foreign Direct Investment.

In this kind of FDI, MNCs or foreign investing firms manufacture products and provide services which are not carried out in their home countries (Elia, Maggi and Mariotti, 2011). The authors opined that in conglomerate FDI, the firms operate in different inductive or provide different services in the host countries. Herger and McCorriston (2013) opined that in conglomerate FDI, the MNC doesn't operate in any of the different FDIs. The authors opined that the idea behind conglomerate FDI is to take advantage of the market in the host country, take advantage of the already established businesses in the countries and also the networking channels.

3. Vertical Foreign Direct Investment

Bajrami and Zeqiri (2019) wrote that vertical foreign direct investment is the process whereby the investing corporation locate different stages of the production processes in different countries. In vertical FDI, the foreign investing corporation takes advantage of the superior nature of a country which will help in facilitating a stage in the production process. For example, manufacturing of an important part of a mobile phone or electronics in a country because of the availability of the raw material in the country.

Oniore (2014) opined that vertical FDI occurs when a foreign investing enterprise enters into a foreign market to produce goods which are used as inputs in the home country or other foreign subsidiaries. Vertical FDI countries might be developing countries or developed countries which are smaller than the home country of the foreign investor. These host countries are usually OECD countries and they have less matured economies compared to the country of the parent firms. In vertical FDI, the home country is always bigger than the host country.

Major examples of horizontal foreign direct investment can be seen in Coca-Cola Corporation, PepsiCo, Unilever PLC and most United States of America multinational companies.

Example of vertical FDI organizations include; Hershey's chocolate, an American organization that produces chocolates. The firm might buy a cocoa plantation in Brazil to speed up provision of raw materials (purchasing a supplier) and also buy a share in Alibaba group which is an organization where the products are sold. For conglomerate FDI, Walmart can buy a share in BMW, an automobile production company.

D. Foreign Direct Investment Mode of Entry

Mode of entry is the way by which a firm ventures into a foreign market. Singh et al. (2012) opined that entry mode by a foreign investor can be successful based on certain factors. These include acquiring more knowledge of the oversee market, knowledge of what the new market needs and scale economies. Singh et al (2012) opined that firms venture into another economy based on the advantages of the new economy. Foreign market entries is dependent of scale of economies. Scale of economies can be defined as the many advantages which an organization can achieve or attain by entering into a foreign market.

Singh et al. (2012) opined that when a foreign enterprise or multinational company enters into a foreign market, they have five advantages and they include;

- Cost benefits – The cost benefits of the organization increases through efficiencies in product production and replication.

- Exploitation of national resources – The foreign enterprise has several options when it comes to taking advantage and exploiting the national resources in the new country.

- Serving global customers – The MNC have the opportunity to serve to serve the global market other than customers in their home country.

- Learning benefits – Organization through proper and effective research can learn about the needs of the consumers in the new country, interpret the performances of consumers and also adapt certain strategies which will be focus on survival.

- Competing strategically – New organization into a foreign market can use proper research to attack competitors and establish and also increase their

market share in other markets.

E. Types of Entry Modes

Singh et al. (2012) opined that the most widely known and employed entry mode includes;

- Wholly owned investment

- Joint venture

- Contractual agreement

1. Wholly Owned Investment

One of the major issues which are experienced by investors when entering into a new market or economy is the possibility of owning fully or entering into a joint venture. Wholly owned investment or subsidiaries is a company which is fully owned by another company (Yiu and Makino, 2002). In this context, the foreign enterprise comes in an establishment or a subsidiary which is fully owned or by acquiring an already established local company in the foreign market. The entrant (foreign investors) controls the entire production and distribution facilities of the company in the foreign market. The entrant owns more than 95% of the shares of the company. Wholly owned investment is divided into acquisition and Greenfield investment.

a. Acquisition

In this form of wholly owned investment, the entrants purchase the stocks in an organization which is already in existence. The amount of stock which they purchase is an amount which is sufficiently enough for them to exercise total control of the organization (Yiu and Makino, 2002). Singh et al (2012) opined that entrants through acquisition are more likely to divest from their investment and also less likely to be shut down in comparison to other form of wholly owned investment. With acquisition, the entrant or MNC have certain advantages like economies of scale and market dominance.

b. Greenfield investments

This is a type of wholly owned investment when foreign companies expand

into another country by establishing an entirely new production companies or capacities (Bajrami and Zeqiri, 2019). According to Bajrami and Zeqiri (2019), they are one of the most sort after and welcomed FDI in developing countries. The main goal of Greenfield investments is provision of jobs and decreasing unemployment. It also provides new production capacities, jobs, technology transfer, technical know-how and can link the new economy to the global market. Even though Greenfield FDI increases the productivity of an economy, it might also crowd out local companies.

Acquisition and Greenfield investment operates in full control mode. This mode provides the option to utilize firm resources and capabilities. Full control mode or ownership helps the parent firm in the home country to introduce home country's experience, technology and management capabilities. Full control mode helps the organization to control the success of the new market entry. Wholly owned entry are used by firms which perceives high transaction cost like high finding, negotiation and monitoring costs. Wholly owned modes of new market entry are better in countries which have few legal restrictions.

2. Joint Ventures

Yiu and Makino (2002) opined that the use of joint ventures as a mode of entering into a new market has fallen considerably. This is because most organizations which are entering into a new market wants to take charge and have the major stake when it comes to making decisions.

Asongu and Odhiambo (2020) opined that joint venture which is also called partially owned venture is the coming together of assets which are owned by two or more firms doing business in a common or different market niche. Joint venture is a type of transaction which is carried out by two or more partners and which are intermediary between contractual agreements on a market and wholly owned investment. For joint ventures to be carried out, there are three conditions and they include;

- There must be possession of complementary assets.

- There must be opportunity for collusion

- The organization must halt any form of full integration or which defined

wholly owned investment.

Channon and Sammut-Bonnici (2014) opined that the objective of using joint venture to enter into a new market is to establish a stronger competitive position. Firms coming together to form a joint venture can reduce any negative effects by bringing together their financial resources, R&D, production capabilities and chains of distribution. The authors opined that joint ventures help in increasing the profitability of an industry by reducing competition in markets where both firms are present.

Major joint ventures over the years include the following;

- The setting up of caradigm by a joint venture of both Microsoft and General electric. The joint venture was focused on helping the health industry use online medical records to improve health services.

- A joint venture of Google and Motorola which was focused on helping Google to acquire patents and also help Motorola to compete favorably with Apple's iPhone.

- Volkswagen and GM motors have set up joint ventures with organizations in China, Mexico, Turkey, Taiwan, and India. The major aims of the joint ventures were to establish manufacturing presence and distribution chains in the respective countries.

Channon and Sammut-Bonnici (2014) opined that joint venture comes with certain advantages and they include;

- It can be used by smaller organizations with insufficient funds and technological expertise to enter into a new economy. It is an effective way to get the resources to enter into a foreign market.

- The employment of joint venture can be employed in the reduction of political friction and prejudice against corporations whichare foreign owned. Some economics have political rules which discriminates against wholly foreign owned enterprises or subsidiaries.

- The use of joint ventures especially with a local firm will give the foreign

firm knowledge of the new market, channels of distribution, access to supply of raw materials, government contracts and local production facilities.

- Consortiums are types of joint ventures which focuses on undertaking particular projects which are considered to be too large for individual companies to handle alone.

- They allow firms to limit risk associated with doing business in a foreign market.

3. Contractual Modes or Agreement

It should be noted that most entry modes are either wholly owned investment or joint ventures.

Contractual agreement is the entering firm whereby an agent is contracted to produce and distribute goods in the new foreign market in return for certain economic benefits for a foreign investor. This entry mode is utilized when firms do not have the resources and capabilities to form ownership and in the situation whereby the host country has restrictions focusing on entrants and import. Contractual agreement can be seen in two modes and they include exporting and licensing.

Fernandes, Gouveia and Pinho (2014) opined that the use of exporting as an entry mode is good especially if it is not possible to establish the firm in the host country. In licensing, foreign firm license their patent to firms or agents in the host country. Exporting is a contractual agreement which is based on long term contracts.

F. Motive of Foreign Direct Investment

Motive is the aim or objective behind certain actions or activities. In foreign direct investment, foreign enterprises or organization venture into a new economy with certain mindsets. Makoni (2015) opined that many MNC make use of FDI based on certain goals and objectives. The goals and objectives determine the type of FDI which is employed to enter into the foreign market. Makoni (2015) listed four forms of FDI which is a direct representation of the motive of the entry and they include;

- Resource seeking FDI

- Market seeking FDI

- Efficiency seeking FDI

- Strategic asset – seeking FDI

1. Resource Seeking FDI

Gerlach and Liu (2010) opined that this motive is focused on taking advantage of the many resources which is abundant in the foreign market. The resource can be human resource, cheap labor, natural resource/raw material and technological efficiency. Makoni (2015) opined that through new investment, investors seek to gain access to both natural and human resources of the host country. There are several positive and negative impacts which are associated with resource seeking FDI. Gerlach and Liu (2010) opined that resource seeking FDI brings about job creation, increase in productivity and output, diversification of production, increase in exportation, adoption of foreign standards in production and technological growth. The negatives include intensive use of land, raw material and other resources, loss of income opportunities, displacement of indigenous people and impact of biodiversity in certain situations. In a strict host country, the positives outweigh the negative substantially.

2. Market Seeking FDI

Wadhwa and Reddy (2011) opined that FDIs that enters into a new country by seeking a market aims at penetrating the local markets of host countries. These FDIs focuses on consumer performances and structure of the domestic market. They enter into these new markets to increase their market size, per capita income and also gain access to the regional and global markets. Makoni (2015) opined that some international companies venture into a foreign market to produce goods which are adaptable to foreign country.

