Impact of Foreign Direct Investment on the Financial Performance of Listed Deposit Banks in Nigeria

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Abstract

In this study, we examine the impact of foreign direct investment (FDI) on the financial performance of Nigerian listed deposit banks. We collected secondary data from the annual reports and accounts of 14 banks between 2010 and 2017. We employed the Tobin Q quantitative method for the analysis. We adopted the theoretical framework of pecking order theory since the analysis of the impact of FDI on the financial performance of these banks are both inward and outward FDI. The Tobin Q method was used as the dependent variable and FDI as an independent variable. Board size, firm size, equity capital and reinvested earnings were all financial performance indicators employed to test the impact of FDI on the financial performance of the banks on understudy in Nigeria. The result of the data analysis and findings showed that FDI had contributed positively to the development and performance of the deposit banks over the period under consideration. Our theoretical findings suggest a positive relationship between FDI and profit maximization. This support the FDI theory that banks or organisations are financed partly with debt-equity, both used by the banks to balance the cost and benefit financing decisions by the management. In the case of the empirical findings, the results of hypothesis testing show a significant effect on the banks' financial performances. Given these results, we conclude that FDI has made a positive impact on the development and financial performances of the listed deposit banks under study which resulted in some of the banks' growth from local banks in Nigeria into some of the leading international banks in Africa.

Keywords: business, corporate governance, exchange rate, financial performance, foreign direct investment, foreign equity capital, reinvested foreign earning, Tobin Q

1. Introduction

This study is based on the impact of foreign direct investment in the financial performance of listed deposit banks in Nigeria. Foreign direct investment (FDI) is essential in the banking sector, and it is an investment which investors from other countries invest or set up in another country's business and the foreign investor as a legal right or control on the company profit. In this study, we examine the impact of foreign direct investment in the financial performance of listed deposit money banks in Nigeria. All the deposit money banks are listed on the Nigerian Stock Exchange. Data for the study was acquired from banks from the annual reports of the banks published on the Nigerian Stock Exchange covering the periods of research was seven years, 2010 to 2017. The reason for selecting those years is to capture the trend and have more robust information about the financial activities of banks under study. The data collected was analysed using quantitative research methods. We adored the Tobin Q method of analysis to test the impact of FDI and the Financial Performance listed banks in the Nigerian Stock Exchange Market (Okere et al, 2019). This observation made that the inadequate corporate framework does not only lead to poor financial performance and risky financing strategy but has also led to various macroeconomic crises such as the East Asia crisis of 1997, the global financial meltdown of 2008 -2009 and Nigerian Financial Services Sector in 2010 – 2011. (Bello & Adeniyi, 2010; Eluyela et al., 2018a; Olumuyiwa & Oluwatosin, 2012; Umaru et al., 2015; Uwuigbe et al., 2018).

Balsuburamanyan, and Salisu, (2010), defined foreign direct investment as one of the inputs which have to do with labour and capital. The author said that FDI is one of the primary forces driving economic development in an undeveloped country. FDI is the primary source of technology transfer as well as financial and workforce development to the receiving country and differentiates itself from another investment form in the states. Thirlwall (1994) refer to foreign direct investment as an investment of multinational companies or organization in developing countries. This investment does not only involve the transfer of funds, but it also includes a whole package of physical capital, techniques of production, managerial and marketing ability, product advertising and business practice for the maximization of global profits (Oji-Okoro et al., 2014).

Financial performance has been perceived only through its ability to yield a profit; this view seen for a long time (Akintimehin et al, 2019; Otekunrin et al, 2018). The concept of financial performance is dependent on the users' perspective. Therefore, financial performance is not only seen through its ability to yield returns but as its user defines it. Aminu et al. (2015) studied the effects of board size and board composition on the performance of Nigerian banks, using the financial statements of five banks over nine years' period. The authors employed multivariate regression analysis and found that board size has a significant negative impact on the performance of banks in Nigeria (2015). (Adeniyi et al., 2012), Those studies can be grouped into two categories: Firstly, are studies that focused on the FDI and financial performance across countries and secondly, studies that focused on the FDI and financial performance in a country. Amos (2016) work on the effect of foreign direct investment on the performance of the banking sector in Ghana. While Korna et al., 2013) carried out a study on the impact of foreign direct investment on bank performance in Nigeria. Chee and Nair, (2010), research foreign direct investment and financial sector development (Festus, 2018; Hossain, 2015; Eluyela et al., 2019).

1.1 Research Objectives

The main aims of the research are to study the impact of foreign direct investment in the financial performance of the listed Nigerian deposit money banks.

The specific aims are to:

❖ To examine the meaningful relationship between reinvested foreign earnings and financial performance of deposit money banks in Nigeria.

❖ To assess whether foreign equity capital has a significant impact on financial performance of deposit money banks in Nigeria.

❖ To determine the significant impact of board size on financial performance of deposit money banks in Nigeria.

❖ To examine the meaningful relationship between firm size and financial performance of deposit money banks in Nigeria.

1.2 Research Questions

The research question planned to be used to gain the aims of this research work.

❖ How does foreign Direct Investment affect the financial performance banks in Nigeria?

❖ What is the impact of Foreign equity capital equity on Nigerian banks' financial performance?

❖ Does Board Size have a significant impact on the financial performance of Nigerian banks?

❖ What is the relationship between firm size and financial performance of deposit money banks in Nigeria?

1.3 Research Hypothesis

To answer the research questions raised above, the following hypothesis will be tested in the later section of this research work. These are:

1.3.1 Hypothesis (1)

H0: There is no relationship between foreign direct investment and the financial performance banks in Nigeria.

H1: There is a relationship between foreign direct investment and financial performance of banks in Nigeria.

1.3.2 Hypothesis (2)

H0: Foreign equity capital does not have a significant impact on Nigerian banks' financial performance

H1: Foreign equity capital has a significant impact on Nigerian banks' financial performance.

1.3.3 Hypothesis (3)

H0: Board Size does not have a significant impact on the financial performance of Nigerian deposit money banks.

H1: Board Size has a significant impact on the financial performance of Nigerian deposit money banks.

1.3.4 Hypothesis (4)

H0: There is no meaningful relationship between firm size and financial performance of banks in Nigeria.

H1: There is a meaningful relationship between firm size and financial performance of banks in Nigeria.

2. Literature Review

In the literature review, we outline the impact of foreign direct investment in the development of the world economy and particularly the developing and emerging economy such as in Nigeria. Foreign direct investment has been proved in the literature to be an essential promoter of growth. Research on foreign direct investment (FDI) showed that it increases the level of domestic capital formation; this also implies producing on a large scale, which in turn results in benefits of economies of scale, specialisation, increasing export and employment opportunities, which are likely to result in positive economic impact (Olumuyiwa & Oluwatosin 2012). Bende-Nabende, (2002: 2), defines foreign direct investment as

"Financial outlays for the acquisition of an existing enterprise either through direct purchase or through purchases of equity, with a controlling interest of the foreign investor and with the notion of control is not defined but control is assumed when the foreign investor owns at least 10% to 51% of the enterprise's value according to different definitions used by different governments"

FDI is a crucial ingredient of successful economic growth in developing countries because the very essence of economic development is the rapid and efficient transfer and cross border adoption of best practices, be it managerial and technical best practice or deployment of technology from abroad (Borensztein et al., 1998). According to Olumuyiwa and Oluwatosin, (2012), FDI has also been argued to act as a catalyst for inward investment by complementing local resources and supplying a signal of confidence in investment opportunities (Agosin & Mayer, 2000; Idoko et al., 2015). Luiz and Mello (1999), stated that there is conflicting evidence in the literature regarding the question as to how, and to what extent, Foreign direct investment affects economic growth. Other studies include: (Al-Iriani & Al-Shamsi, 2007; Onyekwena, 2012; Ahmed & Omorose, 2016).

