



# Impact of Foreign Direct Investment on Financial Institution Performance in Nigeria: A Study of Jos Metropolitan City of Plateau State

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**Abstract:** Financial institutions are confronted thru gradually keen opposition and increasing effect of supervisory necessities, financial plus high-tech innovations, influential grief and new dares which have melodramatic effects on their concerts. The ambition of this paper is to examine impact of foreign direct investment on financial institution performance in Nigeria. The study was grounded on three theories (revenue maximization principle, pecking order theory and Internationalization Model) in relation FDI performance. This study employs a survey design because which aimed at establishing effects of the variables of independence on dependent variable, population of this study was based on 10 selected financial institution operating in Jos Metropolitan city of Plateau Nigeria as at 1<sup>st</sup> January, 2022. Each bank is represented by its Chief finance officer (CFO). Primary data and secondary data was obtained thru yearly financial statement of selected financial institution through the respective Chief finance officers also, books, journals and publications, while primary data was obtained via questionnaire. Descriptive statistics and content analysis were used to analyze the data collected. The results revealed that that FDI variables indicates a strong impact on financial institution performance among Nigeria financial institutions, it recommends that solid framework ought to be set up in order to curtails bottle neck and other issues in relation to FDI among Financial institution performance. The study concludes FDI with financial institutions transaction be able to be intermediated thru its dimensions (Foreign exchange, Capital adequacy, Equity capital and Reinvested foreign earning).

**Keywords:** Performance, Foreign Exchange, Capital Adequacy, Equity Capital, Reinvested Foreign Earning

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## 1. Introduction

### 1.1. Background to the Study

Financial institutions played vigorous role in the growth and development procedure of a nation. Conventionally, the role of banks in an economy is to facilitate an efficient payments system and to serve as a conduit for the implementation of fiscal policies [1]. A bank's crucial tenacity is financial appeasement; accommodating deposits, making loans at variety of maturities either fixed or at variable rates and make money through interest rates spread

by charging for services provided [2]. Financial institutions in Nigeria have undergone immense regulatory and technological changes since the attainment of democracy in 1960 as this marked the establishment of formal money and capital markets, and portfolio [11]. Nigerian Fiscal institutions are challenged with progressively keen struggle and rising costs as a consequence of supervisory chucks, financial and technological innovations, institutional distress and other challenges which have dramatic effects on their performances [5, 6].

Recital is all-purpose arrangement that denotes to the enterprise's actions [7, 69]. Onuorah, A. Et al. [69] noted that

performance imitates the throughput (efficiency) of associates of an enterprise measured in terms of revenue, profit, growth, competitiveness, development, and contraction of the organization [17]. It is defined as how an enterprise is doing in terms of an increase in profit, market share, product (service) quality, and enlargement compared to other enterprises in the same industry [15, 69]. It is measured using varied restrictions by different organizations, firms can measure performance through market share, growing metrics, expansion, efficiency, survival, number of employees, attractiveness, and capital hired [20].

Explicitly, swelling maximum paid-up investment is projected to boost extending of financial institution performance in Nigeria, this is expected to enable Nigerian financial institutions to offer services to the segments of the society that had remained outside the coverage of the existing sector [24, 27]. The supporter of merging harangued that Financial institutions in Nigeria that could not solely meet recapitalization requirement should engage in merger and acquisition, and, as such, recapitalization is understood as an imperative element of alliance. Ajibola, A et al. [11] affirms that, financial segment restructurings and recapitalization have ensued from cautious policy response to correct seeming or intending banking sector crises and successive fractures [25].

The Nigerian financial sector is, no doubt, among the most digitally-driven subdivisions in the nation. Completed the years, the segment has witnessed tremendous changes owing to ever dynamic financial innovations [46, 49]. Commonly, Nigerian financial institutions through Central Bank of Nigeria are adopting new solutions to improve and simplify operations which foster a move away from physical channels and near digital and mobile delivery especially in external transactions [47, 76]. Conferring Onuoha, Peregrino & Isiavwe [52, 67], these financial revolutions can boost aggregate revenue and by postponement improve the performance of the institution in terms of efficiency stages, to reach improved performance, financial institutions provide access to a diverse range of financial products and services for individuals and businesses [50]. The use of e-banking conduits has led to improved financial inclusion, which later improved performance in terms of proficiency [53, 67].

The recital of financial institution will be assessed in different views using financial as well as non-financial indicators of financial institutions. Hughes & Mester [40] identify two broad approaches in measuring the performance of banks (non-structural and structural approaches). Non-structural approaches use different performance measures (e.g. ROE, ROA, net interest margins, Tobin's q-ratio among others). In contrast, structural approaches are based on theoretical models of banking behavior such as efficient and profit frontiers [40]. The efficiency measures how best financial institutions performs in reverence to FDI, also the industry in the process of transforming inputs into outputs, financial institutions are diverse from the other business units and they function as an intermediary between depositors and borrowers [64]. Therefore, the performance of financial

institution has to be measured since the financial intermediation process [85].

In 2017, foreign reserves in African countries comprised 2.9% of global FDI inflows (in which Nigeria stood at 1.1%) compared to the 49.8% share for developed economies, 33.3% share for developing Asia, and 10.6% share for Latin America and the Caribbean [17, 93]. FDI is now a major channel used for the transfer of resources from the developed economy to the developing economies. One imperative item of today's globalization is the promotion of business or investment between two different countries using TNCs as frontiers [38]. Many realms including Nigeria now depend on FDI as a major source of income for both economic growth and development. This is possible because FDI is an epithet of new capital, technology advancement and new administration [28]. According to Sisira, M. et al. [85], FDI plays a very big role in economic growth contribution via technology transfer, increase in Capital and value addition to human capital [26, 35].

Foreign direct investment is a phenomenon caused by globalization through integration of domestic markets with international markets [31]. It is mainly accomplished through creation of favorable business environment to the locals as well as to the foreign investors so as to boost rapid economic growth [36]. The lasting interest among various states implies that a long lasting association between the direct and indirect investments as it direct investors an effective voice with regard to management of direct investment markets [38].

In this study FDI was conceptualized using four variables, foreign exchange rate [39], capital adequacy, equity capital and reinvested foreign earnings, as guided by Muhammad and [34, 67]. Explicitly, CAR ratio had a positive relationship with ROA and a negative one with ROE and GDP growth rate, but had relatively no relation with Net Interest Margin, Capital Risk, Inflation rate, Size of financial institution, and so on, as first expected. An empirical study by John & Oke [41] showed that Bank Size had insignificant negative effect on capital [57].