3. Efficiency Seeking FDI

This FDI is focused on creating new sources of competitiveness for firms and it goes where the cost of production is lower (Wadhwa and Reddy, 2011). Makoni (2015) opined that MNC with the motive of efficiency seeking, takes advantage of

resource, endowment, culture, economic systems, policies and the structure of the host market to carry out production in a small location (play where cost of production is low) but supply to many markets.

4. Strategic Asset-seeking FDI

Wadhwa and Reddy (2011) opined that the FDI type focuses on advancing the global and regional strategy into foreign materials. They create assets which include technology, organizational abilities and markets. They focus on acquisition of foreign companies which helps in the advancement of their international competitiveness.

G. Technology Diffusion of FDI

One of the constant and critical aspect of foreign direct investment is the diffusion of technology either from the home country to the host country or diffusion going the opposite direction. Technology diffusion have been found to aid the development of host countries and economies.

Lee, Lee and Kim (2011) opined that growth of a developing economy or emerging economy is a direct reflection of the extent by which the host country adoption and implement new technologies which carried into the country to foreign direct investment. Lee et al. (2011) opined that technology speed over is an important aspect in FDI. The authors opined that the channel by which technology diffusion is carried out internationally can be divided into two broad categories and they include;

- Trade channel of technology diffusion

- FDI channel of technology diffusion

International trade have been studied overtime to be a major source of the diffusion of technology into another country. Lee, Lee and Kim (2011) opined that technology diffusion through international trade is carried out through either importation or exportation. The importation of goods and services into a country can help foster the introduction of new technologies. Through the use of export and import researchers have found trade to be a major way by which technology is transferred.

Technology diffusion through FDI have been studied overtime by researchers. Lee, Lee and Kim (2011) opined that technology diffusion through FDI can be seen when multinational companies invest in host countries. When MNEs invest, they bring in with them advanced intangible assets which brings about specific advantages and help them to compete favorably with other indigenous firms in the new economy. It should be noted that the indigenous firms already have superior information of the local market, the need and preference of consumers and how business is done in the local market. The high intangible assets which include technology helps these foreign companies to compete successfully. These new technologies overtime diffuses into the economy and are adopted by local competitors, thus, diffusion of technology is achieved (Lee, Lee and Kim, 2011).

Adeniyi et al. (2012) opined that technology diffusion or spillover happens through the transfer of production process and technical know-how, the introduction of modern managerial skills and the training of employees.

Borensztein et al. (1998) opined that the FDI through diffusion of technology bring about the following to the new economy;

- Improve production efficiency and economic growth by breaking bottleneck to investments.

- Introducing improved and technological based know-how in the process of product production and marketing techniques are imitated and absorbed by local firms to boost production.

- Technological diffusion is also seen in the process whereby foreign companies train workers on new technologies and practices and these workers later take employment in local firms. Thus, transferring the knowledge which have been learnt to the local firms.

- Transferring techniques for inventory and quality control and standardization to their local supplies and distribution channels.

- Local firms are forced to adopt the new improved technique based on performance and productivity of the MNCs. This will lead to technology diffusion.

Lee, Lee and Kim (2011) opined that MNC entering into other countries to do

business is a major channel through which developing countries get adequate access to technologies. Multinational Corporation have been researched to be the most technologically advanced firm which accounts for a better part of the World's R&D. it should be noted that FDI technological diffusion into a new economy is directly dependenton the home country. Some countries institute stringent policies, taxations, tariffs and other strict business protocols which might limit the effectiveness of MNCs in the foreign country. These stringent protocols are targeted at improving indigenous and local firms (Lee, Lee and Kim, 2011). According to Adeleke, Olowe and Oluwafolakemi (2014), one of the most important aspects of technology diffusion is human capital development. MNC boost the human capital in a host country by training them on the various managerial, technological and technical know-how to boost the productivity of the MNC and indirectly exposing the host countries to better ways of doing business.

H. Impact of Foreign Direct Investment.

Several studies have been able to study the impact of foreign direct investment of the years. In this part of the study, the impact of FDI will be analyzed based on the studies of Musah, Gakpetor, Kyei and Akomeah (2018), Makoni (2015) and Asiamah,Ofori and Afful (2018). The impacts include the following;

1. Boost International Trade

One of the major impacts of FDI is the increment of international trade between nations. Musah et al (2018) opined that FDI allows the inflow and outflow of production processes to be seen between two or more countries. It is an integral process in global supply chain (GSC). One of the major FDI receiving nations is China. China carries out both horizontal and vertical form of foreign direct investment for multinational companies around the world. For example, major American tech companies and European vehicle companies have production plants in China which are used in the production of different parts or whole products. Other countries like Taiwan, Japan, South-Korea and major receivers of FDI from MNCs around the world because of the ease of doing businesses in these countries. FDI helps in boosting trades between the nations, aids technology diffusion and creates jobs for locals (Lee, Lee and Kim, 2012).

2. Reduction Of Any Form Of Regional And Global Tensions.

Makoni (2015) opined that the vertical form of foreign direct investment which focuses on the production of certain aspect in the supply chain in host countries can stop the reduction of tensions because any tension in one country can disrupt the entire business flow of a multinational company. For example, the Corona Virus pandemic which has its epicenter in China disrupted 50% of the global supply chain because of the closure of boarders and temporal halting of any form of business in China. In today's business world, FDI are interconnected and there is high level of dependency between countries and also create a level of peace between different countries who are involved in the same global supply chain for the same multinational company.

3. Technology, Knowledge And Culture Sharing

FDI aids in the transfer of technology between MNCs and FDI recipients. It also aids the transfer of knowledge and cultural transfer between countries. In the process of Greenfield FDI and Acquisition FDI, the MNC or foreign investor has a say in how the firm is rum and most times, the investor comes in with the same technology, managerial knowledge, marketing expertise and organizational culture which is being used in the home country of the investor (Asiamah et al, 2018). The process brings about the transfer of technology (technology diffusion) and advanced techniques.

China benefitted from the inflow of new technologies through FDI which also investigated the starting up of local ventures which use similar techniques like multinational companies doing business in China.

4. Diversification of Income.

Multinational companies are faced with reduction of risks through the diversifying and investing in other nations. Yiu and Makino (2002) opined that by spreading investments in many countries especially in horizontal foreign direct investment, diversification protects the organization especially if there is any form of economic recession in one country. There is reduction of domestic exposure through investing in other countries (Wadhwa and Reddy, 2011). When firms in United States of America invest in China, Taiwan or Nigeria, the level of risk is reduced.

The reduction of risk is because the firm is heavily reliant on one market. The decline of demand in one country based so many factors can lead to the growth of demand in another country.

5. Lowered Cost Of Production With Increased Efficiency.

One of the major reasons why FDI enter into a new economy or country is to benefit of lowered labor costs. Yiu and Makino (2002) opined that FDI engage in off-shore production in countries which offers cheaper labor. For example, Corporations in United States of America go to countries in Asia because of cheaper labor cost and also cheap raw materials. Musah et al (2018) opined that there is a debate between economist about the legality of going to foreign countries because of cheap labor but despite the ethicality associated with going out, MNCs going out because of the various benefits that comes to the business. Foreign direct investment is generally associated with lowered cost of production and increased cost effectiveness.

6. Tax Incentives

Asiamah et al (2018) opined that reductions in corporate tax imposed on big multinational companies help save them billions every year. MNC us international subsidiaries to offshore money. These MNCs favor countries with lowered tax structures for large companies. There are tax incentives by which foreign government offers tax breaks to investors because they want to encourage foreign direct investment in their economy.

7. Employment And Economic Boost

The investment of money into a foreign country brings about jobs, new companies, factories and sometimes new products. The investment of MNCs into a new country or economy bring new opportunity for locals in the host countries and also help in boosting economic growth. The spillover from FDI is huge because it attracts the best of local labor, increased employments and increased payment structure. Foreign direct investments in a particular sector stimulates the advancement of other sectors and industries in the same economy. In Nigeria for example, the increase in capitalization in the banking sector due to foreign direct investment can bring about growth in the real sector (real-estate) and manufacturing

sector due to the availability of more loans (Adeleke et al, 2014).

Lee, Lee and Kim (2011) opined that despite the many positives and advantages associated with foreign investment, FDI comes with certain disadvantages especially to host countries.

8. Foreign Control

Some fears which is associated with FDI and fears by local governments in the foreign country is that MNCs essentially come to control local economies. They control the land, labor and capital. Foreign investors enter into a country with cheap labor, pay higher, manipulates government and take charge of huge part of the host country. Musah et al (2018) opined that based on these issues, many host economies focuses on joint ventures as entry modes for FDI and restrict outright Greenfield FDI or acquisitions.

9. Loss Of Domestic Jobs

Major MNCs and foreign investors take back their profits back to their home countries. These investments which should have been used to develop the host economy are sent back to the home countries. Home countries lose jobs because of investment in other countries. (Lee, Lee and Kim, 2011). Employments are lost in home countries to foreign countries because of cheap labor, lowered cost of production and cheaper goods for consumers.