2.1 Conceptual Framework

According to Thirlwall (1994), foreign direct investment refers to investment by multinational companies with headquarters in developed countries. This investment involves not only a transfer of funds (including the reinvestment of profits) but also a whole package of physical capital, techniques of production, managerial and marketing ability, products advertising, and business practices for the maximization of global profits. Other studies in this area include: (Asafo-Adjei, 2007; Mukolu et al., 2013; Okaro, 2016; Akanegbu & Chizea, 2017; Elar, 2018).

Amondi, (2017:3), suggested that;

"FDI also differs in their objective aboard; they can be resource seeking, efficiency-seeking and market seeking. Resource seeking is concerned with moving their operations close to the resources, efficiency-seeking is concerned with cutting costs, and market seeking are concerned with the market for its products" (Nunnenkamp, and Spatz 2004).

2.1.1 Foreign Direct Investment in the Banking Sector in Nigeria

Foreign direct investment (FDI) was recognised as a powerful engine for economic growth; it did not only serve the long-term commercial interests of foreign investors but can also play a significant role in the growth dynamics of host countries (Jonida, 2015). The Nigeria government had in the past endeavoured to provide foreign investors with a healthy climate as well as generous tax incentives within the banking and financial sector, but the result has not been sufficiently encouraging in the past. Nigeria still required foreign aids in the form of managerial and technical skills. FDI represents control of production as well as a flow of capital, and it is influenced by other factors as well in the banking sector. In the traditional trade approach, trade and FDI might be substituted, but other factors affect FDI, such as technology and firm-specific assets (Markusen, 1984; Markusen & Venables, 1998; Danja, 2012). The first attempts were by Elhanan, (1984), who integrated vertical multinationals. Markusen (1984), integrated horizontal multinationals into the trade theory. On this view, African outward FDI (particularly intra-Africa banking system) will grow, but only in the future as incomes in Africa rise and their economic structures become similar. Other

studies on FDI in the banking sector and economic growth in Nigeria include: (Akinlo, 2004; Ajayi, 2006; Ayanwale, 2007; Eluyela et al., 2018b; Olokoyo, 2012; Okonkwo et al., 2015; John, 2016; Aguda & Oladoja, 2017).

2.1.2 Types of Foreign Direct Investment

Borensztein et al. (1998:117) defined FDI as:

"an investment made to acquire a long-term investment in a foreign enterprise with the view of having a voice in the enterprise's management. FDI can take three forms horizontal foreign direct investment which occurs when a company undertakes the same activities aboard as at home, vertical foreign direct investment where different stages of activities are added aboard and platform foreign direct investment: conglomerate where a company expands its operations aboard through either greenfield or acquisition."

The three main types of foreign direct investment defined above by Borensztein et al. (1998), can be represented in Diagram A below: (i) platform foreign direct investment (ii) horizontal foreign direct investment and (ii) vertical foreign direct investment
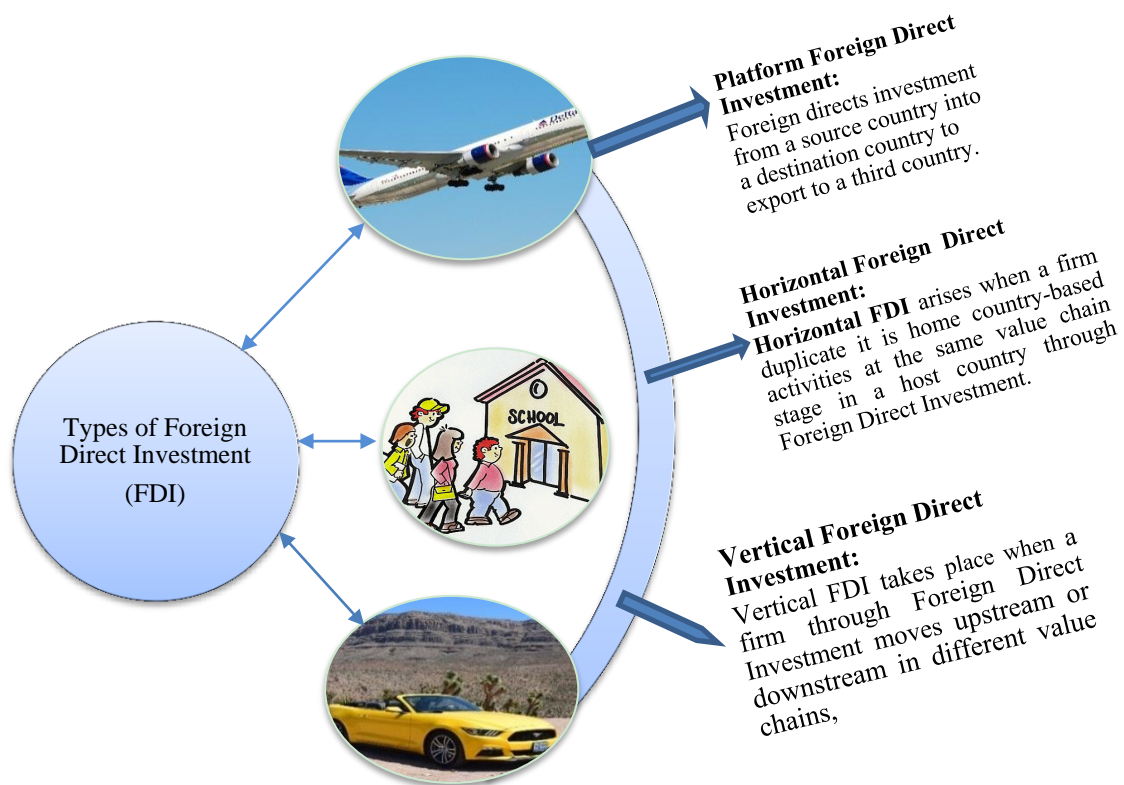

Platform Foreign Direct Investment: Foreign directs investment from a source country into a destination country to export to a third country.

Horizontal Foreign Direct Investment: Horizontal FDI arises when a firm duplicate it is home country-based activities at the same value chain stage in a host country through Foreign Direct Investment.

Vertical Foreign Direct Investment: Vertical FDI takes place when a firm through Foreign Direct Investment moves upstream or downstream in different value chains,

Diagram A. Types of foreign direct investment

Source: Authors' compilation (2019)

2.1.3 Summarised are the Four Propositions of FDI

a)   That FDI tends to boost domestic investment in Nigeria.

b)   The mining and quarrying and the manufacturing sectors have not been able to justify the sizeable foreign capital they have received over the years.

c)   That the agricultural sector has not contributed meaningfully to GDP, and it is the least sector in the economy that attracts FDI inflow.

d)   That, of all the sectors under review, the telecom sector is the only sector that to a considerable extent, have been significantly affected by FDI, especially in recent times. (Borensztein, et al., 1998; Bjorvatn, 2000; Bjorvatn et al. 2002; O'Connor et al., 2013).