However, FDI remains inadequate for rapid infrastructural and economic development [58]. This issue prompts the researcher to employ the micro effect of exchange rate as on foreign direct investment in Nigeria. Okonkwo [63] stated that the exchange rate measures the external value of a currency and offers a direct relationship between the domestic and foreign prices of goods and services. Extraneous currency is required for making payments to the countries concerned for goods, services, interest payments on loans for investment there [62]. Thus Nigeria's demand for US dollars, British sterling, French francs and Japanese Yen is largely derived from Nigeria's demand for American, British, French and Japanese goods respectively. Nigeria's supply of these currencies is earned by its exports to those countries [63].

Exchange rate policy in Nigeria has undergone a good number of changes [48]. There are three main quotations of exchange rate namely; the nominal exchange rate, the real exchange rate and the real effective exchange rate [68]. The nominal exchange rate refers to the stated price of one

country's currency in terms of another's while the real exchange rate represents the nominal exchange rate treated for inflation or deflated by the index of relative inflation rates [48]. According to Makoni [51] the average Capital Adequacy Ratio (CAR) of the banks in the industry was consistently above the stipulated minimum of 10.0 per cent in the first half of 2012 [37]. Equity Capital is a concept that is influenced by several economic factors and the amount of costs measured as the interest rate from various sources of capital each of which is weighed according to its role in capital structure and capital used by the company [37]. Reinvested earnings on foreign direct investment are retained earnings, treated as if they were remitted to foreign direct investors in proportion to their ownership of the equity of the enterprise and then reinvested by them by means of additions to equity in the financial account. Reinvested earnings on foreign direct investment can be either positive or negative. reinvested income means to potential investors [71].

The existing observe targets to make key contributions to the developing research cognizance given to the effect of fdi on overall performance of economic institutions in Nigeria [73], the study uses four variables related to fdi (foreign exchange charge, capital adequacy, equity capital and reinvested overseas profits). In spite of these obvious benefits, a survey of present literatures suggests restrained studies on this location in nigeria. As such, this studies seeks to fill the distance in understanding inherent in this hassle region, to investigate the effect of fdi on performance of economic institutions in Nigeria.

### **1.2. Statement of the Problems**

Ahmed [9] posits that FDI is not simply (or even primarily) an international transfer of capital but rather, the extension of an enterprise from its home country into foreign host country. The extension of enterprise involves flows of capital, technology, and entrepreneurial skills and, in more recent cases, management practices to the host economy, where they are combined with the local factors in the production of goods and services.

Consequently, Nigerian needs substantial amounts of foreign investment to speed up rapid performance among financial institutions. Foreign direct investment is known for improving GDP through gains resulting from increases in international trade, international competitiveness and improved access to foreign markets for domestic products and training of labour force has been neglected by financial institutions in Nigeria, with focus on crude oil businesses [77].

Other shortcomings include the use of the standard within transformation to eliminate the individual country specific fixed effects which according to Aminu, Mohammed & Tanko [14] is incompetent to deal effectively with serial correlation of the transformed error terms. In these prior studies, the fact that current FDI is affected by the previous FDI (dynamic nature of FDI) is completely ignored the reaction of the variables (foreign exchange rate, capital adequacy, equity capital and reinvested foreign earnings).

The high regulation in the foreign exchange market which in advertently have a determining factor on the performance of financial institution in Nigeria. Since the adoption of exchange rate deregulation policy in Nigeria, the exchange rate, which is the price of domestic currency in terms of foreign currency, has become so volatile. Capital adequacy ratio is one of the vital concepts in banking which measures the amount of a bank's capital in relation to the amount of its risk weighted credit exposures to FDI. But on the contrary, Nigeria financial institution does not pay attention to this factor. The monetary area become starved of the considered necessary funding for its operation, as a result of inadequate capital in the banking area in connection to fdi. Equity capital are influenced by factors which can be beyond the manage of financial establishments, but others are partial through the firms' financing and investment regulations. Reinvested overseas profits, many financial institutions had been liquidated because of inadequate capital cowl to wipe out or at the least reduce losses sustained from failed funding because the result of unsound bank control, charge of boom of reinvested foreign earnings is low in Nigeria economic institutions, when you consider that it's far an indication of bad profitability or negative dividend policy or excessive dividend price, to the quantity that a few financial institutions depend specifically on retained profits for the beefing up of capital, on this truth monetary establishments that engaged fdi best consciousness at the income outcomes alternatively that retained profits and reinvesting the earnings in the commercial enterprise. It has made a few economic institutions not to for the reason that banking gadget operates on reinvested foreign earnings serve as a cushion for banks in times of financial institution panics [75]. Furthermore, this look at expands the investigation by way of the usage of variables that honestly constitute the broad spectrum of the complete monetary zone (stock marketplace, banking region and bond market improvement variables). In opposition to the above backdrops the observe reason is decipher effect of overseas direct investment on economic institution overall performance in Nigeria.

### **1.3. Research Questions**

- i. What is the impact of foreign exchange rate on financial institution performance in Nigeria?
- ii. What is the impact of capital adequacy on financial institution performance in Nigeria?
- iii. What is the impact of equity capital on financial institution performance in Nigeria?
- iv. What is the impact of reinvested foreign earnings on financial institution performance in Nigeria?

### **1.4. Objectives of the Study**

- i. To examine the impact of foreign exchange rate on financial institution performance in Nigeria
- ii. To determine the impact of capital adequacy on financial institution performance in Nigeria
- iii. To evaluate the impact of equity capital on financial

institution performance in Nigeria

- iv. To ascertain the impact of reinvested foreign earnings on financial institution performance in Nigeria

### 1.5. Research Hypotheses

The following null hypotheses have been formulated to enable us answer the research questions:

H0<sub>1</sub>: Foreign exchange rate does not have any significant impact on financial institution performance in Nigeria.

H0<sub>2</sub>: Capital adequacy does not have any significant impact on financial institution performance in Nigeria.

H0<sub>3</sub>: Equity capital does not have any significant impact on financial institution performance in Nigeria.

H0<sub>4</sub>: Reinvested foreign earnings does not have any significant impact on financial institution performance in Nigeria.

### 1.6. Significance of the Study

This study will be relevant to financial institutions in Nigeria in foreign direct investment activities. It will also be relevant in the areas stated below:

#### 1.6.1. Practical Significance

The study will be significant in providing relevant information that may assist practical activities of financial institution in driving forces towards achieving high performance in FDI. The results will also contribute to knowledge in the area of micro variables employed in the study to comprehend the financial institution activities when it comes to FDI transactions.