İ. Theories of Foreign Direct Investment

In this study, several theories will be considered and they include the following;

- The eclectic paradigm theory
- Institutional FDI fitness theory
- Location-based approach to FDI theory
- Capital market theory
- Monopolistic-advantage theory

1. **The Eclectic Paradigm Theory of FDI**

   Makoni (2018) opined that this theory of FDI is the most well-known and highly research FDI theory. The theory was propounded by Nobel Prize winner Dunning in 1980. Dunning integrated various theory like international trade theory, monopolistic and internalization and local based theory and he conducted that in-order for a firm to engage in FDI in a host country, the firm must fulfill three important conditions at the same time and they are as follows;

   - The firm should have an ownership advantage over other firms (particularly indigenous firms) which are doing business in the same market niche. Sabina and Manyo (2017) opined that the advantage which the firm should have over the other firms should be specific to the firm and it can be in form of trademarks, patents, information and technology. These advantages will help the firm to compete favorably with other firms in the host country.

   - The firm must be more profitable for the firm processing these ownership advantages to use them for itself rather than to sell or lease them to foreign firms though the use licensing or management contracts.

   - Makoni (2015) opined that the third condition to be met is that it must be profitable for the firm to exploit these advantages through the process involved in production. The production process should be in collaboration with input factors which include material resources and human capital.

   Bajrami and Zeqiri (2019) opined that the more a country's firms enjoy ownership advantages, the greater the need to internalize the advantages and the more profitable to exploit them outside their home country which means that there is a higher chance of success of FDI in another country. Major criticism of the theory is that the theory uses so many variables which makes the theory not to be very practical because it does not explain FDI at the firm, industry and country levels. The theory also fails to explain with regard to subsequent FDI increases. Many critics also question the application of the theory in low developing countries (LDCs) which do not have monopolistic firm specific advantages like high knowledge content.

2. Institutional FDI Fitness Theory

This theory was proposed by Wilhelms and Wetter in 1998. Asiamah et al (2018) opined that the term FDI fitness means the ability of a country to attract, absorb and retains FDI. The fitness of a nation based on FDI is the ability to adapt, fit into the expectations of investors either internal or external expectations. The fitness theory explain the uneven distribution of inflows of FDI between countries. The theory is hinged on four pillars which include Government, market, educational and socio-cultural fitness.

Asiamah et al (2018) opined that the most important and oldest factor is socio-cultural fitness. Socio-cultural fitness of a country helps in attracting a specific kind of FDI. The culture which is embraced by the host country helps in attracting, adopting and retaining FDI. Educational fitness is necessary in ensuring an attractive environment for FDI because educated human capital enhances R&D creativity and information processing ability (Makoni, 2015). Makoni (2015) further implied that the educational level does not matter so much because the requirement focus on having the important skills needed for projects to be undertaken. Market is the third pillar. This pillar accounts for the economic and financial aspects of institutional FDI fitness. Bajrami and Zeqiri (2019) opined that market comes in two forms and it include machinery (physical capital) and credit (financial capital). A well and functioning financial market is an important aspect in attracting FDI to a host country.

The final fitness is the government fitness. Makoni (2015) opined that the political system and position of the host country plays the biggest role in attracting and retaining FDI. Government fitness helps in managing market fitness. Governmental fitness also include trade openness, economic openness, corruption and transparency. Political instabilities, hostility and unfavorable policies are a function of government they push MNC out of a host country. It should be noted that government policies shape other fitness (markets, educations and socio-control activities).

3. Location-Based approach to FDI theory

This theory focuses why an FDI is entering into a country. FDI location theory focuses on the motives behind its location. Makoni (2015) opined that

location of an FDI is based on whether the FDI is resource seeking, market seeking, efficiency seeking or strategic asset-seeking. The theory proposed that the success of any FDI in host countries is a factor of the natural wealth of the countries (host countries), labor availability, local market size, infrastructure and governmental policies regarding the natural resources. The theory further implied that FDI flow between countries is dependent on whether the two countries are similar in the following ways;

- Geographically

- Economically

- Culturally

The commonalities between both nations are more complicated. Makoni (2015) wrote that two countries might share the same geography but the cost of labor in the host country might be too expensive. Same thing can be seen in countries with the same culture but receiving country is plagued with political instability. More important location based determinant of FDI flow include;

- Size of the market

- Level of economic, technology and political development

- Geographical distance

- Language

- Shareholder protection

- Trade openness

4. Capital Market theory

This theory was proposed by Aliber between 1970-1971. It is one of the earliest theories which explains FDI. The theory proposed that foreign direct investment started based on capital market importation. Asiamah et al (2018) opined that the theory summarized that FDI is the result of differences between source and host country currencies.

Aliber proposed that countries with water currencies have a higher FDI-attraction ability and are better able to take advantage of differences in the market

capitalization rate, compared to stronger country currencies.

Makoni (2015) wrote that investor can borrow at a lower interest rate. In a foreign country that host country firms because portfolio investors overlook the foreign aspects of some country MNCs.

One of the major criticisms of the capital market theory is that the theory does not apply in the case of less developed countries with highly imperfect or non-existent capital markets. Another criticism of the theory is that the theory does not explain investment between two equally developed countries that have similar currency strengths.

5. Monopolistic advantage theory

In this theory, the foreign investor has a certain level of increase monopoly in a host country in than what is obtainable in their home country. This is why it is called monopolistic advantage theory because it gives increase monopoly to foreign investors and this is based on how the host country accept or reject foreign goods and services and also a factor of host country policies based on FDI. The theory holds that competitive advantage is the reason why multinational ventures into a foreign country. They enter into a foreign country due to the fact they have high advantage to be more competitive in comparison to what is obtained in the home country. Based on the theory, two broad factors are the backbone behind the adoption and they include superior knowledge of the MNE and economies of scale. Superior knowledge can be seen through the introduction of superior technologies, introduction of increased levels of skills especially when it comes to management. Other superior knowledge base can be seen in organization and the knowledge of the product they are offering. With the highlighted advantages, MNE make use of subsidiaries when venturing into a foreign market.

J. Banking industry in Nigeria and Foreign Direct Investment

The history of the banking industry in Nigeria cannot be discussed without talking about The Bank of British West Africa (BBWA). The BBWA was actually not the first bank in Nigeria but it was part of ABC which was originally the first bank that was created by Elder Dempster and company in 1892. Africa Banking Cooperation (ABC) was the first bank to carryout banking operations in the country

which later became Bank of British West Africa. After the closure of ABC, the remnant of the bank later became part of BBWA and started operation in 1893. The next bank which was established was Columbia bank and was created in 1966 to rival BBWA. Other banks which operated in Nigeria in the early times include Barclays Bank. Other historical banks which have been operating in Nigeria include Agbonmegba Bank which later became Wema Bank PlC, United Bank of Africa (UBA) was also founded in 1948 while African Continental Bank was founded in 1947.

Historically, banking in Nigeria has gone through many stages and eras based on different reforms which were enacted by different government.

Oluduro (2015) in a study focused on the historical antecedents of banking in Nigeria wrote that the Nigerian banking system and the banking sector which is known in Nigeria now is directly a reflection of various era and reform. The author opined that the banking sector has gone through various stages and these stages are characterized with various characteristics and theses eras will be fully discussed in this section. Njoku (2019) studied the growth of the Nigerian banking sector from 1892 to 2015. The author opined that several acts and policies which were implemented in the banking sector had helped in defining the Nigerian banking sector and the eras includes, the free banking stage, the banking regulation stage, indigenization stage, structural adjustment program stage, stage of guided deregulation, universal banking stage, banking consolidation stage and the era of new and current banking reforms.

According to Njoku (2019), the first stage of banking in Nigeria which was called the free banking stage was focused on the colonial controlled banking system. In this stage, the control of the banking system was done in London and the various banks in this stage were all focused on providing dividends to the colonial masters of Nigeria.

Oluduro (2015) wrote that the banking era was between 1891-1951. In this stage, British Bank of West Africa resigned supreme and had only a handful of their banks. In the later years of the free banking stage, saw the establishment of various indigenous banks in Nigeria which were established to challenge London controlled foreign banks in Nigeria.

Njoku (2019) wrote that most of the indigenous banks in this stage failed and the failure was due to the fact that the management of the banks were done poorly, funding of the various banks were also insufficient and the banks also focused on early expansion of different branches in Nigeria even though they were still not strong enough to branch out. Most of the indigenous banks which were created in this stage include Agbonmagbe Bank, National Bank of Nigeria and Nigeria Mercantile Bank. The ending of this bank stage was based on the 1952 Nigeria Banking Ordinance act which was created to provide regulatory policies of how banking should be carried out. The banking ordinance was popularly called G.D Paton report was the foundation of the next stage of baking in Nigeria (Njoku, 2019).

Anake and Eba (2021) opined that the banking regulation era and stage was based on the report which was provided by G.D Paton. This banking era and the ordinance act brought a sense of stability to the banking industry after the failure of most of the indigenous banks in the free banking era. The regulation which was created in Nigeria in this era was divided in three stages. Anake and Eba (2021) wrote that this era was between 1952 and 1986 and three other subdivided eras were seen in this stage. They include era of limited regulations which was seen between 1988-1972 and the indigenization which was between 1972 and 1986. These eras brought stabilization based on capital base of bank which will operate in Nigeria. Furthermore, the era brought about licensing of any banking organization that intend to do business in Nigeria. The G.D Paton ordinance report brought about the first regulation and rules which banks must follow judiciously to operate the Nigerian banking sector. Despite the stability which was brought about by the new ordinance, the ordinance was not very efficient and effective. During the era of intensive regulation, Nigerian banks were becoming stronger based on their capital due to continual increase in capital base benchmarks which were instituted by various government during that period of time. Due to the continual increase in capital base by different governments, only foreign owned banks were standing including banks which were supported by various government at that time (Anake and Eba, 2021).