- That FDI tends to boost domestic investment in Nigeria
- Proposition (A)
- Proposition (B)
- The mining and quarrying and the manufacturing sectors have not been able to justify the large foreign capital they have received over the years.
- That, of all the sectors under review, the telecom sector is perhaps the only sector that to a large extent have been significantly affected by FDI especially in recent times.
- Proposition (D)
- Proposition (C)
- That the agriculturasector has not really contributed meaningful to GDP and it's the least sector in the economy that attracts FDI inflow.
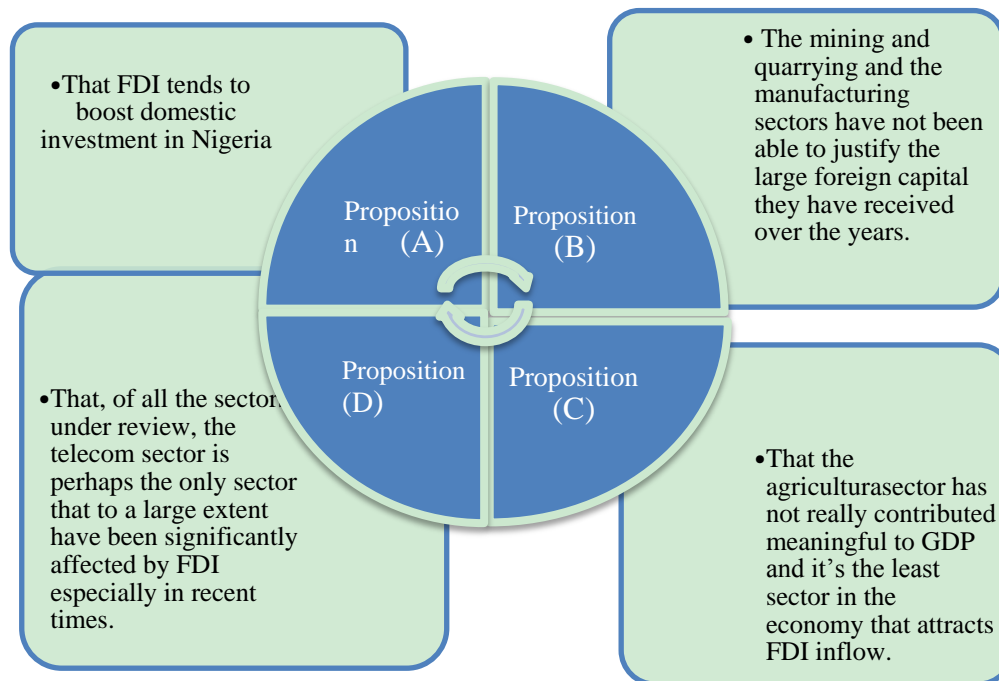
 Diagram B. Four propositions of FDI: this is the four propositions of foreign direct investment in the banking sector

Source: Authors' compilation (2019)

2.2 Theoretical Framework

Foreign direct investment (FDI) can be defined as the financed by a loan obtained in a host country, payments in exchange for equity (patents, technology, machinery etc.), and other methods. Neo-classical researchers regard FDI, and international capital flows as closing the savings gap in developing countries (e.g. Hollis & Bruno, 1962; Dornbusch & Edward, 1990; Danja, 2012). We would expect capital to flow from productive capital to poor capital countries, as is recommended by developments in the Heckscher-Ohlin approach to trade by Robert (1957). This is so because capital is scarce in developing countries, which should lead to profitable investment opportunities for wealth in developing countries. On this view, there should be no outflows from Africa (Goldberg & Klein, 1998, 1999; Ikon & Chika, 2019; Aluko, 1961; Brown, 1962; Blomström, 1986; Asaleye et al., 2018).

The main determinants of FDI on the growth prospects of the Nigerian listed deposit banks take the form of firm-specific advantages, removal of conflicts and propensity to formulate an internalization strategy to mitigate risk: The three theoretical frameworks adopted by researchers in relation to FDI and business and financial performance in the banking and financial sector include the following theories:

❖   Pecking Order Theory,

❖   Trade-off Theory and

❖   Profit Maximization Theory

In this research study, we adopted the pecking order theory propounded by Myers and Majluf (1984), which says that; managers are given the hierarchy to follow the source of finance. The causes of funding are the internal source and external source. The theory argues that an internal source of finance is preferable than the external source of financing, use the debt instead of equity because the cost of debt is lower than the cost of capital. This theory argues

that the irregularity of information disturbs the firm's (in this case the bank's) value which affects the wealth bank's shareholders (Hennart, 1982; Nwanji & Howell, 2007b; Salazer, et al., 2012; Aigner et al. 2013; Cyree & Morris, 2018; Wong, 2012; Qureshi et al., 2015). The factors that lead to a higher cost of capital include a lack of relevant information on the value of capital available to investors at the time of the investment (Wong, 2012; Qureshi et al., 2015). This is a process that a company undergoes to determine the best output and price levels to maximise its return. The two models of the trade-off theory are the Marginal Cost-Marginal Revenue method and the Total Cost-Total Revenue Methods. The approach is based on the argument that the primary goal of an organisation is to maximise profit. Studies in this area include but not limited to that of (Modigliani & Miller, 1963; Helpman, 1998; Childers et al., 2001; Dasgupta, 2009).

2.2.1 Equity Capital and Bank Performance

This is where a corporation finances its assets through some combination of debt, hybrid Securities; that is the combination of both equity and debt. Capital structure is a combination of equity and debt. Investment is the value of an asset less than the cost of all liabilities on the asset. Financial performance is the process of measuring the result of a firm.

Reinvested Earning and financial performance: What reinvested income means to potential investors. On a balance sheet or profit and statement, kept earnings appear as the part of the profit that stays after a company pays its taxes and issues dividends to its stockholders.

Intracompany loans and financial performance: Muchugia (2013) investigated that financing using debt affected the bank profitability and found that a positive relationship exists between short term debt (SDA) and profitability. This was because short term debt was cheaper and an increase in it, leads to a minimal increase in the interest rate leading to higher profits and better performance (Myers, 1977; Imoudu, 2012; Ajibola, e al 2018).

2.3 Empirical Review

Macaulay (2011) conducted a study on FDI and the performance of the Nigerian economy. The author claimed that view that FDI has a positive effect on Nigeria economic growth and its local industries. Ayanwale (2007) study on Foreign Direct Investment and economic growth in Nigerian, found out that FDI has a definite link with economic growth but cautioned that the overall effect of FDI on economic growth might not be significant. Other studies include: (Feng, 2008; Choong et al., 2004; Choong et al. 2005).

Onu (2012:5) also studied the impact of FDI on economic growth in Nigeria from 1986-2007. The author employed multiple regression techniques to determine the effects of FDI on the economic growth in Nigeria and concluded that; "FDI is the engine of economic growth and the great potentials of FDI for accelerating the pace of economic progress of Nigeria cannot be overemphasized because of the positive and significant impact should be allowed." Mahler (1989) carried out an analysis of 68 least developed countries and found a statistical association between income concentrated in the 6% and 20% of the population and foreign direct investment in manufacturing but not in mining and agriculture (King, et al., 1986; Haggard, 1989; Saad, 2014; Mahalakshmi et al., 2016; Barua et al. 2017; Desbordes, and Wei, 2017).

Osinubi and Amaghionyediwe (2010) research on the study of foreign private investment in real assets and international portfolio investment financial assets. The authors concluded that FDI intangible assets augment domestic resources and thus enhance economic growth since it gives a positive effect on growth issues it should not be ignored. Rodolphe and Shang (2017:153) study focused on the impact of financial development on foreign direct investment and found that; *"FDI has an enormous positive influence on the Greenfield, mergers, acquisitions, and expansion. Foreign direct investment (FDI) promotes manufacturing activity directly and indirectly. He established causality by exploiting variations in both country financial development and sector financial vulnerability."*

The research by Rafeal et al., (2017), on foreign direct investment and economic growth in Latin America, covering 19 Latin America countries. Using the panel data regression, the authors found that there is a significant and positive effect on product in high-income countries. It also shows that FDI is not an adequate instrument to hasten economic growth in Latin America. Nunnenkamp and Spatz (2004:54) researched the effect of foreign direct investment in the developed country and concluded that; "The growth impacts of FDI are uncertain because of highly aggregated FDI data. By disaggregating FDI and considering the compatibility of diverse types of FDI on economic conditions prevailing in the host country, the growth effects of FDI are not certain." Akinlo (2004) carried out research work on the impact of foreign direct investment (FDI) on economic growth in Nigeria using data from 1970 to 2001. The author's error correction model results showed that both private capital and lagged foreign capital have a small and insignificant impact on economic growth (Danja, 2012; Yusuf et al., 2014). This study proved positive and

significant effects of export on growth. Economic development, which he measured as M2/GDP, has a significant negative impact on growth and attributed to capital flight. Other studies on FDI in Nigeria and selected African countries include: (Asogwa, 2014; Ayanwale & Bamire, 2001; Bloomstrom, et al 2003; Chee & Nair, 2010; Saddimbah, 2014; Bebeji, et al 2015; Umaru et al., 2015; Amondi 2017; Ananwude et al., 2018; Kariuki & Sang, 2018; Iraya & Sait, 2018; Anetor, 2019).