#### 1.6.2. Theoretical Significance

The findings of this study will contribute to the existing literature in the field of foreign direct investment when it comes to performance of financial institutions in Nigeria. It will also service add discoveries to the existing stock of knowledge on FDI practices.

#### 1.6.3. Policy Significance

The study will aid policy makers especially central bank of Nigeria to understand impact of foreign direct investment on performance of financial institution in Nigeria, and to monitor activities of financial institutions especially in estimating their recital through policy makings. The findings may also instruct the policy makers on how to develop policies, practices and programs on FDI activities in Nigeria.

## 2. Literature Review

### 2.1. Conceptual Review

#### 2.1.1. Concept of Foreign Direct Investment

Foreign direct investment (FDI) can be defined as the financed by a loan gained in a host country, payments in exchange for equity (patents, technology, machinery etc.), and other methods. Neo-classical researchers regard FDI, foreign direct investment (FDI) is the process where people

in one country obtain ownership of assets for the purpose of gaining control over the production, distribution and other activities of a firm in a foreign country and international capital flows as closing the reserves gap in developing countries [40]. It was recognised as a powerful engine for economic growth; it did not only serve the long-term marketable interests of foreign investors but can also play a significant role in the growth dynamics of host countries [42]. 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 financial sector [89, 60].

Akyuz & Opusunju [20] pointed out that FDI can be regarded as a form of foreign aid. The core goal of official development international aid is not only to promote economic growth, but also to reduce poverty. Opusunju, Akyuz & Jiya [70] pointed out that if a developing country actively implements reform and opening policies to promote economic growth, then active political assistance can play a supporting role in domestic economic development. Onaji-Benson [66] piercing out that the effectiveness of international aid is well known. Global aid will bring some positive effects to developing countries, such as providing public goods, increasing human capital, alleviating huge debts, and indorsing the development of some technologies to a certain extent [78]. On the other hand, foreign aid also faces many contests and criticisms. Foreign direct investment and other aid funds always ignore the industries or enterprises in developing countries that are in urgent need of funds, and are allocated to those places where there is no relative deficiency of funds, resulting in uneven distribution.

In general, from a macro perspective, FDI has a positive effect on economic development and the balanced development of the labor market. Okonkwo [63] research shows that for every 1% increase in FDI, actual employment can increase by 0.008%. Akintimehin, O. O et al. [13] research shows that FDI can create a large number of employment chances in the short-term. The impact of medium-term FDI on total employment is not yet clear. The impact of long-term FDI on employment is positive, but it depends on the spillover effect [79].

#### 2.1.2. Determinants and Development Impacts of FDI

In the context of FDI in developing countries, two strands of literature can be distinguished: First, there are studies that analyse empirically or by means of case studies, which factors encourage or deter foreign investment in a republic [80]. The second strand, examines the moments of FDI on the host nation state in general or on domestic companies specifically. Besides macro-economic impacts on indicators such as growth, poverty, exports or employment [32], many studies analyse the presence of spill-over effects. To the largest extent, these studies on spill-over effects of FDI focus on Latin American,

South-East Asian countries or Eastern European transition economies, while work on SSA countries is scant.

### **2.1.3. Foreign Direct Investment in the Banking Sector in Nigeria**

Foreign direct investment (FDI) was renowned as a powerful engine for economic growth; it did not only serve the long-term economic interests of foreign investors but can also play a significant role in the growth dynamics of host countries [42]. 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 monitoring sector, but the result has not been sufficiently encouraging in the past [81, 82]. 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 [40].

Foreign Direct Investment (FDI) plays an astonishing and growing role in global business.

## **2.2. Role of Financial Institution in Facilitating FDI**

FDI inflows in the financial sector are mostly channeled through banks which may hold or distribute FDI inflows to priority sectors [54]. However, the lack of support from government and regulatory authorities of the host country may negatively affect FDI inflows into a country. Past studies have identified the key drivers of FDI, and concluded that economic size, economic growth, financial development, infrastructure, institutional development, economic freedom, distance between countries, traditional difference, inflation, openness and tax rates are some of the key drivers of FDI inflows [10, 21, 45].

### **2.2.1 Impacts of FDI on the Financial Sector and Performance**

Kariuki, & Sang [43] in their study on "Financial Sector FDI and Host Countries: New and Old Lessons" admits that the foreign direct investment in the banking and financial sector relatively a recent phenomenon, which comes in the form of financial institutions in emerging and industrialized countries and establishing firms and facilities in developing countries. Chimaobi [33] in his work "Foreign Direct Investment in the Banking Sector: Empirical Evidence from Turkey" posited that there has been inflows of FDI capitals into especially developing countries through the establishing of multinational banking activities.

Kariuki, & Sang [43] argues that more recently, foreign direct investment into the financial sector has increased drastically especially in developing economies. The proliferation of foreign banks in Ghana is a perfect example to support the above argument [90, 91]. Studies have revealed that for a host country to get maximum benefits from FDI inflows it must have a well-developed financial sector as Pedro, Jorg & Jose [72] in their studies "Peripheral Direct Investment, Financial Development

and Economic Growth: Empirical Evidence from North African Countries" confirmed this statement by positing that the development of the local financial market and system is very critical for the realization of the overall impact of foreign direct investment on economic growth. Akanegbu, & Chizea [12] examined the impact of foreign direct investment on the profitability of telecom companies in India.

## **2.3. Dimension of FDI**

### **2.3.1. Foreign Exchange**

Foreign Exchange Transactions It is the conversion of a country's currency to another for the purpose of transaction executed by the banking sector over a specified period of time. Foreign exchange dealings operations of financial institution are the facilitator of international trade between Nigeria and the outside world as it involves the sales and purchase of foreign exchange [56].

Capital Adequacy Ratio (CAR) is one of the financial soundness ratios commonly used by the financial regulators to assess sound banking practices and financial performance of banks. It is a financial regulatory ratio introduced to improve banking sector's ability to absorb unanticipated adverse shocks and to ensure that banks cover a sufficient percentage of total assets with their own funds. It is used to restrict procyclicality by limiting the buildup of leverage in banks [51]. Equity Capital: 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. Pecuniary performance is the process of measuring the result of a firm [66]. The knowledge on the theme of equity capital and its determinants is very spread in the recent academic theory.