Njoku (2019) wrote that the next era in the banking history of Nigeria was focused on making all the foreign banks in Nigeria to have certain percentage of indigenous ownership. The era of regulation and indigenization was between 1972 and 1986. The indigenization policy was created to make the banking industry better

and to give Nigerians the ability to influence the foreign banks and also appoint head members into the different banks.

Oluduro (2015) wrote that there was obviously stability in the banking sector but the stability was general because of the backing of the Nigerian government. There was increased levels of bad debts and government establishment had increased access to take loans which later became bad loans. To guard the money of depositors in the banks, the central bank of Nigeria created the deposit insurance scheme (Njoku, 2019).

From 1989 to 1993, the Nigerian government instituted a structural adjustment program (SAP) which focused on giving licenses to many banks. Many commercial banks became fully licensed. There was increased members of bank in that period from 40 commercial banks to 120 commercial banks. During the structural adjustment program, the Nigeria deposit insurance corporation (NDIC) was created to bring increased levels of stability in the banking industry. Other acts which were created include the following;

- Open market operation and promulgation of the CBN

- The BOFIA act (BOFIA=Banks and Other Financial Institutions Acts).

Njoku (2019) wrote that the increased number of commercial banks in the Nigeria banking system brought better sweet result. There was increased numbers of fraudulent activities by employees of different banks, increased number of bad loans and lack of stability of banks in Nigeria. In this banking era, there was re-evaluation of the function of the apex bank in Nigeria. The Central Bank of Nigeria became more effective and had more powers to central the financial systems in the country (Oluduro, 2015). The next era was between 1994 and 1998 and it was called era of guided deregulation (Njoku, 2019). This era was also characterized by banks which were not strong enough based on capital base.

Njoku (2019) wrote that there was increased number of non-performing loans and most banks in Nigeria were facing various forms of liquidation. Oluduro (2015) wrote that that Central Bank of Nigeria in other to deal with the increase rate of liquidation in the commercial banks in Nigeria, the CBN provide liquidity support for banks, bank takeovers was also seen and stoppage of bad lending especially to governmental institutions. There was also increase in the amount of funds in capital

base of different banks.

According to Njoku (2019) the capital base was raised from N40 million to N500 million for commercial banks and merchant banks and this affected the bank at that time. Many banks folded up and were brought over by other banks in 1999, the universal banking era started after Nigeria returned back to democracy. The universal banking era was not so different from the era before. This banking era was focused on providing a sense of inequality to the existing banking reforms, acts and policies.

The universal banking era also brought the establishment of the Bank of Industry (BOI) which was created in 2001, furthermore, the universal banking era also brought the increase of the capital base of the Banks in Nigeria. Njoku (2019) wrote that the CBN attached a compulsory 1 billion Naira to both commercial and Merchant Banks which are operating in Nigeria. Several banks were suspended by the CBN based on several rules which were broken based on FOREX, inefficiency and fraud.

In this era, the bank of industry and the Nigeria industrial development bank were created to help maintain and grow small and medium scale enterprises and use them to bring about reduction in poverty, reduction in unemployment, increase the rate of industrialization and also act as a tool to bring about sustainable economic development. The next era in the banking industry in Nigeria is focused on radical change. And these changes were necessitated due to the need of reduction of so many poor practices in the banking sector, creation of robust banks in Nigeria and banks with huge capitalization. This era was called," the era of consolidation"

Odeleye (2014) wrote that the era of banking and consolidation was championed by the then central bank governor, Professor Charles Soludo and it was between 2004 to 2008. Some of the various policy which were seen in this era focused on the requirements of all commercial banks to have a N25 billion minimum capitalization and only banks who meets the minimum capitalization will be allowed to continue doing business in Nigeria.

The consolidation and recapitalization process also focused on creating of bigger banks through mergers and consolidation and furthermore, adoption of risk-focused rule based regulatory framework (Odeleye, 2014). Other actions which were carried out include the creation of Assets Management Company which was focused

on the taking over banks that were going into insolvency, the full automation of various banking operations including internet banking and Automated Teller Machines and also a close relationship between the Central Bank of Nigeria and the Economic and Financial Crimes Commission.

The main objectives of the banking consolidation actions were focused on establishing a banking sector in Nigeria which is strong, reliable and very-capitalized. At the end of the consolidation process, the 89 commercial banks operating in Nigeria, became 29 commercial banks. Even though the banking reconsolidation recapitalization process came with several downside such as poor accounting of the huge banks, increased levels of malpractice and lack of proper tools to manage the sporadic growth, banks in Nigeria were now major players in the banking system in Africa. Banks such as Access Banks, Zenith Banks, Union Banks, First Bank of Nigeria, United Bank of Africa and Guarantee Trust Bank became quite strong and huge Nigeria and other countries. They became multinational Banks (MNBs).

Finally, the current banking reforms. Njoku (2016) wrote that this era was between 2009 to 2012 and it was carried out to continue on the trajectory of successes which was achieved in the era of banking consolidation. The era was spearheaded by Lamido Sanusi, the then CBN governor. The banking era focused on the creation and the sustainability of the 25 banks and also increase transparency in how business is done. Despite the positives of the consolidation era, many banks due to inadequate supervisions were quickly in need of government enabled injection of cash. The CBN injected a total of N620 billion into nine banks through the Assets Management Cooperation of Nigeria (AMCON). The current banking era was also built on the foundation of enhancement of the quality of banks in the Nigeria banking sector, the digitization of banking operations in Nigeria, establishment of stability in the finance industry, enablement of a financial sector which is healthy and efficient and create policies and programs which focuses on the provisions of various elements that will push the financial sector to contribute to the growth of the Nigerian economy (Odeleye, 2014).

Due to the penultimate era, and this last era and the various policies which were enacted in both banking eras, many banks in Nigeria were now part of the first 1000 banks in the world. Nigeria banks became heavily automated with the use of

Automated Teller Machine, internet banking, mobile banking and other digital enabled forms of banking. Banks in Nigeria are now categorized based on the kinds of banks which they are. Odeleye (2013) wrote that for regional banks, the minimum capital base was 10 billion naira. For national banks, the minimum capital base was 25 billion naira while for international banks, the minimum capital base was 50 billion naira. Nigeria banks are now following due process in every processes due to the many rules and regulations and the various firms associated to the breaking of any rule

1. Impact of Foreign Direct Investment in Nigeria

The influx of Foreign Direct Investment into Nigeria in the different sectors has gone a long way in increasing the growth and development of the country in different ways. Adeniyi et al (2012) wrote that FOI has increase the competition in the different economic sectors in Nigeria.

Through FDI, there has been increased levels of technological growth in different areas of the economy. In the banking sector, the use of ATM and online banking including digital can be attributed to the influx of foreign direct investment into the country. Adeniyi et al (2012) implied that through FDI, price monopoly will be reduced and consumers will have wide range of products and services to select from. Through FDI skill and knowledge diffusion, human resources in Nigeria has gained more skills and seen increase in competencies. The authors concluded that FDI has increased the Gross Domestic Product of the country on a consistent basis.

Onorie (2014) wrote that there is a significant relationship between FDI in Nigeria and the growth of Nigeria's economy. The authors in his study opined that the economy of Nigeria has become increasingly competitive due to the increase of Foreign Direct Investment the country. Based on the impact of FDI in the financial sector of the economy, Ojo (2012) wrote that the influx of FDI has not brought about any real significant changes in the fortunes of the financial sector based on long term effect. The author wrote that the non-significant result is due to the fact that most foreign direct investments in Nigeria has gone into other sectors. To collaborate the negative impact of FDI written by Ojo (2012), Olokoyo (2012) also wrote that FDI in Nigeria cannot on its own bring about any positive improvement in the different sectors of the economy and this is because when the right structural elements are not

in place, investments which are invested into the country might not yield any growth. Adigwe et al. (2015) and Korna et al (2013) also wrote that FDI in the financial sector has not brought about any significant growth and development.

2. Banking and Foreign Direct Investment in Nigeria

Korna et al (2013) also wrote that Foreign Direct Investment in the financial sector has not brought about any significant growth and development in the sector especially in financial performance of the banking sector but can based on technological inflow, management change and operational strategies, FDI has had improved levels of impact in the sector. Technological diffusion is one of the most important ways in which the FDI has improved the banking and financial sector in Nigeria.

Based on FDI in the banking sector, Njoku (2016) wrote that the first group of banks which operated first in Nigeria were foreign banks. Bank of British West Africa which later became an indigenous bank (First Bank of Nigeria) was a foreign bank which was created by the British Government to control tax collection in Nigeria between late 18th century and the early 19th century.

Oluduro (2015) wrote that in recent times, the amount of foreign own banks in Nigeria has depleted due to the robustness of the indigenous banks in Nigeria. These indigenous banks have become huge and are bigger than many of the foreign own banks in the country. Njoku (2019) listed the remaining foreign banks in Nigeria and they include;

- Citi-bank

- Ecobank

- Stanbic-IBTC bank

- Standard Chartered Bank

- Nedbank

There are 23 commercial banks in Nigeria and only five of the banks are foreign own banks. Based on the impact of foreign investment in the Nigeria banking sector, Olokoyo (2012) wrote that FDI in the banking sector does not have any substantial impact in the banking and financial sector in Nigeria. Onorie (2014) also

opined that the banking sector has not be positively impacted by foreign investment due to the overwhelming small level of banking investment of foreign investors in the banking sector.