3. Research Methodology

For the study, we collected data from the banks under investigation based on their Annual Reports and Accounts for the periods from 2010 to 2017, published by the Nigerian Stock Exchange on its websites (Oladipo et al, 2019a). This method was to ensure that the information in the annual reports have been approved by the boards of each bank and met the requirements of both the Stock Exchange, the Corporate Governance Regulations, Corporate Law for Public Limited Companies. (PLC) moreover, the Banking Regulations in Nigeria. The quantitative research method used for this study is that of the Tobin Q Rate method, which equates the market value of a firm divided by its assets and replacement cost. Tobin's Q Ratio is a ratio developed by James Tobin, in 1968, a Nobel laureate in economics. Tobin theorized that the joint market value of all the firms on a stock market should be about equal to their replacement costs. It is said that if 'Tobin's Q' is more significant than one, then it means that the company is worth more than the value of its assets. In this case, added investment in the company's capital project would make sense because the returns incurred would exceed the cost of a firm's assets (Otokiti, 2010).

In this study if 'Tobin's Q' is less than one, it means that more cost is needed to replace a bank's assets than the bank is worth. Therefore, the bank would be better off selling its assets rather than trying to put them to use. For this study, we employed the Tobin's Q ratio for the analyses of data collected from the 14 deposit banks under consideration. Singh et al. (2017) reviewed Tobin's Q ratio as a performance indicator and discovered it to be active and efficient. Tobin's Q ratio measures the market value of a firm compared to the value of the firm's assets (Chong et al., 2013; Nwanji et al. 2019).

3.1 Model Specification

In analyzing the information from the secondary data, panel data regression was used to test the independent and dependent variables. The independent variable is the foreign direct investment, (FDI), and the dependent variable is the Financial Performance of the deposit banks in Nigeria.

The model employed for data analyses

$$y = f(x) \tag{1}$$

$$FP = f(FDI) \tag{2}$$

$$FP = f(EC, RE) \tag{3}$$

Add panel properties and control variables to equation (3) above:

$$FP_{it} = \beta_0 + \beta_1 EC_{it} + \beta_2 RE_{it} + \beta_3 FSIZE_{it} + \beta_4 BSIZE + \varepsilon_{i,t}$$

Where;

FP_{it} = financial performance of sampled banks I at period t

EC_{it} = equity capital

RE_{it} = reinvested earning

$FSIZE_{it}$ = firm size

$BSIZE_{it}$ = board size

β_0 = Coefficients of parameter

$\varepsilon_{i,t}$ = Error term

i = Sampled firms

t = time trend

Table 1. Summary of the variable

Variable	Item	Measurement
Dependent	Tobin Q	Total asset value+ Equity ÷ Total asset value
Independent	Foreign direct investment (FDI)	
	Equity capital (EC)	Amount of foreign equity capital (Shareholder equity)
Control	Firm size (FSIZE)	The total sum of the firm's asset
	Board size (BSIZE)	A total number of directors on board.

Source: Authors' compilation (2019)

3.2 Apriori Expectation

$B_1>0$: there is a significant positive relationship between equity capital and foreign direct investment.

$B_2>0$: there is a meaningful relationship between reinvested earnings and foreign direct investment.

$B_3>0$: there is a significant positive relationship between board size and foreign direct investment.

$B_4>0$: there is a meaningful relationship between firm size and foreign direct investment.

The data below in Table (2) relate to the banks understudy: Access Bank, Diamond Bank, Eco Bank, GTB, FCMB, First Bank, Fidelity Bank, Stanbic Bank, Skye/Polaris Bank, Sterling Bank, UBA, Union Bank, Unity Bank, Wema Bank, Zenith Bank for seven years (2010-2017).

Table 2. Annual reports of the banks listed in the Nigerian Stock Exchange

Banks	TOBQ	EC	RE	FSIZE	BSIZE
ACCESS					
2010	1.212	8,944,126	7,666,913	11.8921	14
2011	1.208	8,944,126	10,462,687	11.8762	15
2012	1.072	176,628,255	18,880,711	12.1806	15
2013	1.133	172,477,671	23,095,392	12.2315	17
2014	1.132	172,477,671	36,499,779	12.2971	17
2015	1.142	212,438,802	49,459,102	12.3824	14
2016	1.136	212,438,802	93,329,188	12.4907	14
2017	1.134	212,438,802	120,218,603	12.5440	17
DIAMOND					
2010	1.106	7,237,622	6,011,755	11.8751	19
2011	1.108	7,237,622	(18,347,381)	11.8537	19
2012	1.092	7,237,622	(6,851,491)	12.0250	15
2013	1.091	7,237,622	18,439,851	12.1319	14
2014	1.108	11,580,195	32,845,896	12.2431	13
2015	1.122	11,580,195	12,208,773	12.1918	12
2016	1.111	11,580,195	6,364,510	12.2208	12
2017	1.0127	11,580,195	5,139,548	12.2293	16
FCMB					
2010	1.196	8,135,596	6,223,974	11.7404	15

2011	1.195	8,135,596	(11,567,744)	11.7731	15
2012	1.145	9,520,534	(360,864)	11.9495	11
2013	1.143	9,901,355	6,027,752	11.1189	11
2014	1.137	9,901,355	5,483,847	11.1192	12
2015	1.140	9,901,355	3,056,244	11.1119	12
2016		9,901,355	4,806,213	11.1185	14
2017	1.985	9,901,355	4,350,828	11.1194	12
FIDELITY					
2010	1.202	14,481	5,606	11.8573	19
2011	1.198	14,481	5,722	11.8680	19
2012	1.177	14,481	(117)	11.9611	17
2013	1.151	14,481	7395	11.0339	7
2014	1.146	14,481	11,721	11.0745	7
2015	1.149	14,481	8,797	11.0905	4
2016	1.143	14,481	25,918	11.1133	4
2017	1.099	14,481	25326	11.1055	4
FIRST BANK					
2010	1.100	16,316	27,971	11.5429	16
2011	1.129	16,316	53,144	11.4532	16
2012	1.127	16,316	77,342	11.4956	8
2013	1.102	16,316	37,180	11.5737	10
2014	1.112	16,316	6,968	11.6161	10
2015	1.127	16,316	130,787	11.5991	10
2016	1.115	16,316	153,924	11.6546	10
2017	1.972	17,948	10,104	10.6812	10
GTBANK					
2010	1.138	11,658,594	21,465,320	12.1614	14
2011	1.154	14,715,590	32,377,671	12.1829	14
2012	1.177	14,715,590	47,558,325	12.2096	14
2013	1.170	14,715,590	55,079,117	12.2798	14
2014	1.169	14,715,590	58,442,378	12.3277	14
2015	1.178	14,715,590	46,048,031	12.3575	16
2016	1.162	14,715,590	83,989,499	12.4172	16
2017	1.207	14,715,590	115,361,824	12.4510	14
SKYE/POLARIS					
2010	1.110	5,792	10,644	11.9600	11
2011	1.110	6,609	5,182	11.9428	12
2012	1.097	6,609	12,697	9.0299	14
2013	1.109	6,609	19,436	12.0469	13
2014	1.102	6,609	32,225	12.0827	13