Reinvested foreign earnings: 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 [22], identifies the three characteristics of quality of reinvested foreign earnings as those earnings that are repeatable, controllable, and bankable. Sales growth and cost cutting are the best routes to high reinvested foreign earnings, both are repeatable [84].

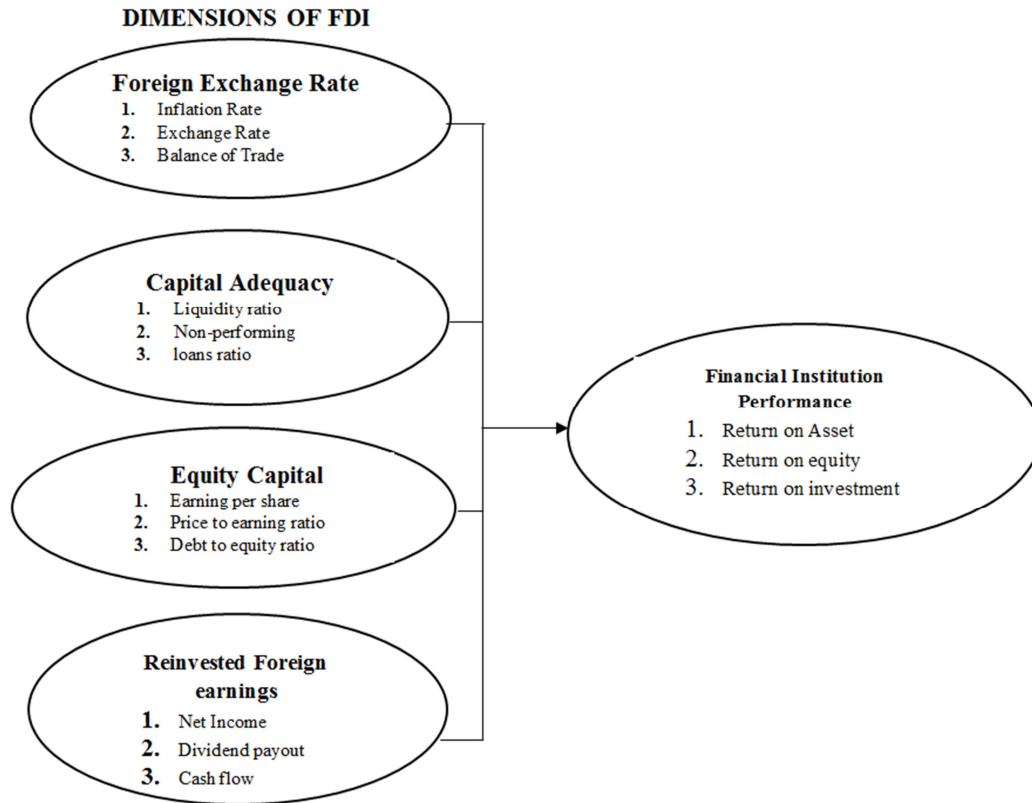
### **2.3.2. Concept of Financial Institution Performance**

Performance of financial institutions was rated as strongly rated as institutions achieved financial conditions which are satisfactory as well as improved operations results despite increase in market competition as the firms scramble for market shares [88]. Introduction of new or foreign products in the market as a result of increase in competition as the system continue to remain more capitalized [86]. Financial soundness is defined as a phenomenon where by the fund form the depositors are kept safely in a stable banking system [95]. The financial soundness tends to vary in each financial institution and would be unsatisfactory or satisfactory depending on the test and preference of customers [54].

### 2.3.3. Conceptual Framework

Oji-Okoro, I. et al. [61] defined a conceptual framework as a hypothesized model that identifies the model for the study and compares the independent and dependent variables. The main aim of a conceptual framework is to describe and categorize concepts that are relevant to the study and map the

relationships that exist among them. The Self-regulating variable of this study is foreign direct Investment, with the following dimensions; (foreign exchange rate, capital appropriateness, equity capital and reinvested foreign earnings). On the other hand, dependent variable is show financial institution.



Source: [42, 34, 60, 40]

**Figure 1.** Conceptual Model.

### 2.4. Theoretical Review

In Oladipo, O. A et al. [65], a model is a system of interconnected ideas that condense and organize knowledge about the world. The study will be grounded on on three theories (profit maximization theory, pecking order theory and Internationalization Theory related to impression of FDI on performance of financial institution in Nigeria.

#### 2.4.1. Profit Maximization Theory

The profit maximization theory was founded by to Marshall (1890). The theory is based on the argument that the key goal of enterprises is the maximization of profits. According to the theory every person who is part of the organization acts in his self-interest to make sure that the profits of the business are exploited. The scheme is usually used in the economic perspective whereby organizations ensure their profits are maximized by connecting marginal revenue to marginal costs.

Players in the financial institutions industry in Nigeria have adopted various strategies to improve their performance activities in connection to FDI. On the part of developing and

developed nations there is need to seek for foreign investment as they have seen the importance of such investment in the economic activities, through maximizing profit through the generated revenue from the transaction [19].

#### 2.4.2. Pecking Order Theory

In the theory of firm's capital structure and financing decisions, the pecking order theory was developed by Stewart C. Myers and Nicolas Majluf in 1984. It states that companies prioritize their sources of financing (from retained earnings to debt to equity) according to the law of least effort or of least resistance, choosing to raise equity as a financing means of resort. Hence, internal funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issue any more debt, equity is issued. The pecking order theory states that firms prefer to finance with internal funds. Ideally, a firm would have a debt ratio equal to zero. The pecking order theory can also be explained by the existence of transaction costs. Transaction costs associated with external finance play an important role in selecting financing sources [41]. Firms will first use internal equity financing, followed by external

debt financing and finally external equity financing. Debt financing precedes equity issues because transaction costs for debt are lower than for equity issues [25].

#### **2.4.3. The Internationalization Theory**

This theory tries to explain the growth of transnational companies and their enthusiasms for achieving the FDI. Buckley and Casson developed the theory. In 1976, Hennart, in 1982 and Casson, in 1983, initially, the theory was launched by Coase in 1937 in a national context and Hymer in 1976 in an international context. According to Anetor [18] internationalization can be conceptualized as a way by which a firm moves its activities outside borders of the indigenous country.