III. RESEARCH METHODOLOGY AND EMPIRICAL ANALYSIS

A. Importance of the Research

The role played by FDI in many countries and economies cannot be overemphasized. Foreign direct investment is a key factor for gross development and economic growth. It is viewed as a major stimulus to economic growth in developing countries. Foreign direct investmentis fiscal policy which is employed to introduce and bring different opportunities in an economy. It helps in instigating technological growth, economic development, provision of employment, increase in labor and increase in Gross Domestic Product (GDP). It helps developing economies in dealing with shortages of financial resources, increase in ICT and development of modern skills which is necessary for the development of an economy.

Many countries in the world have grown greatly based on the impact of Foreign Direct Investment especially in the financial sector. This study is focused on the financial sector of the Nigerian economy and it takes a critical look into the impact of the foreign direct investment in the commercial banking sector the country. The study will help in assessing how FDI has helped in boosting economic development in Nigeria and the overall impact of FDI in the sustainability of the financial sector. The result of the study will provide result for policy makers in Nigeria to help assess the role which is being played by FDI in the banking sector and also help in creating policies which will help in increasing the impact of FDI and attracting more FDI into the banking sector.

B. Aim and purpose of the research

The aim of this study is to investigate the relationship between foreign direct investments and bank performance.

Therefore, this study is expected to contribute to the literature for both developing countries and African countries with similar structures.

As stated above the major aim of the study is to examine the performance of the banking sector in Nigeria. The study will focus on the commercial banks which are operating in the country including both foreign banks and indigenous banks. It is also determine the effect of foreign investment in the banking sector of Nigeria. Other important objectives include the following;

- To investigate the impact of foreign direct investment on Return on assets.

- To investigate the impact of foreign direct investment on Return on assets with total assets as control variable

- To investigate the impact of foreign direct investment on Return on assets with total assets and retained earnings as control variables

- To investigate the impact of foreign direct investment on Return on assets with total assets, reatined earnings and deposit from customers as control variables.

C. Scope and Population of the study

The study focused on the Commercial Banks in Nigeria. The Nigerian banking system is one of the most robust banking systems in Africa with twenty five commercial banks which include both indigenous banks and foreign owned banks. The number of foreign owned banks operating in Nigeria are three while the other banks are indigenous banks which are owned by Nigeria. The commercial banking sector was selected for this study due to the history of the influx of foreign investment into the banking sector in Nigeria.

The study made use of 10 commercial banks operating in Nigeria and they include the following;

1. Access Bank Plc

Founded in 1989, Access Bank is one of the biggest banks in Nigeria with a transnational banking certification; which means the bank operates all over the

world. Based on number of customers they have the bank is the biggest in Nigeria. Access Bank has a total of 28,121 employees and the ban is headed by Herbert Wigwe who is the Chief Executive Officer. The multinational bank has offices in all parts of Nigeria and offices in Ghana, Kenya, South Africa, Zambia, Gambia and other Africa countries. The bank also has offices in Europe and America.

2. Ecobank Transnational Incorporated

This is a foreign bank operating in Nigeria and in other 35 African countries. Arguably one of the biggest banks in Africa especially in West Africa and Central Africa. The Pan African bank is headquartered in Togo and employs more than 19 thousand employees. The bank was founded in 1985.

3. Fidelity Bank Plc

This is another Nigerian bank with international authorization. The bank was founded in 1988 and is headquartered in Lagos, Nigeria. With a total asset of US$4.2 billion, Fidelity bank is one of the largest banks in Nigeria. The Chief Executive Officer of the bank is Nneka Onyeali Ikpe.

4. Guaranty Trust Bank Plc

Guaranty Trust Bank or GTB as it is popularly called is a retail and investment bank which provides seamless banking services to her customers. The bank is headquartered in Lagos, Nigeria. The bank was founded in 1990 and has more than 10,000 employees. The CEO of the organization is Segun Agbaje. The bank operates in Kenya, Liberia, Gambia, The United Kingdom and other African countries.

5. Sterling Bank Plc

This is a national bank operating Nigeria. The bank is one of the oldest banks in Nigeria which was founded in 1960 and has more than 150 business offices around Nigeria. The bank is a public limited company with an asset base of 1.18 trillion naira. The CEO of the bank is Abubakar Suleiman.

6. Union Bank Nigeria Plc

Based on their slogan, the bank is the most reliable and trusted bank in Nigeria. Arguably part of the founding banks of the Nigeria commercial banking system, Union Bank has been operating in Nigeria since 1917 and headquartered in Lagos, Nigeria. The total asset of the bank is US$4.1 billion. The CEO of the bank is Emeka Okonkwo.

7. United Bank for Africa Plc

Popularly called Africa's global bank, UBA is huge bank headquartered in Lagos, Nigeria and founded in 1949. The bank has an employee base of more than 20,000 employees and operates in 20 African countries. The total asset of the bank is US$19.2 billion. The CEO of the bank is Kennedy Uzoka. The ban has branches in Europe and United States of America.

8. Unity Bank Plc

This is a community oriented commercial bank which was founded in 2006 and has an employee base of more than 4,000. The bank is headquartered in Lagos, Nigeria and its CEO is Tomi Somefun. The total asset of the organization is US$2.45 billion.

9. Wema Bank Plc

Operating the largest digital banking service in Nigeria, Wema bank is a growing commercial bank in Nigeria that is also headquartered in Lagos, Nigeria. The CEO of the bank is Babatunde Kasali and the total asset of the bank is US$1.3 billion. The organization employs more than 3500 employees.

10. Zenith Bank Plc.

Arguably the second leading multinational bank in Nigeria and the second biggest bank in Nigeria behind First Bank of Nigeria, Zenith bank is a global bank with a total asset of US$16 billion and is listed in the Nigerian and London stock exchange. The bank is headquartered in Lagos, Nigeria. The bank was founded in 1990 by Jim Ovia and has branches in other African countries and Europe.

The commercial banks were selected for this study based on their robustness and competitiveness in the Nigerian banking sector. It should be noted that the

commercial banking sector in Nigeria is made up of 23 banks. Prior to the 23 commercial banks in Nigeria, there were more than 50 commercial banks operating in Nigeria but due to several policies which were geared towards the development of financial sector and the security of the money of customers, the banks in Nigeria fell drastically through the use of mergers and acquisition and other policies which were carried out to get more robust banks.

D. Data Collection, Set And Sources

The data was collected from two broad sources. Since 10 commercial banks were used in the study, the financial reports which were used in the study were gotten from the audited annual reports of the ten different banks. The websites of the ten banks were accessed and the time series data of the financial performance of the banks were downloaded and the variables which were needed were extracted. For macroeconomic data used in the study, the macroeconomic data of Nigeria was gotten from the United Nations Conference on Trade and Development. The study made use of secondary data set. The data was collected between 2010 – 2019 (10 years period). The data set include 2340 data (full panel data set). The data set sere based on the various variables of the 10 commercial banks which were used in the study. The data set include total asset, retained earnings and customer deposits. Other data sets include FDI inflows and outflows, GDP per capita and GDP.

E. Data Analysis Method

The study adopted a Panel Data Analysis method. Panel data analysis method is a statistical method which is widely used in various disciplines and it is used in analyzing two-dimensional data set. Panel data is categorically used in the analysis of time series data which have been collected over a certain period of time. The adoption of Panel Data analysis is used in the provision of sufficient observation and helps in the provision of more sample variability. Furthermore, the data analysis method also provide less collinearity of sampled data, it helps in bringing about more degree of freedom and finally, it brings about more accuracy in the inference of the model parameters which will be used in a study. Based on this study, the data analysis program which will be adopted in this study is Stata and Eviews.

The study adopted four models and they include the following;

$$\text{Model 1}: ROA_{it} = \beta_0 + \beta_1\, FDI_{it} + \varepsilon_{it}$$

Equation 1

This model incorporate just the dependent variable which is Return on Assets (ROA) and Foreign Direct Investment as a percentage of the Gross Domestic Product of Nigeria. This mode made use of return of asset and foreign direct investment. This is the mode that seek to find the relationship between the dependent and independent variables without including any control variables.

$$\text{Model 2}: ROA_{it} = \beta_0 + \beta_1\, FDI_{it} + \beta_2\, lnBankSize + \varepsilon_{it} \quad \text{Equation 2}$$

This model incorporate the dependent variable which is Return on Assets (ROA) and Foreign Direct Investment as a percentage of the Gross Domestic Product of Nigeria and just one control variable which is the Bank Assets (Natural Logarithm). This mode make use of just one control variable which is Natural Logarithm of bank assets. The model is used s the foundation for the second hypothesis which is used in the study.

$$\text{Model 3} = ROA_{it} = \beta_0 + \beta_1\, FDI_{it} + \beta_2\, lnBankSize + \beta_3\, Rettoasset + \varepsilon_{it}$$

Equation 3

This model incorporate the dependent variable which is Return on Assets (ROA) and Foreign Direct Investment as a percentage of the Gross Domestic Product of Nigeria and two control variables which are the Bank Assets (Natural Logarithm) and bank retained earnings. Just like the previous model, the model focuses on finding the relationship between the dependent and independent variables with the addition of two control variables.

$$\text{Model 4} = ROA_{it} = \beta_0 + \beta_1\, FDI_{it} + \beta_2\, lnBankSize + \beta_3\, Rettoasset + \beta_4\, Deptoasset + \varepsilon_{it}$$

Equation 4

This model incorporate the dependent variable which is Return on Assets (ROA) and Foreign Direct Investment as a percentage of the Gross Domestic Product of Nigeria and three control variables which are the Bank Asset (Natural Logarithm), bank earnings and customer deposits.