2015	1.087	6,609	(17,134)	12.0724	17
2016	1.087	402,747	1,060	12.0790	17
2017	1.341	402,747	1,060	12.0775	17
STANBIC					
2010	1.172	9,375	7,430	10.8751	13
2011	1.153	9,375	3,559	10.8590	12
2012	1.127	5,000	1,053	10.8604	12
2013	1.133	592	8,332	10.8774	11
2014	1.128	606	13,136	10.8789	7
2015	1.138	5,000	9,871	10.8803	10
2016	1.134	5,000	609	10.9678	12
2017	1.952	5,025	25,165	10.9884	12
STERLING					
2010	1.084	6,281,545	(2,036,115)	11.6532	12
2011	1.081	7,851,931	2,644,416	11.7052	113
2012	1.080	7,851,931	6,019,078	11.7636	11
2013	1.0897	10,796,497	7,785,753	10.8495	14
2014	1.103	14,395,209	5,753,977	11.9162	14
2015	1.120	14,395,209	10.042,079	11.9028	15
2016	1.103	14,395	6,245	11.9321	15
2017	1.096	14,395	8,238	11.9321	15
UBA					
2010	1.084	12,934	25,961	9.2229	20
2011	1.079	16,168	8,289	11.0963	20
2012	1.085	16,491	47,723	12.1832	25
2013	1.089	16,491	67443	12.3458	16
2014	1.096	16,491	84,230	12.3690	16
2015	1.121	18,140	100,900	12.3456	16
2016	1.128	18,140	110,152	12.4048	16
2017	1.137	17,100	99,332	12.4671	16
UNION					
2010	1.191	6,755	(244,725)	9.0107	12
2011	1.189	8,468	(272,101)	11.9176	14
2012	1.188	4,979,791,1133	285,042,347	11.9176	13
2013	1.199	4,979,791,1133	203,207,583	11.9455	17
2014	1.220	16,334,781,723	288,314,442	11.9639	17
2015	1.235	16,334,781,723	467,692,147	11.9992	17
2016	1.217	400,109	(247,868)	12.0506	16
2017	1.241	201,652	(19,118)	12.1255	20
UNITY					

2010	1.113	16,643,588	(14,267,186)	11.5623	15
2011	1.118	17,475,768	(14,640,824)	11.5727	17
2012	1.130	17,475,768	14,442,800	11.5974	17
2013	1.070	19,223,345	(58,700,475)	11.6060	18
2014	1.185	58,446,690	(56,434,482)	11.6163	14
2015	1.186	5,844,669	(117,279,296)	11.6467	14
2016	1.175	5,844,669	(275,980,402)	11.6926	13
2017	2.5475	5,844,669	(338,694,712)	11.6926	15
WEMA					
2010	1.026	6,410,623	(27,359,631.4015)	11.3222	10
2011	1.028	6,410,623	(35,475,856)	11.3447	10
2012	1.005	6,410,623	(35,307,903)	11.3904	12
2013	1.125	19,287,233	(35,184,210)	11.5197	10
2014	1.114	19,287,233	(34,793,664)	11.5827	12
2015	1.116	19,287,233	(35,319,223)	11.5985	12
2016	1.114	19,287,233	(39,127,546)	11.6245	12
2017	1.129	19,287,233	4,166,460	11.5859	12
ZENITH					
2010	1.159	15,968	51,769	9.3424	12
2011	1.169	15,698	55,028	9.3667	12
2012	1.178	15,698	106,010	9.4157	14
2013	1.162	15,698	126,678	12.4592	15
2014	1.147	15,698	150,342	12.5345	12
2015	1.148	15,698	160,408	12.5741	12
2016	1.149	15,698	218,507	12.6318	11
2017	1.147	15,698	296,787	12.6843	14

Source: Authors' computation (2019)
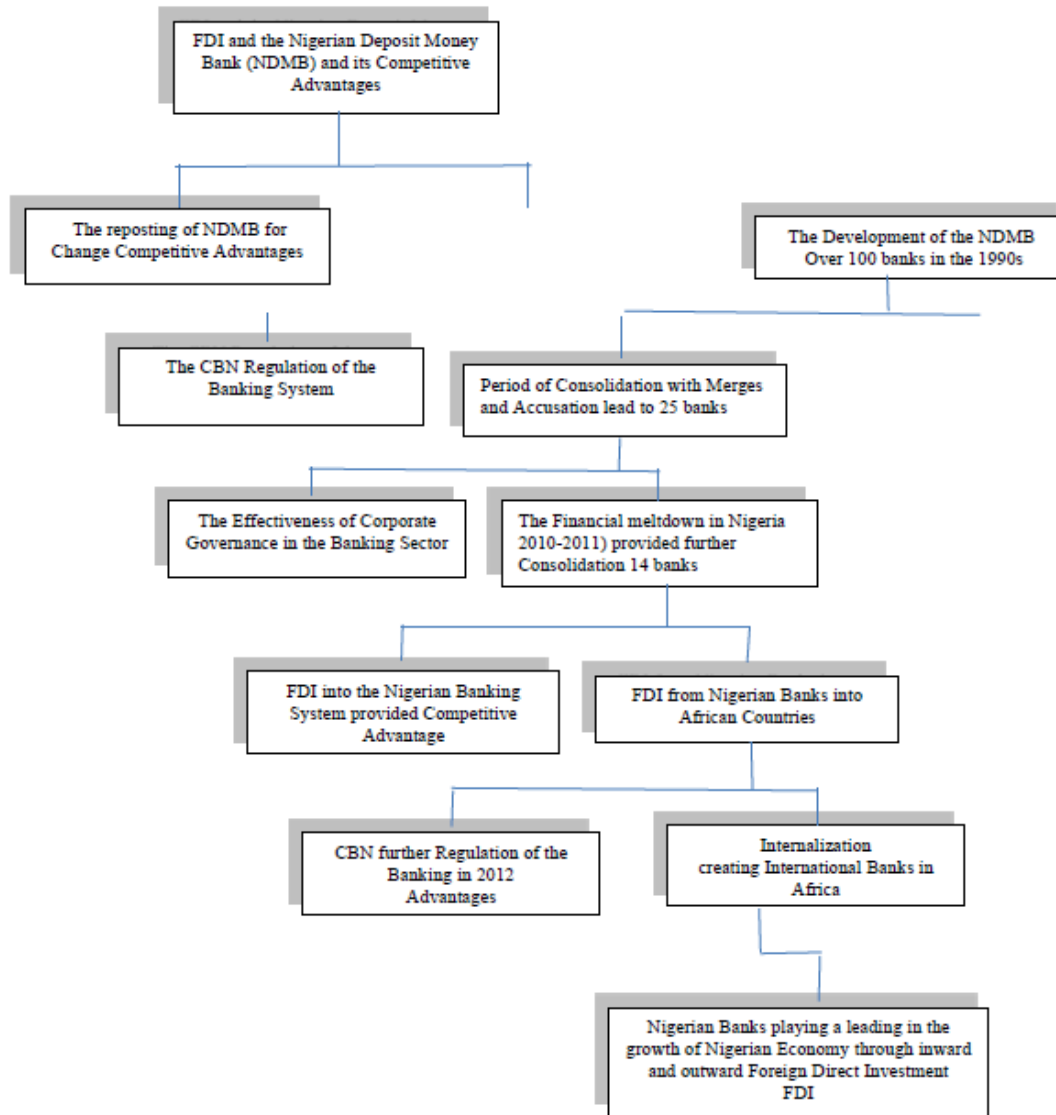
Diagram C. The competitive advantages of the Nigerian deposit money bank through FDI

Source: Authors' Computation (2019

4. Data Presentation and Analysis

This study examines foreign direct investment and financial performance of the listed deposit banks in Nigeria. In section, we deal with the presentation and analysis of the secondary data collected from the annual reports and of the banks from the Central Bank of Nigeria (CBN) website. A total of 14 annual reports from the CBN (2010) covering the periods from 2010 to 2017 were used, and information from the annual reports was analysed to the significant impact of equity capital on the financial performance of deposit money banks in Nigeria (Olabisi et al., 2016).
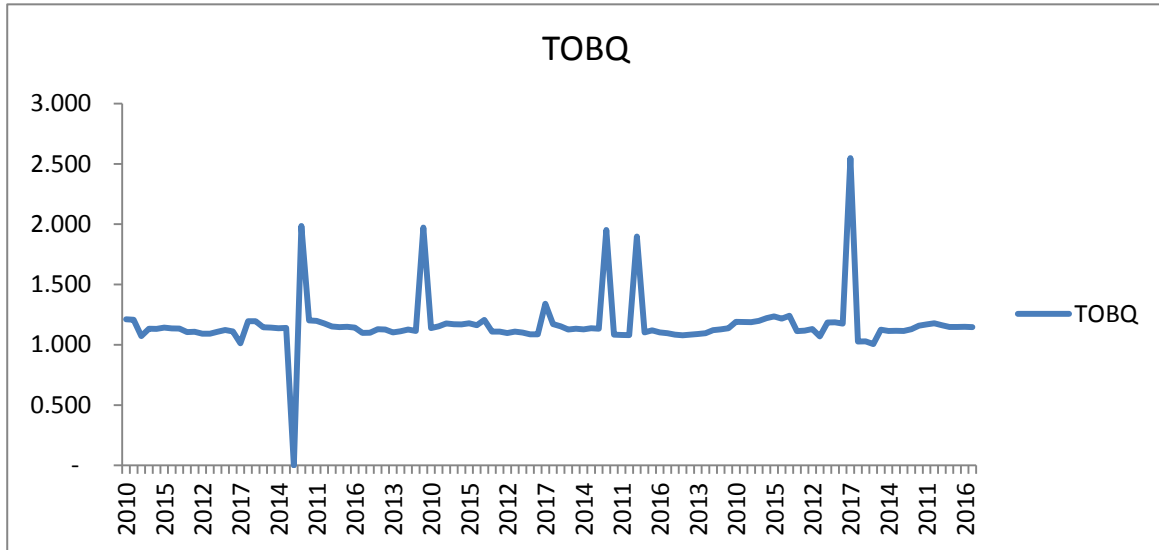
Figure 1. Trend analysis of Tobin Q