The first assumption was that the firm first establishes itself in the home country after which the subsidiaries could be introduced into international platform on various decisions. In the same vein, the imperfect competition emanated from the lack of knowledge constitutes an obstacle to internationalization. Buckley and Casson, who originated the theory establishes that transnational companies are organizing their internal activities to develop specific advantages, then to be exploit. Internalization theory considered very important also by Dunning, who uses it in the eclectic theory, but also argues that this explains only part of FDI flows. Beck, Jakubik & Piloiu [29] develops the idea of internalization by developing models between the two types of integration: perpendicular and straight [25].

### **2.5. Empirical Review**

#### **2.5.1. Bank Performance**

In United State of America, Cyree & Morris [34] conducted a research on the role of market demographics in determination of performance of banks, by using a sample of single county bank. The study adopted descriptive research design. The study found that market demographics play a key role in determination of performance of financial institutions. Performance was measured in terms of return on equity, return on investment, return on assets.

#### **2.5.2. FDI and Bank Performance**

Onuoha, Peregrino & Isiavwe [67] did a study on the relationship that exists between capital structure and profitability of listed industrial firms on the main board of the Kuala Lumpur Stock Exchange (KLSE). Data analysis was done with the help of Ordinary Least Squares and Correlation Analysis. According to the findings of the study, a significant relationship did exist between market imperfections changes in capital structure and the firm's profitability. Another finding was that there was a negative relationship between equity size and the firm's financial performance.

In Kenya, Githire & Mutiri [37] conducted a research on the effect of equity financing on financial performance of firms listed at the Nairobi Securities Exchange. The research population was made up of the organizations listed at the Nairobi Securities Exchange and the study's sample was made up of a census of all organizations listed at the Nairobi

Securities Exchange between 2008 and 2013. The research used an explanatory non-experimental research. There was overwhelming evidence that showed that equity financing positively affected the financial performance of the organization. The reason behind this was because there was direct control from the equity holders who ensured to maximize the interest of the shareholders.

In India, Poelhekke [74] found that almost one-fourth of the foreign direct investment in India is from foreign investors who reinvest their earnings which show the commitment to the operations in India. An analysis done on official data from the years 2008-09 and 2012-13 revealed that out of an FDI amounting to \$186 billion, \$45 billion was reinvested earnings. In the United States, Appiah & Fynn [23] conducted a study on the relationship between reinvested earnings and foreign cash acquisitions' profitability. According to the US tax 1819 laws, there is an incentive for the organization in the US meant to avoid foreign earnings repatriation as the administration has put up more charges for any repatriated foreign earnings. As pointed out in ASC 740, taxes on foreign earnings are treated differently. Incentives are higher so that firms can designate foreign earnings in terms of permanently reinvested earnings and delay the recognition of the deferred tax liability that comes as a result of repatriation of the US tax which leads to a higher after tax income [88]. Consistent with expectations, the study observed that organization that showed high earnings that were termed as PRE and which were held as cash did not make more acquisitions that were profitable by building use of their cash consideration equaled to organizations that had high levels of PRE that were considered as cash.

#### **2.5.3. Gaps in Literature**

This study bridges the literature gap by providing an update on the impact of FDI on performance of financial institutions in Nigeria by employing variables of foreign direct investment as independent variables (foreign exchange rate, capital adequacy, equity capital and reinvested foreign earnings) and performance as the dependent variable. The study provides new evidence on the impact of these variables on financial institution on FDI over the period covered. The study also focus on the gap that exist on the state of knowledge on the impact of FDI and financial institution performance, with a clear focus on the variables (foreign exchange rate, capital adequacy, equity capital and reinvested foreign earnings). Nigeria still fails to keep pace with others in attracting FDI poor structure, inadequate government policies, uncontrollable corruption, and inflexible labor laws due to the foreign exchange rate, thereby making the system prone to poverty, liberalized trade, banking and insurance sector not performing. Capital adequacy challenge among financial institutions in Nigeria is not developing much faster but poor due to massive corruption in the sections, this obstacle occurs as a result of lack of proper accountability and documentation of income, fund and cash flow. Equity capital, the studied that focused on financial institutions concerned fund growth and innovation by tapping equity capital money that people invest in organization in return for ownership and a share of profits. The nonprofit world has no corollary, making it difficult, costly, and



time-consuming to raise money. On the part of reinvested foreign earnings, in order to qualify for this exception financial institutions will invest its undistributed earnings indefinitely or that it will remit its undistributed earnings in a tax-free liquidation, this is not the situation in Nigeria, due to illegal activities within the sectors. A country of Nigeria's economic where the performance of financial institutions is rated beyond average, since government have reluctantly refused to address the underlying structural bottlenecks that make Nigeria financial institution encountered through their various transaction with respect to foreign direct investment and other business investment. Therefore, it should be made clear the factors that determine optimal level of foreign retained earnings in any given financial period among financial institution in Nigeria.

## 2.6. Summary

The summary review that various concept of foreign direct asset with determinants and development impacts of FDI, foreign direct investment in the banking sector in Nigeria were also analysed, role of financial institution in facilitating FDI, the Impacts of FDI on the financial Sector and Performance was also explained in relation to performance, types and effects of FDI was also explained emphatically linking the classes of FDI. Proportions of FDI was also reviewed, drivers of foreign direct investment were reviewed. On the aspect of performance, concept of financial institution performance was also reviewed, which give raised to conceptual framework or model used in the study to gain appreciative of the topic.

## 3. Research Methodology

This chapter presents a comprehensive plan regarding how the study will be conducted besides methods employ. In this chapter, which focuses on the research design, population, sampling process and techniques, method of data collection, validation of instruments and technique of data analysis are presented. One noteworthy and initial aspect of the research process is the research viewpoint. Research philosophy relates to the development of knowledge and the nature of that knowledge in relation to research [30]. According to Bell, Bryman & Harley [30], the main strands of research philosophy are positivism, realism, interpretivism, and pragmatism.

This study employments a survey design because it aims at establishing the effects of the variables of independence on the variables of the requirement. It is an inferential and descriptive survey design that is cross sectional in nature (collected at one-time period). Appiah, & Fynn [23] maintain that survey design helps a study to describe the relevant aspects of the spectacle under consideration and provide detailed information about each relevant variable and it is popular in social and management sciences and associated with deductive research approach [94].

The population of this study is some 10 selected financial institution operating in Jos Metropolitan city of Plateau Nigeria as at 1<sup>st</sup> January, 2022 (see table 1). Each bank is represented by its Chief finance officer (CFO).