Based on the models above, the main model which was tested in this study is Model four. However, the results and stages are presented based on the different aspects of the study. Based on the models, the variables which have been highlighted in the models are added one by one in order. The study makes use of unit root tests to test for the relationship between the various variables. Models are calculated with robust standard errors method against heteroscedasticity and autocorrelation. Lagrange Multiplier Test, Honda test and King Wu Test were used to determine if the models cannot be pooled. On the other hand, the Hausman test was determined to be the most suitable method as random effect.

F. Research Variables And Hypothesis Development

The study makes use of dependent variables, independent variables and control variables.

The dependent variable in this study is ROA (Return on Assets). Return on assets is a profitbaility ratio which is used to measure the amount of profit an organization is able to generate from the assets which they own.

1. Independent Variable:

i. FDI / GDP (Foreign Direct Investment / Gross Domestic Product)

a. Control Variables:

- Bank Size (Total Assets (natural logarithms)) – This is the parameter which shows the ownership of the various assets by the bank. In measuring bank size, the natural logarithm of the total value of assets in a bank is calculated in US Dollars. This variable focuses on representation of the total financial worth of what the bank or any other organization owns after putting into consideration the assets and liabilities of the institution.

- Retained Earnings – This focuses on expressing the net income of an organization which is retained by the organization in a certain point in time.

- Deposits from customers – In banking, deposits from customers is the total deposit which is made by the customers of a bank in a particular

period of time.

Other control variables which are based on the highlighted variables include Retained Earnings/Total Assets and Deposits from customers/Total Assets.

Hypothesis is a statement of possible explanation for some natural phenomenon and it is tested by drawing conclusions from it. In this thesis, it is aimed to test the following hypotheses. Based on the dependent, independent and control variables, the hypotheses for this study include;

- There is a statistical signifciant relationship between foreign direct investment on ROA

- There is a statistical signifciant relationship between foreign direct investment on ROA with total asset as control variables

- There is a statistical signifciant relationship between foreign direct investment on ROA with total asset and retained earnings as control variables

- There is a statistical signifciant relationship between foreign direct investment on ROA with total asset, reatined earnings and deposit from customers as control variables.

IV. EMPIRICAL ANALYSIS

A. GDP and FDI Trends in Nigeria
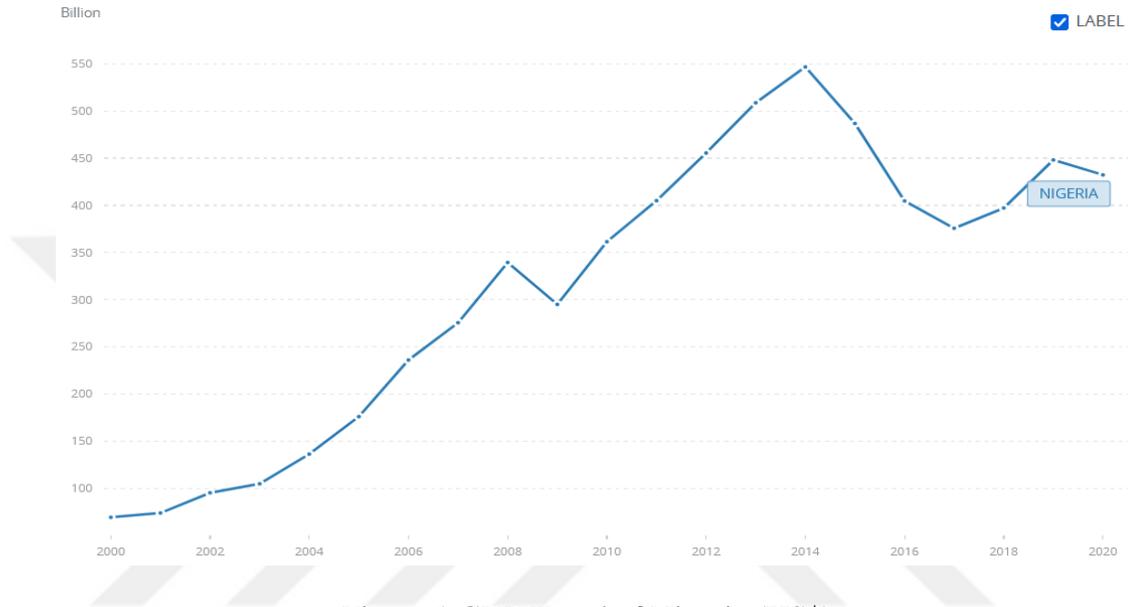
Figure 1 GDP Trend of Nigeria (US$).

Source: WorldBank

Figure 1 provide the growth on Gross Domestic Product in Nigeria. Based on the figure above,

Based on Figure 4.1 above, GDP growth in Nigeria have been fluctuating and it reached its highest peak in 2015 at US$550 Billion and at 2020, the GDP of Nigeria fell to US$ 450 Billion.
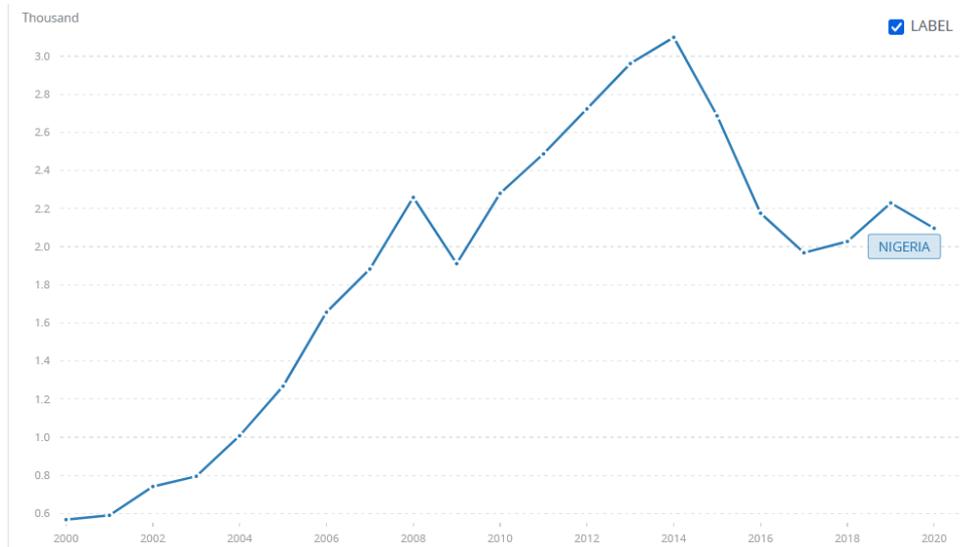
Figure 2 GDP per capital Trend of Nigeria

Source: WorldBank

Figure 2 shows the GDP per capita of Nigeria. The highest peak was in 2015 which was at US$3000 per capita.
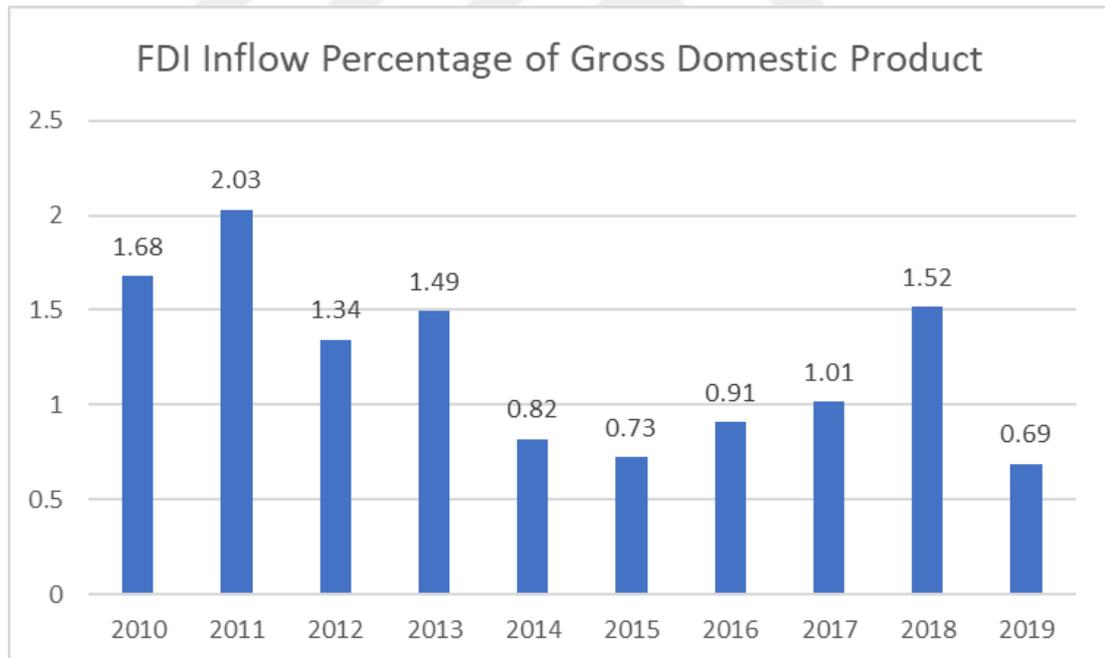
Figure 3 FDI Inflow Percentage of GDP of Nigeria

Source: WorldBank

Figure 3 provides the FDI trends in Nigeria as the percentage of the Gross Domestic Product of the country. In recent times, FDI inflow trends in Nigeria have been fluctuating. It reached its peak in 2011 at 2.03 percentage and fell in 2015 at

0.73 percentage. In 2019, the FDI Inflow as a percentage of GDP in Nigeria was 0.69 which showed that it fell from 1.52 percentage which was seen in the previous year.