Interpretation: The Tobin Q analysis here shows a steady level for 4 years, then downward and upward (2014 then upward in 2011 then constant over three years and up in 2010. It remained steady over 4 years later up in 2014 and dropped and up again in 2016, stable for 5 years with the most significant rise in 2017 and calm in the same for 3 years just below Tobin Q average of 13 in the form of the bank's assets.
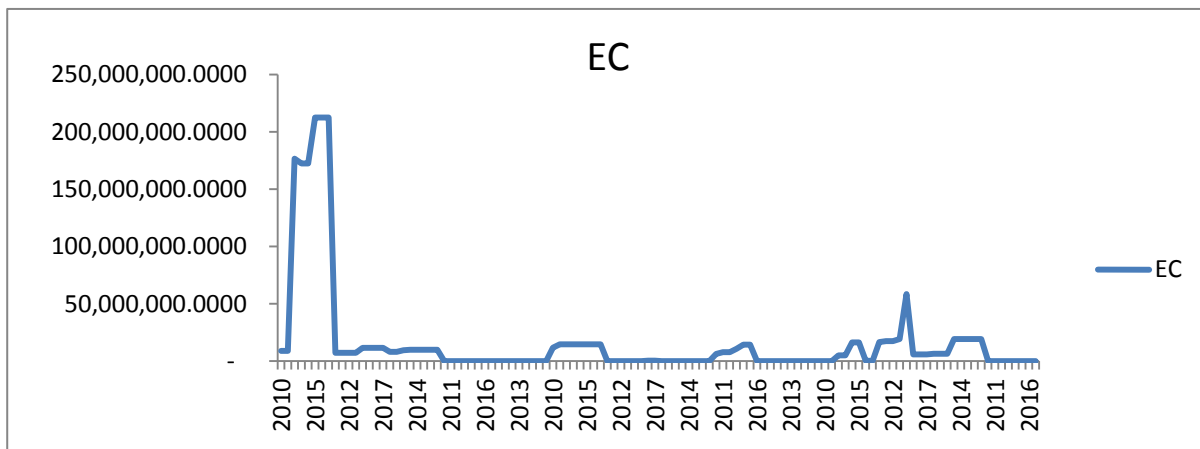
Figure 2. Trend analysis of Equity Capital (EC)

Interpretation: The equity capital fluctuates from 2010 to 2011, and it is not significant to expect from 2014 conscious grief.
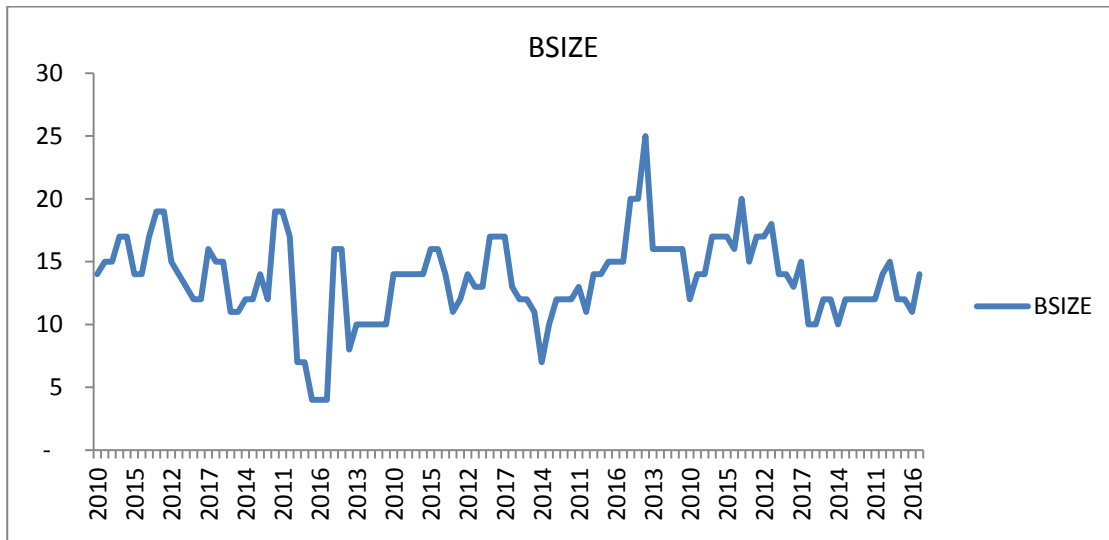
Figure 3. Trend analysis of Board Size (BSIZE)

Interpretation: Board Size fluctuated between 3 and 24 companies that were investigated in which most of the banks have a board size of between 7 to 17 directors on their board. A few of them have board size lower than seven members, and few have between 20 to 24, but on the average, most of the banks have board size (BSIZE) of 12.
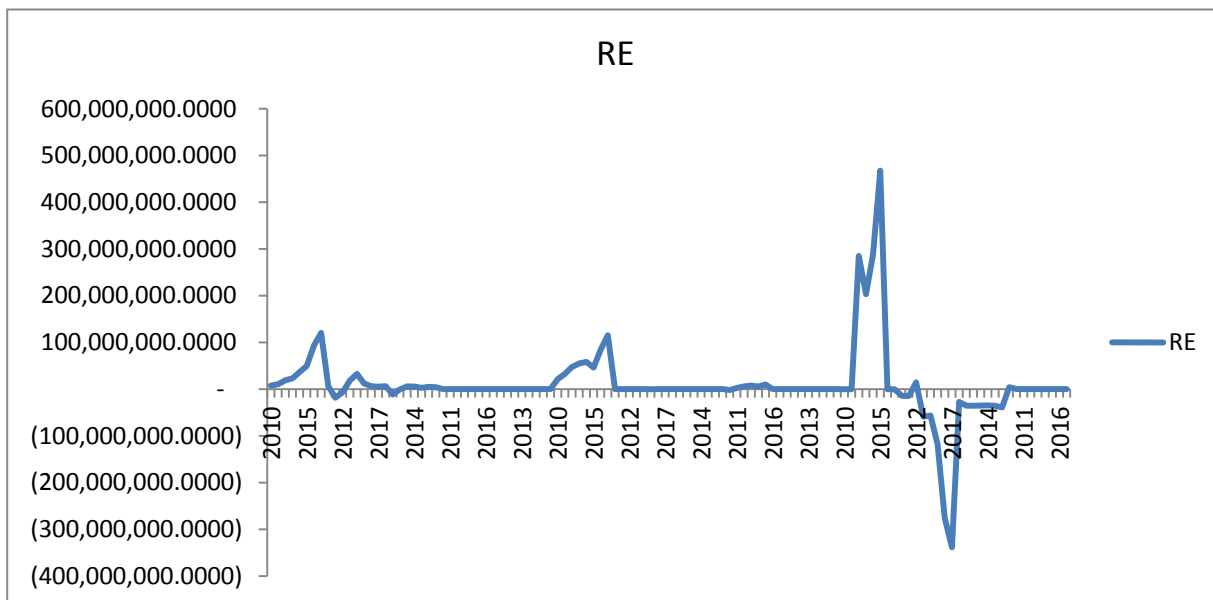
Figure 4. Trend analysis of Re-invested Earning (RE)