**Table 1.** Population of the Study.

S/N	Names of financial Institutions	Group Chief Finance Officer
1	Eco Bank Plc	1
2	Access Bank Plc	1
3	Zenith Bank	1
4	Bank of Industry	1
5	Guarantee Trust Bank	1
6	Bank of Agriculture	1
7	First Bank Plc	1
8	United Bank for Africa	1
9	Union Bank	1
10	Stanbic IBTC Bank	1
	Total	10

Source: (Nigerian Stock Exchange, 2022); Consolidated report deposit money banks (P 14).

### 3.1. Method of Data Collection

The data for this study are obtained from two main sources namely primary and secondary sources.

The study collected both primary data and secondary data. Subordinate data was collected from the annual financial statement from selected financial institution through the respective Chief finance officers also, books, journals and publications. The study used a questionnaire to collect primary data, it is a tool of data collection in which each person is asked to respond to the same set of questions in a predetermined order [30]. Questionnaires were used because they enable a researcher to reach obtain information on the knowledge of FDI to the finance officers in some selected financial institutions in Jos Plateau State. The questionnaire was adapted from the study of Tony, I. N et al [89].

### 3.2. Reliability

Reliability refers to the extent to which a measurement scales or test is dependable, consistent, predictable and stable [87]. The reliability analysis is to test the internal consistency of the items. Cronbach alpha is a reliability coefficient that indicates how well the items in a set are positively correlated to one another. Abdelbaki [1] posits that reliability refers to the extent to which a set of variables is consistent with what is intended to be measured.

The results of the Cronbach alpha analysis and the other confirmatory tests are presented in (table 2).

**Table 2.** Tests of Reliability for risk management s' Questionnaire.

Number	Type of Reliability Test	Value	Remarks
1	Cronbach Alpha	0.799	Very Reliable
2	Split-half	Part 1=0.715 Part 2 =0.692	Very Reliable fairly Reliable
3	Parallel	0.799 0.801 (unbiased)	Very Reliable Very Reliable
4	Strict Parallel	0.699 0.703 (unbiased)	fairly Reliable Very Reliable
5	Guttman	Lambda 1 = 0.765 Lambda 2 = 0.818 Lambda 3 = 0.799 Lambda 4 = 0.686 Lambda 5 = 0.795 Lambda 6 = 0.849	Very Reliable Very Reliable Very Reliable fairly reliable Very Reliable Very Reliable



This study adopts the Cronbach's Alpha reliability test. The Cronbach's Alpha is computed using the stated formula given as:

$$\alpha = \frac{K}{K-1} \left[ 1 - \frac{\sum s^2 K_i}{\sigma^2} \right]$$

Where:

$\alpha$  = Cronbach's Alpha Coefficient

$K$  = number of items in the questionnaire (1, 2, 3, ..., N)

$i = 1, 2, 3, 4, 5, \dots, N$

$S_{ki}^2$  = sample variance

$\sigma^2$  = the population variance

2 = constant

*Method of data analysis*

Quantitative data composed through the questionnaires was crisscross for completeness and accuracy and usability. Descriptive statistics and content analysis were used to analyze the data collected. Closed questions were analyzed through the help of the Statistical Package for Social Science (SPSS) computer software by assigning numbers to responses for analysis of qualitative data as it is efficient and gives straight formal analysis. Regression is able to estimate the coefficients of the linear equation, involving one or more independent variables, which best predicted the value of the dependent variable. The researcher used multiple linear regression analysis to analyze the data. The regression model will be as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where: Y = Performance of Financial institutions; X1 = Foreign exchange rate; X2 = capital adequacy; X3 = equity capital; X4 = reinvested foreign earnings, and;  $\beta_0$  = Constant  $\beta_1$   $\beta_2$   $\beta_3$   $\beta_4$  and  $\beta_5$  = the regression equation coefficients for each of the variables, and;  $\epsilon$  = error.

## 4. Data Presentation and Analysis

This chapter describes the presentation and analysis of data followed by the discussion of the research results. The research outcomes are related to the research questions that guided the study. Data were analysed to identify frequencies, and describe the affiliation between the variables of the study; foreign exchange, capital adequacy, equity capital and reinvested earning and financial institution performance.

### 4.1. Data Presentation

#### 4.1.1. Data Screening and Editing

In conducting any multivariate analysis data cleaning and

screening are vital. This is because the quality and the meaningful outcome of the analysis depend more or less on the initial data cleaning. Thus, missing data, and outliers were checked and treated accordingly. In view of the effect of missing data in analysis, the researcher took precautionary measures right from the field of data collection in an effort to decrease their rate. Apart from missing data, another significant step of data screening is the evaluation and handling of outliers, which are the excessive case scores that may likely have a considerable negative impact on the outcomes. Outlier cases stereotypically have an exceptionally high or low value, a construct or a distinguishing mixture of values across numerous constructs, which makes the examination stand out from the lingering. The outliers were checked using SPSS by detecting cases with \* on the boxplot of the output. With respect to the suggestion of Thornhill [87] the Mahalanobis Distance (D) based on the number of IVs where critical values is 18.52 for four IVs was conducted to discover and deal with outliers (Hair et al., 2010).

#### 4.1.2. Profile of the Respondents

This study distributed 10 copies of questionnaires to some selected financial institution operating in Jos Metropolitan city of Plateau State, (First bank, Access Bank, UBA, Union Bank, Guarantee Trust Bank, Zenith Bank, Eco Bank, Stanbic IBTC Bank, Bank of Industry and Bank of Agriculture), these questionnaire was given to the chief finance officer (CFO). As a result of the researcher's persistence for completion of each questionnaire, since the populace is small all questionnaires were retrieved from the respondents, since writing materials was given as an encouragement which to an immense degree encouraged all participants.

The descriptive statistics shows that 6 respondent representing (60%) of the respondents are male while 4 respondent representing (40%) are female, for the years of respondents spent working as CFO 1 (10%) of the respondents have spent 1-5 years, 6 (60%) of the respondents have spent 6-10 years, while 1 respondent each with (10%) have spent 11-15, 16-20 and 21 years and above as CFO. Educational qualification of the CFO 1 of the respondent each with (10%) holds B.Sc and Other certificates, while 4 respondents each hold M.Sc or Ph.D. Marital Status, 7 respondents are married with (70%), while 3 respondents with (30%) are either widow or widower. On the Age of the respondents 26-40 years are 2 with (20%), 7 respondents with (70%) are between 41-53 years while one respondent is above 56 years with (10%).