B. Unit Root Test Result

In checking stationarity in a time series data set, Unit root test is used as a guide in the decision making process in a time series test. It is used in checking if a time series variable is non-stationery and also check if it possesses a unit root. A time series test has stationarity if a shift in time does not bring about any changes in the shape of the distribution.

In this context, unit root tests of all series of dependent, independent and control variables in the study were conducted. Levin, Lin, Chu tests were chosen for the unit root test selection. The results are given below:

Table 1 Unit Root Test Results of ROA

Method	Statistics	Probability
Levin, Lin and Chu t	-15.9565	0.0000

First, the unit root test results of the ROA dependent variable are presented (Table 1). According to the results of the Levin, Lin, Chu unit root test, it was determined that the ROA series did not contain a unit root, since the probability value was less than 0.05.

Table 2 Unit Root Test Results of FDIINFLOWTOGDP

Method	Statistics	Probability
Levin, Lin and Chu t	-1.57614	0.0575

In Table 2, the unit root test results of the FDINFLOWTOGDP series, which is the independent variable of the research, are presented. According to the results of the Levin, Lin, Chu unit root test, the probability value is greater than 0.05, but because it is less than the acceptable value of 0.10, it has been determined that the FDINFLOWTOGDP series do not contain a unit root.

Table 3 Unit Root Test Results of LNASSETS

Method	Statistics	Probability
Levin, Lin and Chu t	-3.38330	0.0004

Table 3 presents the unit root test results of the LNASSETS control variable. According to the Levin, Lin, Chu unit root test results, it was determined that the

LNASSETS series did not contain a unit root, since the probability value was less than 0.05.

Table 4 Unit Root Test Results of RETTOASSET

Method	Statistics	Probability
Levin, Lin and Chu t	-3.48574	0.0002

Table 4 presents the unit root test results of the RETTOASSET control variable. According to the Levin, Lin, Chu unit root test results, it was determined that the RETTOASSET series did not contain a unit root, since the probability value was less than 0.05.

Table 5 Unit Root Test Results of DEPTOASSET

Method	Statistics	Probability
Levin, Lin and Chu t	-1.88805	0.0295

Table 5 presents the unit root test results of the DEPTOASSET control variable. According to the Levin, Lin, Chu unit root test results, it was determined that the DEPTOASSET series did not contain a unit root, since the probability value was less than 0.05.

Based on the result of the tables above, it shows that that stationarity is achieved in all variables and there is no unit root.

C. Model Summary

After successful completion of unit root tests, the effect of FDI on bank performance is tested in established models. As explained in the previous section, this analysis is performed by sequentially including the independent and control variables in the models. First, the effect of FDI on ROA is analyzed without adding any control variable. According to the results presented in Table 6, the probability value of the F statistic was found to be 0.2939. This value is higher than 0.05. This result indicates that Model 1 is not statistically significant. Therefore, it is not possible to say whether FDI has an effect on ROA.

Table 6 Econometric analysis results of Model 1

ROA	Coefficient	Robust Std. Err.	z	$P > |z|$	[95% conf. Interval]	
Fdiinflowtogdp	0.010734	0.0102266	1.05	0.294	-0.0093098	0.0307778
Constant	0.0106612	0.010402	1.02	0.305	-0.0097263	0.0310487

F statistic Prob.: 0.2939

In Model 2, firm size variable was added as a control variable (lnassets) to the independent variable in the previous model (Table 7). Firm size is represented as the natural logarithm of the bank's total assets. According to the results presented in Table 7, the probability value of the F statistic was found to be 0.5814. This value is higher than 0.05. This result indicates that Model 2 is not statistically significant. Therefore, it is not possible to interpret whether FDI has an effect on ROA.

Table 7 Econometric analysis results of Model 2

ROA	Coefficient	Robust Std. Err.	z	$P > |z|$	[95% conf. interval	
Fdiinflowtogdp	0.0100245	0.0098316	1.02	0.308	-0.09245	0.0292941
lnassets	-0.0012085	0.0025524	-0.47	0.636	-0.006211	0.0037942
Constant	0.0371344	0.00505193	0.74	0.462	-0.061882	0.1361505

F statistic Prob.: 0.5814

In Model 3, besides the firm size, the rettoassets variable was added as a control variable to the independent variable in the previous model (Table 8). According to the results presented in Table 8, the probability value of the F statistic was found to be 0.0000. This value is less than 0.05. The model has finally become statistically significant and interpretable. According to the analysis results in Model 3, FDI has a positive effect on ROA, but this result is not statistically significant. Bank size, which is one of the control variables, also has no significant effect on ROA. The other control variable, rettoasset, was found to have a positive and statistically significant effect on ROA.

Table 8 Econometric analysis results of Model 3

ROA	Coefficient	Robust Std. Err.	z	$P > |z|$	[95% conf. interval	
Fdiinflowtogdp	0.0126685	0.0112275	1.13	0.259	-0.009337	0.034674
lnassets	0.0017668	0.0028435	0.62	0.534	-0.003806	0.00734
rettoasset	0.1031329	0.0201	5.13	0.000	0.063738	0.1425283
Constant	-0.0337603	0.0626589	-0.54	0.590	-0.15657	0.0890489

F statistic Prob.: 0.0000

The main model to be analyzed in the research is Model 4. In Model 4, in addition to firm size and rettoassets, the independent variable in the previous model, the deptoasset variable was added as a control variable (Table 9). According to the results presented in Table 9, the probability value of the F statistic was found to be 0.0000. This value is less than 0.05. Model 4 is also statistically significant and interpretable. According to the analysis results in Model 4, FDI has a positive effect on ROA, but this result is not statistically significant. Bank size, which is one of the control variables, also has no significant effect on ROA. The other control variable, rettoasset, was found to have a positive and statistically significant effect on ROA. The last added deptoasset control variable did not have a significant effect on ROA. It should be noted that model 4 was calculated with robust standard errors method against heteroscedasticity and autocorrelation. Before conducting the analysis Lagrange Multiplier Test, Honda test and King Wu Test were used to determine if the models cannot be pooled. On the other hand, the Hausman test was determined to be the most suitable method as random effect. All these tests are presented in the appendix.

Table 9 Econometric analysis results of Model 4

ROA	Coefficient	Robust Std. Err.	z	P > | z |	[95% conf. interval	
Fdiinflowtogdp	0.0112969	0.0110438	1.02	0.306	-0.010349	0.0329424
lnassets	-0.0005454	0.0023434	-0.23	0.816	-0.005138	0.0040476
RettoAsset	0.10516528	0.0215974	4.89	0.000	0.063323	0.147983
DeptoAsset	0.0289944	0.0198439	1.46	0.144	-0.009899	0.0678877
Constant	0.0033619	0.0530541	0.06	0.949	-0.100622	0.107346

F statistic Prob.: 0.0000

To summarize the results, Model 1 and Model 2 could not provide us with interpretable results as they were not meaningful models (as they did not meet the F probability value requirement). Model 3 and Model 4 are statistically significant models. However, in these models, no statistical evidence could be obtained for the effect of FDI on the profitability of commercial banks in Nigeria.

V.   SUMMARY, CONCLUSION AND RECOMMENDATION

A. Summary of Major Findings

The aim of this study is to investigate the relationship between foreign direct investments and bank performance. Based on the formulated hypotheses of the study and they test which were conducted, the following are the major findings which were gathered from the study.

In this thesis, the effect of FDI on the financial performance of the bank is discussed within the scope of Nigeria, and the analysis is carried out by including the independent and control variables in the models, respectively. In this direction, four hypotheses are tested and four econometric models are established. The independent variable of the research is ROA, which is chosen as a proxy for the bank's financial performance.

The independent variable of the research is FDI. FDI represents the ratio of foreign direct investment inflow to GDP. Thus, changes in both GDP and FDI amounts over time are prevented from disrupting the structure of the research.

In the first two models established, no conclusion could be reached since the probability value of the F statistic did not meet the necessary conditions. Since the F statistical values in the third and fourth models were 0.0000, it was seen that the model became significant. In the third model, the ratio of retained earnings to total assets was added as a control variable in addition to the independent variable. In the fourth model, the ratio of deposit from customers to total assets is set as the control variable. There was no statistically significant effect of FDI on ROA in both the third model and the fourth model.

The research findings show that foreign direct investments do not have a statistically significant effect on the profitability of commercial banks in Nigeria. Another result of the research is that the bank size has no effect on financial performance.

The reason for this can be interpreted as Nigeria's lack of critical incentives to attract foreign capital to protect its own industrialization and market. Therefore, a point of view can be brought that bank performances are not affected by FDI, which is not at a relatively high level.

B. Suggestions For Future Studies

Based on this study, foreign direct investment has not contributed so much based on the financial basis of banking performance. For future studies can focus on the impact of FDI based on influx of technology in the banking system. The Nigeria banking system has benefited so much based on the use of new technologies over the years. The introduction of Automated Teller Machine (ATM), the use of online/digital banking, the use of different forms of cards in banking and many other revolutions has been instigated by the absorption of technology through foreign direct investment. Future studies can also study knowledge transfer and human resources management techniques which have been absorb through foreign direct investment.

C. Limitation

Most of this study was prepared under Covid-19 pandemic and lockdown conditions, however, a significant part of the data planned for the study has been reached. More models and analyzes are planned in the research, but this pandemic has posed several limitations. The study is limited to 10 banks out of the 23 banks in the Nigeria commercial banking sector. The reason for this was not the pandemic, 10-year panel data could not be reached for every bank. Only the reached banks (10 banks) were included in the research. The study focused on the impact of FDI based on financial performance alone even though other metrics of impact were available. This has been highlighted in the suggestions for future studies.