Interpretation: Re-invested earnings between 2010 to 2014 show a definite increase then it falls back to initiative financial value at once and stays stable minor oscillations.
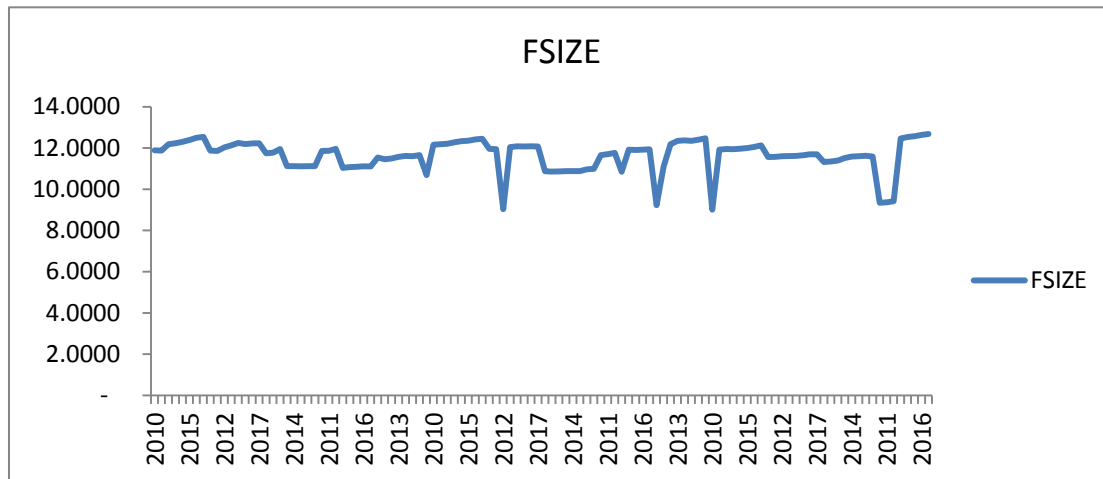
Figure 5. Trend analysis of Firm Size (FSIZE)

Interpretation: The firm sizes were on favourable position over the period from 2010 to 2015 but fluctuated in 2012 then study and down within three steps.

4.1 Test for Stationarity

The Unit Root Test (URT), is usually carried out to determine the stationary of the variables being employed in the research (Lawal, Babajide, Nwanji & Eluyela, 2018; Popoola, Asalaye & Eluyela, 2018). This study thus tests whether the panel data is stationary or not to avoid the risk of obtaining significant regressions results from unrelated data when non-stationary panel data are used in the regression analysis. Regressions are said to be spurious when its effect is obtained from irrelevant data. Two methods used in performing the unit root test are the Philips-Perron (PP) unit root test and the Augmented Dicker Fuller (ADF) unit root test (Falaye at al, 2019; Oladipo et al, 2019a). For this study, the Augmented Dicker Fuller and Philips- perron (PP) unit root test is employed to test the stationary of the variables.

Table 3. Stationarity test at level

ADF (Augmented Dicker Fuller)		
Variables	**Adf statistic**	**Comment**
TOBQ	0.1100	Non-stationary
EC	0.0003*	Stationary
RE	0.0002*	Stationary
FSIZE	0.1846	Non-stationary
BSIZE	0.0060**	Stationary

Note: ***** shows that variables are significant @5% probability level

** shows that variables are significant @10% probability level

Source: Authors' computation, (2019).

The Table 3 above presents the unit-roots test of the dependent and independent variables. The results show that EC, RE and BSIZE passed the augmented Dickey-Fuller (ADF) test at a level while TOBQ and FSIZE did not pass the test at a level so it will be tested at first difference. In other words, EC, RE and Bsize are stationary at level. (EC means Equity Capital, while RE is Re-investment Earnings and BSIZE (Board Size). The test at the stable level shown on (table 3) above indicates that both Tobin Q or (TOBQ), and Firm Size or (FSIZE) came in at above 10% significant, so must be retested at stationarity test at first difference shown in (table 4) below.

Table 4. Stationarity test at first difference (unit roots test)

Primary Difference			
Variables	*ADF Satistic 1ˢᵗ differnce*	*Order of integration*	*Comment*
TOBQ	0.0157	1(1)	Stationary
FSIZE	0.0006	1(1)	Stationary

Source: Authors' computation (2019)

The Table 4 above presents the unit-roots test of the dependent and independent variables. The results show that EC, RE and BSIZE passed the augmented Dickey-Fuller (ADF) test at a level while TOBQ and FSIZE passed the test at first difference. The implication is that EC, RE and FSIZE are stationary at a level while TOBQ and BSIZE are stationary at first difference. EC, RE and BSIZE are I (0) while TOBQ and FSIZE are I (1). Most of the variables were stationary at level (EC, RE, BSIZE) (Yang, et al., 2019).

4.2 Descriptive Statistics

The Descriptive technique shows the summaries of the information for the number of variables and computes the systemized values (Oladipo et al, 2019b). The size of their mean can well order variables, or it is being selected. Table 5 below shows the descriptive statistics for each dependent variables and independent variables.

Table 5 below gives a detailed summary statistic of the variables used in the research, with a total of 111 observations analyzed. Financial performance in the Table 5 shows that the mean value of Tobin q for fourteen banks within the period is 1.177905 with the standard deviation of 0.207076, thus implying a high degree of distribution. The coefficient of skewness and kurtosis are 4.52 and 24.79, respectively, thus showing that the distribution of financial performance (Tobin q) is positively skewed. The Jarque-Bera statistic has a calculated value of 2575.410 and a significant probability of 0.000. Equity capital in table 4.3 shows that the mean value of EC for fourteen banks within the period 4.00E+08 with the standard deviation of 2.27E + 09, thus implying a high degree of dispersion. The coefficient of skewness and kurtosis are 6.48 and 45.02, respectively, thus showing that the distribution of equity capital is positively skewed.

The Jarque- Bera statistic has a calculated of 8946.793 and a significant probability of 0.000. Re-invested earnings in Table 5 show that the mean value of RE for fourteen banks within the period 9595864. With the standard deviation of 79649020, I am thus implying a high degree of dispersion. The coefficient of skewness and kurtosis are 1.46 and 18.07, respectively, thus showing that the distribution of equity capital is positively skewed. The Jarque-Bera statistic has a calculated 1090.821 and a significant probability of 0.000.

Table 5. Descriptive statistics

	TOBQ	EC	RE	FSIZE	BSIZE
Mean	1.177905	4.00E+08	9595864.	11.65031	13.66667
Median	1.134000	5844669	47723.00	11.85730	14.00000
Maximum	2.547500	1.63E+10	4.68E+08	12.68430	25.00000
Minimum	1.005000	592.0000	-3.39E+08	9.010700	4.000000
Std. Dev.	0.207076	2.27E+09	79649020	0.757336	3.393398
Skewness	4.520394	6.481636	1.463626	-1.681052	-0.215061
Kurtosis	24.79701	45.02850	18.07596	6.287664	4.289489
Jarque-Bera	2575.410	8946.793	1090.821	102.2702	8.546009
Probability	0.000000	0.000000	0.000000	0.000000	0.013940
Sum	130.7474	4.44E+10	1.07E+09	1293.184	1517.000
Sum Sq. Dev.	4.716874	5.66E+20	6.98E+17	63.09132	1266.667
Observations	111	111	111	111	111

Source**:** Authors' computation (2019)

Table 6. Hausman test: (The Hausman test is used to test for correlation random effect)

Random Effects- Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.307678	4	0.5077

Source: Researchers' computation (2019)

Table 6 represents above the probability relevance of what panel regression model to be used under these particular rules: Accept the model if the probability is less than 5% which is 0.05 that is fixed Effect model is significant and accept the model if the probability is higher than 5% which is 0.05 that is the random effect model. Moreover, the model that is used in this work is the random effect model, and the P-value is statistically significant because the Probability value is 0.5077; that is, it is more significant than 0.05.