*Table 3. Descriptive Statistics and Correlation.*

Variables	N	Mean	Std Dv.	Skewness	Kurtosis	1	2	3	4	5
FX	10	17.6328	3.28663	-.249	.254	1.000				
CA	10	15.1164	3.79665	.042	.498	.449	1.000			
EC	10	16.1761	3.84373	-.396	.148	.496	.629	1.000		
RFE	10	15.9463	3.93245	-.431	.615	.491	.557	.626	1.000	
PERF	10	19.0213	4.98170	-.109	.281	.562	.491	.557	.626	1.000

Where: FX = Foreign Exchange, CA = Capital Adequacy, EC = Equity Capital, RFE = Reinvested foreign earning.

From the above descriptive statistics, the independent variables result shows that the mean value for Foreign exchange

(FX) had 17.6328 mean. The descriptive analysis also shows that Capital adequacy (CA) has a mean value of 15.1164 which is lower than the mean value of Equity capital (EC) having a mean of 16.1761, The mean score of Reinvested foreign earning (RFE) of 15.9463 is averagely higher when compare with some variables, while Performance of financial institution has the mean of 19.0213 which is higher than other variables.

#### 4.1.3. Multicollinearity

Multicollinearity is a predicament transpires when the

independents variables are awfully unified to as high as 0.9 and above [87]. The general rule of the cut-off points is that the VIF and the tolerance values should not exceed 10 and not be less than 0.10. From the Table 2, it clearly shows that tolerance ranges between 0.384 – 0.608 significantly > 0.10 and less than 10. Similarly, VIF ranges from 1.646– 2.604, and, thus, is good enough as being < 10 [87]. Consequently, it is concluded that there is no multicollinearity problem among the variables.

*Multicollinerity Test based on Tolerance Values and VIF*

**Table 4.** Collinearity Statistics.

Independent Variables	Tolerance	VIF
Foreign Exchange	.548	1.825
Capital Adequacy	.437	2.287
Equity Capital	.447	2.239
Reinvested foreign earning	.501	2.109

Source: SPSS Output 26.0

#### 4.1.4. Hypotheses Testing

In this section attempt is been made to show the results of main effects for independent variables (foreign exchange, capital adequacy, equity capital and reinvested foreign earning) and Performance of financial institution as earlier hypothesized. Table 5 shows the standardized path coefficient ( $\beta$ ), standard error, t-values, p-value and decision taken. All the relationships are represented by standardized beta values. In testing the relationships, the significance level was set at  $p < .05$  and as indicated in the Table 5 the two direct relationships between the four independent variable and

dependent variable demonstrate significant positive effects. The four significant relationships include: (1) Foreign exchange (FX) and Performance of financial institution (PERF) ( $\beta = 0.104$ ;  $t = 1.816$ ,  $p > 0.070$ ); (2) Capital adequacy (CA), and Performance of financial institution (PERF) ( $\beta = 0.090$ ;  $t = 1.401$ ,  $p > 0.162$ ), (3) Equity capital (EC) and Performance of financial institution (PERF) ( $\beta = 0.071$ ;  $t = 1.311$ ,  $p > 0.102$ ), (4) Reinvested foreign earnings (RFE) and Performance of financial institution (PERF) ( $\beta = 0.049$ ;  $t = 1.400$ ,  $p > 0.010$ ).

**Table 5.** Hypotheses Testing.

Hypotheses	Relationship	Std Beta ( $\beta$ )	Std. Error	T-Value	P-Value	Decision
H1	FX → PERF	.104	.070	1.816	.070	Fail to reject
H2	CA → PERF	.090	.069	1.401	.162	Fail to reject
H3	EC → PERF	.071	.061	1.401	.162	Fail to reject
H4	RFE → PERF	.049	.071	1.400	.040	Fail to reject

Source: SPSS OUTPUT 26.0

Hypothesis 1: Foreign exchange rate does not have any significant impact on financial institution performance in Nigeria. This direct hypothesis is rejected based on SPSS output, which shows that there is a statistically significant relationship between Foreign exchange and financial institution performance (FX-PERF). In addition, the relationship between the constructs is positive ( $\beta = 0.104$ ;  $t = 1.816$ ,  $p > 0.070$ ). Based on the one –tailed test, t-value of 1.810 is significant since 1.65 is the threshold value for acceptance, therefor the study fail to reject H01.

Hypothesis 2: Capital adequacy does not have any significant impact on financial institution performance in Nigeria. Results from SPSS output shows that this hypothesis is rejected. The result reveals that path coefficient from Capital adequacy and financial institution performance (CA-PERF) is statistically insignificant with a low beta ( $\beta$ ) value and strong t-value ( $\beta = 0.090$ ;  $t = 1.401$ ,  $p > 0.162$ ). Therefore,

the hypothesis is not supported; it simply indicates that Capital adequacy a strong impact on performance of financial institutions on foreign direct investment.

Hypothesis 3: Equity capital does not have any significant impact on financial institution performance in Nigeria. This hypothesis is rejected based on SPSS output, which shows that there is a statistically insignificant relationship between Equity capital and financial institution performance (EC-PERF), with beta ( $\beta$ ) value, t-value and p-value as ( $\beta = 0.071$ ;  $t = 1.311$ ,  $p > 0.102$ ). This therefore, indicates that Equity capital based on this analysis output strong impact on financial institution performance in Nigeria on foreign direct investment transactions.

Hypothesis 4: Reinvested foreign earnings does not have any significant impact on financial institution performance in Nigeria. This hypothesis from SPSS output is rejected based, which shows that there is a statistically significant

relationship between Reinvested foreign earnings and financial institution performance (RFE-PERF), with beta ( $\beta$ ) value, t-value and p-value as ( $\beta = 0.049$ ;  $t = 1.400$ ,  $p > 0.010$ ). This therefore, indicates that reinvested foreign earnings

from the result of the analysis indicates a strong impact on financial institution performance in Nigeria on foreign direct investment transactions.

**Table 6.** Coefficient result.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.883	.153		25.368	.000
	FX	.104	.070	.0820	1.816	.002
	CA	.090	.069	.0191	1.401	.000
	EC	.071	.061	0.003	1.145	.041
	RFE	.049	.071	0.016	1.041	.001

a. Dependent Variable: PERF

Source: SPSS 26.0

#### 4.1.5. Panel Regression Analysis

Model 1: foreign direct investment variables (Foreign exchange, Capital Adequacy, Equity capital and Reinvested foreign earning) with performance of financial institutions in Nigeria; The Hausman test was assumed to hand-picked the

best fit model to test the hypothesis; the Cross-Section chi-square statistic with 5 degrees of freedom is 2.80 and the p-value of 0.0000 is unfilled in Table 4 below. The P-value of the Hausmann Chi-square Statistic is lower than 5%. The null hypothesis is accepted (random effect, see appendix 1).