D. Scope And Theoretical Contributions

The scope of the study made use commercial banks in Nigeria. The dependent variable of the research is the financial performance of the banks, represented by ROA. The independent variable is the flow of foreign direct

investment. Control variables such as bank size, retained earnings, deposit from customers were also added to the models. Financial performance data of the banks were collected from audited financial reports. The time period of the research was between 2011-2019 and panel data analysis method was chosen.

The theoretical contributions of the study show that foreign direct investments do not have a statistically significant effect on the profitability and financial performance of the commercial banks in Nigeria. Another result of the research which is another theoretical contributions shows that the bank size has no effect on financial performance. Based on the findings, both FDI investment and bank size does not have any huge impact on the performance of the Nigeria banking sector. This is because the FDI in the banking sector is quite small. Olukoyo (2015) wrote that the foreign direct investment in the Nigeria financial sector is minimal and due to that, the performance of FDI in the sector is not significant.

E. Recommendation

Further studies on the impact of foreign direct investment in the financial sector can be done using the 23 commercial banks in Nigeria. This will increase the scope of the study and will provide holistic contribution theoretically. For based on recommendation can be seen in identifying how influx in technology has increased banking performance. Future studies can also study knowledge transfer and human resources management techniques which have been absorb through foreign direct investment.

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APPENDICES

Appendix 1: Unit Root Tests for ROA

Appendix 2: Unit Root Tests for FDIINFLOWTOGDP

Appendix 3: Unit Root Tests for LNASSETS

Appendix 4: Unit Root Tests for RETTOASSET

Appendix 5: Unit Root Tests for DEPTOASSET

Appendix 6: Lagrange Multiplier Tests

Appendix 7: Hausman Test

Appendix 8: Econometric analysis results of Model 1

Appendix 9: Econometric analysis results of Model 2

Appendix 10: Econometric analysis results of Model 3

Appendix 11: Econometric analysis results of Model 4

APPENDIX 1: Unit Root Tests for ROA

Null Hypothesis: Unit root (common unit root process)
Series: ROA

Sample: 2010 2019
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 1
Newey-West automatic bandwidth selection and Bartlett kernel
Total number of observations: 78
Cross-sections included: 9

Method	Statistic	Prob.**
Levin, Lin & Chu t*	-15.9565	0.0000

** Probabilities are computed assuming asympotic normality

APPENDIX 2: Unit Root Tests for FDIINFLOWTOGDP

Null Hypothesis: Unit root (common unit root process)
Series: FDIINFLOWTOGDP

Sample: 2010 2019
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0
Newey-West automatic bandwidth selection and Bartlett kernel
Total (balanced) observations: 81
Cross-sections included: 9

Method	Statistic	Prob.**
Levin, Lin & Chu t*	-1.57614	0.0575

** Probabilities are computed assuming asympotic normality

APPENDIX 3: Unit Root Tests for LNASSETS

Null Hypothesis: Unit root (common unit root process)
Series: LNASSETS

Sample: 2010 2019
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 1
Newey-West automatic bandwidth selection and Bartlett kernel
Total number of observations: 80
Cross-sections included: 9

Method	Statistic	Prob.**
Levin, Lin & Chu t*	-3.38330	0.0004

** Probabilities are computed assuming asympotic normality

APPENDIX 4: Unit Root Tests for RETTOASSET

Null Hypothesis: Unit root (common unit root process)
Series: RETTOASSET

Sample: 2010 2019
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 1
Newey-West automatic bandwidth selection and Bartlett kernel
Total number of observations: 78
Cross-sections included: 9

Method	Statistic	Prob.**
Levin, Lin & Chu t*	-3.48574	0.0002

** Probabilities are computed assuming asympotic normality

APPENDIX 5: Unit Root Tests for DEPTOASSET

Null Hypothesis: Unit root (common unit root process)
Series: DEPTOASSET

Sample: 2010 2019
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 1
Newey-West automatic bandwidth selection and Bartlett kernel
Total number of observations: 79
Cross-sections included: 9

Method	Statistic	Prob.**
Levin, Lin & Chu t*	-1.88805	0.0295

** Probabilities are computed assuming asympotic normality

APPENDIX 6: Lagrange Multiplier Tests

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided
  (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	12.28127	2.208691	14.48996
	(0.0005)	(0.1372)	(0.0001)
Honda	3.504464	-1.486167	1.427152
	(0.0002)	--	(0.0768)
King-Wu	3.504464	-1.486167	1.530370
	(0.0002)	--	(0.0630)
Standardized Honda	5.040871	-1.158944	-1.262087
	(0.0000)	--	--
Standardized King-Wu	5.040871	-1.158944	-1.132965
	(0.0000)	--	--
Gourierioux, et al.*	--	--	12.28127
			(< 0.01)

*Mixed chi-square asymptotic critical values:
1%	7.289
5%	4.321
10%	2.952

APPENDIX 7: Hausman Test

```
                    ── Coefficients ──
                  (b)          (B)          (b-B)     sqrt(diag(V_b-V_B))
                 fixed       random       Difference          S.E.

fdiinflowt~p    .0124877     .0112969      .0011908          .002804
    lnassets    .0021016    -.0005454       .002647          .004944
   rettoasset   .0668812     .1056528     -.0387716          .016975
   deptoasset   .0497784     .0289944      .0207839          .0243842
```

```
                  b = consistent under Ho and Ha; obtained from xtreg
        B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

        chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                =         7.19
        Prob>chi2 =      0.1260
        (V_b-V_B is not positive definite)
```

APPENDIX 8: Econometric analysis results of Model 1

```
Random-effects GLS regression              Number of obs     =         90
Group variable: banksnew                   Number of groups  =          9

R-sq:                                      Obs per group:
    within  = 0.0000                                    min =         10
    between = 0.0000                                    avg =       10.0
    overall = 0.0360                                    max =         10

                                           Wald chi2(1)      =       1.10
corr(u_i, X)   = 0 (assumed)               Prob > chi2       =     0.2939

                            (Std. Err. adjusted for 9 clusters in banksnew)
```

roa	Coef.	Robust Std. Err.	z	P>|z|	[95% Conf. Interval]	
fdiinflowtogdp	.010734	.0102266	1.05	0.294	-.0093098	.0307778
_cons	.0106612	.010402	1.02	0.305	-.0097263	.0310487
sigma_u	.01532073					
sigma_e	.0193808					
rho	.38458034	(fraction of variance due to u_i)				

APPENDIX 9: Econometric analysis results of Model 2

```
Random-effects GLS regression                  Number of obs      =         90
Group variable: banksnew                       Number of groups   =          9

R-sq:                                          Obs per group:
     within  = 0.0613                                       min =         10
     between = 0.0009                                       avg =       10.0
     overall = 0.0364                                       max =         10

                                               Wald chi2(2)       =       1.08
corr(u_i, X)   = 0 (assumed)                   Prob > chi2        =     0.5814

                                   (Std. Err. adjusted for 9 clusters in banksnew)
```

		Robust				
roa	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
fdiinflowtogdp	.0100245	.0098316	1.02	0.308	-.009245	.0292941
lnassets	-.0012084	.0025524	-0.47	0.636	-.006211	.0037942
_cons	.0371344	.0505193	0.74	0.462	-.0618816	.1361505
sigma_u	.01651975					
sigma_e	.01949491					
rho	.41795019	(fraction of variance due to u_i)				

APPENDIX 10: Econometric analysis results of Model 3

```
Random-effects GLS regression              Number of obs    =         90
Group variable: banksnew                   Number of groups =          9

R-sq:                                      Obs per group:
    within  = 0.0934                                    min =         10
    between = 0.5196                                    avg =       10.0
    overall = 0.1977                                    max =         10

                                           Wald chi2(3)     =      76.08
corr(u_i, X)    = 0 (assumed)              Prob > chi2      =     0.0000

                        (Std. Err. adjusted for 9 clusters in banksnew)

                          Robust
         roa      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]

 fdiinflowtogdp   .0126685   .0112275    1.13   0.259   -.0093369     .034674
       lnassets   .0017668   .0028435    0.62   0.534   -.0038064      .00734
      rettoasset   .1031329      .0201    5.13   0.000    .0637376    .1425283
          _cons   -.0337603   .0626589   -0.54   0.590   -.1565696    .0890489

        sigma_u   .01171499
        sigma_e   .01925776
            rho   .27010505   (fraction of variance due to u_i)
```

APPENDIX 11: Econometric analysis results of Model 4

```
Random-effects GLS regression                 Number of obs      =          90
Group variable: banksnew                      Number of groups   =           9

R-sq:                                         Obs per group:
    within  = 0.1111                                       min =          10
    between = 0.5255                                       avg =        10.0
    overall = 0.2226                                       max =          10

                                              Wald chi2(4)       =       85.35
corr(u_i, X)    = 0 (assumed)                 Prob > chi2        =      0.0000
```

(Std. Err. adjusted for **9** clusters in banksnew)

| | | Robust | | | | |
roa	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
fdiinflowtogdp	.0112969	.0110438	1.02	0.306	-.0103486	.0329424
lnassets	-.0005454	.0023434	-0.23	0.816	-.0051384	.0040476
rettoasset	.1056528	.0215974	4.89	0.000	.0633226	.147983
deptoasset	.0289944	.0198439	1.46	0.144	-.0098989	.0678877
_cons	.0033619	.0530541	0.06	0.949	-.1006223	.107346
sigma_u	.01052143					
sigma_e	.01907896					
rho	.23319749	(fraction of variance due to u_i)				

RESUME

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WORK EXPERIENCE

2014 –2015 Busıness Servıces Agent – Igo Property Development

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