Tables 7. Random effect panel regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.377782	0.335949	4.101162	0.0001
EC	4.33E-11	1.48E-11	2.922225	0.0044
RE	-1.81E-09	4.59E-10	-3.952190	0.0002
BSIZE	0.003157	0.007315	0.431584	0.6670
FSIZE	-0.020852	0.028645	-0.727943	0.4685
R-squared	0.238273	Mean dependent var		1.177905
Adjusted R-squared	0.099032	S.D. dependent var		0.207076
S.E. of regression	0.196556	Akaike info criterion		-0.268349
Sum squared resid	3.592971	Schwarz criterion		0.171034
Log-likelihood	32.89339	Hannan-Quinn criter.		-0.090105
F-statistic	1.711232	Durbin-Watson stat		1.549380
Prob (F-statistic)	0.054166			

Source: authors' computation (2019)

Table 7 above shows the summary of the random effect model that is already tested as the proper model required calculating the variables. The R-squared stands as at 23% or (0.238273) and the probability value of F-statistic (0.054166). However, the first assumption states that foreign direct investment has a positive effect on equity capital and it has a significant relationship, the result is shown in table (7) that t-statistics and probability value of (2.922 and 0.0044) just like (Ayanwale, 2007) stated that foreign direct investment has a positive effect on economic growth. Furthermore, the second assumption says that foreign direct investment has a negative impact on re-investment earnings, and it has a meaningful relationship because it has a positive probability. The result is shown in table (7) that t-statistics and probability values of (-3.952 and 0.0002), the result like (Macaulay, 2011) work which state that foreign direct investment has a negative effect but has a significant relationship with economic growth (Osinubi, and Amaghionyeodiwe, 2010; John, 2016).

4.3 Testing of Hypothesis

Hypothesis testing is used to examine the relationship that happens between foreign direct investments a performance. Two key testable hypotheses were formulated in chapter one of this study. We subject these

propositions to empirical testing drawing from the results of our regression analysis. Using the regression analysis, we see the values of the coefficient and t-statistics value to check the hypothesis. The basis for decision rule is the significances of the t- statistics as represented by probability values using E- views

4.3.1 Hypothesis (1)

H_0: There is no meaningful relationship between reinvested foreign earnings and financial performance of deposit money banks in Nigeria.

H_1: There is a meaningful relationship between reinvested foreign earnings and financial performance of deposit money banks in Nigeria.

The result of the hypothesis: The result shown in tables (7) that Re-invested foreign earnings has a negative relationship with financial performance (TOBQ). The result of this model reveals that there is a meaningful relationship between RE and TOBQ since the probability, which is 0.0002 is less than 0.05.

Decision: From the above analysis, Re-invested earning has a significant impact on financial performance; therefore, we accept the alternative hypothesis (H_1).

4.3.2 Hypothesis (2)

H_0: Foreign equity capital does not have a significant impact on financial performance of deposit money banks in Nigeria.

H_1: Foreign equity capital has a significant impact on financial performance of deposit money banks in Nigeria.

The result of a hypothesis: The result from the table (7) that foreign equity capital has a positive relationship on financial performance (TOBQ). The result of this mode shows that there is a meaningful relationship between RE and TOBQ since the probability, which is 0.0044 is less than 0.05.

Decision: From the above analysis, the foreign equity capital has a significant impact on financial performance (TOBQ); therefore, we accept the null hypothesis (H_0).

4.3.3 Hypothesis (3)

H0: Board size does not have a significant impact on financial performance of deposit money banks in Nigeria?

H1: Board size has a significant impact on financial performance of deposit money banks in Nigeria?

Result of a hypothesis: The result from Table (7) shows that board size has a positive relationship on financial performance (TOBQ). The result of this mode shows that there is no meaningful relationship between BSIZE and TOBQ since the probability which is 0.6670 is higher than 0.05

Decision: From the above table, the BOARD SIZE has no significant impact on financial performance (TOBQ); therefore, we decline the null hypothesis and accept the alternative hypothesis.

4.3.4 Hypothesis (4)

H_0: There is no meaningful relationship between firm size and financial performance of deposit money banks in Nigeria?

H_1: There is a meaningful relationship between firm size and financial performance of deposit money banks in Nigeria?

Result of the hypothesis: The result from Table (7) shows that firm size has a negative effect on financial performance (TOBQ). The result of this mode shows that there is no meaningful relationship between FSIZE and TOBQ since the probability, which is 0.4685 is higher than 0.05.

Decision: From the above analysis, the FIRM SIZE has no meaningful relationship with financial performance (TOBQ); therefore, we accept the alternative hypothesis.

5. Summary of Findings

This study examined foreign direct investment and financial performance. The result of this study has shown that relationships exist between foreign direct investment (Equity capital, Re-invested earnings, Board size and Firm size) and financial performance (Tobin q). The study revealed that there is a positive relationship between foreign direct investment and financial performance. The main aims of this study were to examine foreign direct investment its impact on the financial performance of listed deposit money banks in Nigeria. Data inform of the annual reports of listed deposits banks in Nigeria were used for this study. Five significant variables were used Tobin Q, equity capital, reinvested earnings, firm size, and board size (Iraya, and Sait, 2018).

Theoretical findings: Three theories where considered which include pecking order theory, trade-off theory, and profit maximisation theory. The pecking order theory is one of the theories of foreign direct investment which is based on the notion that a bank should not only focus on profit-making but should also take into consideration on how to source for finance either by debt or equity. The pecking order theory state that funds are given by the retained earnings of the firm or organisation and then more information is given compared to the case of equity. The equity holder, in this case, will expect their investment to attract a higher rate of return, which leads the equity being more costly than the use of external funding. The marginal cost-marginal revenue method and the total cost-total revenue method is the profit maximisation theory used for marking investment decisions. The result of this study shows a positive relationship between FDI and profit maximisation. Trade-off theory understands the fact that corporations are financed partly with debt and equity. Debt and equity are used to balance the cost and benefit of the banks' understudy.

Empirical finding: The hypothesis (1) of this study found that reinvested foreign earnings have a positive effect on the financial performance, and thus, we rejected the null hypothesis, and accept the alternative hypothesis. Hypothesis (2) was focused on determining if foreign equity capital has a significant impact on financial performance. The result of the findings shows that foreign equity capital has a significant effect on the financial performance of these banks. Therefore, we accept the alternative hypothesis and reject the null hypothesis. In hypothesis (3), we found that board size has a significant effect on financial performance. The result shows that board size has a positive relationship with financial performance. Therefore, we reject the null hypothesis and accept the alternative. In hypothesis (4) we found that firm size has a significant impact on financial performance. Therefore, we reject the null hypothesis and accept the alternative explanation. (Barua et al., 2017)

6. Conclusions and Recommendations

The study concludes that foreign equity capital has a significant effect on bank performance in Nigeria. The study revealed that foreign equity capital has a substantial and adverse impact of the bank. The study also concludes that re-invested foreign earnings were having a significant effect on bank performance. Specifically, the study found that re-invested foreign earnings significant and negative affected the bank performance on equity capital.

Recommendations: Based on the findings of the study, the following suggestions are, however, made: The study found that there is an increase in foreign equity capital improves performance. The study recommends that in Nigeria deposit money, banks should look to increase their foreign equity capital to enhance their performance in terms of Tobin q. Therefore, the recommendation of the research is that deposit money banks based in Nigeria to use re-invested earnings to improve their financial performance.

Contribution to Knowledge: This Study contributes to our understanding of the impact of foreign direct investment in the financial performance of the banking sector in the Nigerian economy. Our study revalidates them that foreign direct investment has a positive effect on Nigeria economic. Most of the studies carried out on foreign direct investment, and financial performance focused on economic growth. In this study, we focused on the relationship between FDI and financial performance of the money deposit banks. This study has shown that the development of the Nigerian banking system from local banks to International banks was because of the investments in the banking system from foreign investors through foreign direct investment.

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