**Table 7.** FDI ratio correlates with performance financial institutions in Nigeria.

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Constant	2.649	1.802	1.469	0.0002
FX	-0.185	0.148	-1.2467	0.0001
CA	0.008	0.1185	0.069	0.0002
EC	0.399	0.181	2.202	0.0011
RFE	-0.202	0.091	1.032	0.0000

Source: Authors' Computation (2022).

**Table 8.** Effects Specification Hausman Test.

R <sup>2</sup> Adjusted	R-squared	F-Stat	P-value	Test	D.w Stat	P-value
0.66	0.63	28.87	0.0000	2.80	1.902	0.7305

Source: Authors' Computation (2022).

Table 8: The R<sup>2</sup> of 66% shows, the goodness of the panel regression. The exogenous variables are jointly responsible for a 66% variation in the endogenous variable with an unexplained variation of 34%. Financial institution performance proxy by studied variables indicate a negative and significant relationship between foreign direct investment variables (Foreign exchange, Capital Adequacy, Equity capital and Reinvested foreign earning) and financial institution performance. The whole panel regression results are significant. F-stat of (28.87) is associated with a P-value of (0.000). The result is reliable for a meaningful analysis. The Durbin Watson Statistics of 1.90 is approximately 2 ruling out all possible suspicion of first-order positive autocorrelation.

## 4.2. Discussion of Findings

### 4.2.1. Relationship Between Foreign Exchange and Financial Institution Performance

From the statistical findings in the result table, foreign exchange and financial institution performance with foreign

direct investment transaction, shows the importance of foreign exchange in line with the activities and transaction of the financial institutions, with the effect of fluctuation of the foreign exchange, it appears very difficult for the financial institutions involves. The finding of this result was in line with [48, 9, 4, 3]. It was also supported by the study of Ahmed [8].

### 4.2.2. Relationship Between Capital Adequacy and Financial Institution Performance

The result based on the findings shows that capital adequacy display full financial institution performance is high, as established in the study of Trojette [91] who found a optimistic relationship between the CAR and performance of banks, however [74, 59] showed a negative relationship. Capital Adequacy Ratio (CAR) gives some protection to financial institutions when conducting transactions and the higher the CAR, the higher the level of protection.

### 4.2.3. Relationship Between Equity Capital and Financial Institution Performance

Based on the results of this study, there is a relationship

between equity capital and financial institution performance. Equity capital was recorded high and very crucial when involving foreign direct investment, and it establishes the facts that foreign direct investment capital financed by equity capital by financial institution. These findings agree with Kariuki, & Sang [44] findings that equity capital results in greater value for equity holders leading to better performance of the firm. These findings are also in line with those of Sharma & Singh [83] findings that the use of equity capital improves the performance of the financial institution. These findings also agree with Githire & Mutiri [37] argument that equity financing has a positive influence on firm financial performance.

#### **4.2.4. Relationship Between Reinvested Foreign Earnings and Financial Institution Performance**

Based on the results of this study, there is a relationship between reinvested foreign earnings and financial institution performance, from the result, reinvested foreign earning and performance of financial institution, the study found that they were all statistically momentous with performance, there exists a positive and statistically significant relationship. This means financial institutions involved in FDI are also reinvest part of their yield within the budget for more return. The results of this study is consistent with previous studies of Atuahene, S. A. et al [19] and Newman, C. et al [55]. Also supported by Thornhill [87] who conducted a study on permanently reinvested earnings and the performance of foreign cash acquisitions.

## **5. Summary of Findings, Conclusion and Recommendation**

### **5.1. Summary of Findings**

The study established that the variables of foreign direct investment (Foreign exchange, Capital Adequacy, Equity capital and reinvested foreign earning) has a significant effect on performance of financial institution in Nigeria, the study revealed that these variables (Foreign exchange, Capital Adequacy, Equity capital and reinvested foreign earning) significantly and positively affect those Nigeria financial institution involved in foreign direct investment. The capital also increases the equity holder's value thus positively impacting their performance through profitability. Financial institution that applies the use equity financing can improve their viability due to the direct control and due to the monitoring of how the resources are used by the equity holders in a bid to maximize their wealth. The study found that among the variables that reinvested foreign earnings establishes strong effect on financial performance in of listed financial institutions. The study found that reinvested foreign earnings have a positive and significant effect on return on equity among financial institutions in Nigeria.

### **5.2. Conclusion and Recommendation**

The paper clinches that foreign direct investment has a

significant effect on financial institutions performance in Nigeria. It revealed that foreign direct investment has a significant and positive effect on return on equity of financial institutions performance in Nigeria, also achieves that reinvested foreign earnings have a significant effect of bank performance in Nigeria. Specifically, the study found that reinvested foreign earnings suggestively and positively affected the Bank performance in Nigeria return on equity. It is believed that, foreign direct investment is significant for evolving nations. Many developing countries sees FDI as source of acquiring funds to augmenting domestic market, enhancing foreign exchange reserve and expanding domestic savings hence they provide incentives to attract it. Foreign Direct Investment is important in activities of financial institutions in Nigeria. In view of the above conclusions drawn from the findings, the following recommendations were made to contribute to the to the effect of foreign direct investment and financial institution performance in Nigeria, the following recommendations should be well noted:

- i. The government should also, through policies of appreciation or depreciation of the countries' exchange rates, reduce discrepancies in foreign exchange rates.
- ii. Government should also take measures in order to stabilize the capital necessary to financial institution in order to explore more on the FDI activities.
- iii. Financial institution should look to increase their equity capital to enhance their performance in terms of foreign direct investment activities.
- iv. Financial institution through the CBN in Nigeria to use re-invested earnings to improve their financial performance.

## **6. Contribution to Knowledge**

Practically, financial institution through the management and staff will ensure that that knowledgeable workforces handles the happenings of foreign direct investment in order to enhance to a large extent, performance in their connections. This implies that huge framework should be put in place to enhance proper dealings towards FDI.

Supposedly, the study will add to the prevailing theories in relation to foreign direct investment and financial institution performance among financial institutions also it will become a referral material especially on the study of financial institution performance.

Based on policy CBN need to device proper measures that would create the empowering environment that encourages foreign investors to invest in the financial institution, to provide much needed expansions and growth complete FDI activities.

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