THE EFFECT OF GLOBALIZATION ON BANKING OPERATIONS IN NIGERIA

Akowe Achimugu
Department of Accountancy
Federal Polytechnic Idah Kogi State, Nigeria
Email: Achimugakowe@yahoo.co.uk

Acho Yunusa
Department of Accountancy
Federal Polytechnic Idah Kogi State, Nigeria.
Email: achoyunusa@yahoo.com

Audu Joel Samson
Registry Department
Federal Polytechnic Idah Kogi State, Nigeria.
Email: Joelsamsonaudu@gmail.com

Abstract

Every organization whether profit oriented or not, operates within the conditions of resources constraint. Hence, exploring optimal measures towards efficiency and improved service output especially in this era of global stiff competitiveness requires vigorous mechanisms to flourish in the global scene. This paper titled “the effect of globalization on banking operations in Nigeria” is written to examine the effect of globalization on banking operations and the extent to which it has enhance the economic fortunes of the nation and the citizens. The researchers explore data from both primary and secondary sources while analysis was made using regression tool with the aid of SPSS. The paper concludes that globalization has improved banking operations in Nigeria and it has integrate Nigeria banking sector thus recommends that Nigerian government should formulate macroeconomic policies to enable domestic banks complete favorably with foreign banks.

Keywords: Globalization, Banking Operations, Foreign Direct Investment, Technology and Liberalization.

Introduction

The global scene in the twenty first century has witnessed a resurgence of international banking and a holistic integration of business transaction with little or no restriction. These according to Goldberg (2008) have occasioned a tremendous growth in the liberalization of banking operations across borders. Though, the international Monetary Fund (IMF) (1997) sees globalization as the growing economic and social interdependence of countries through increased volume of cross-border transactions and improved technology, therefore the financial operations of any nation significantly translates into the socio-economic status of the citizenries. Eboh, Okanya, Uma (2010) and Uma, Obidike (2013) argued that globalization has increased access to capital inflow, technological transfer and strong bargain for improved technical and managerial workforce. Globalization does not only broaden the nation’s economic fortunes but also exposes the nation to stiff competition and efficiency through huge capital inflow, capacity building and improved service delivery.
Banking institutions occupy a strategic position in the nation’s financial system and are pivotal in determining the economic fortune. Through the banking system the economic transactions are facilitated through trade, commerce, communication and advanced technology (Berger, hunter, and Timme 1993). And the international factors of production vis-à-vis Foreign Direct Investment (FDI) have spurred the nation economic activities and enhanced strategic employment generation which consequently has direct link with the financial inflow/output ratio and welfare of the citizens.

Arodoye and Iyoha (2014) noted that Foreign Direct Investment is not a guarantee for economic growth as various variables such as the gross domestic product (GDP), income per capital and exchange rate also play a significant role in measuring the economic profile of the nation on one hand and the citizens on the other hand hence, this paper explores three fundamental variables such as foreign direct investment, foreign exchange and profitability of a selected bank in Nigeria. It is expected that this multivariate approach would create a more robust findings that will guarantee a virile economy for the nation.

**Statement of the Problem**

The reality of globalization has undoubtedly exposed most organizations both formal and informal sectors to stiff competition, dynamics of world economic climate, accelerated formulation and execution of economic policies and programmes cum broaden access to competing for scarce resources. Turyahikayo (2014) noted that the effect of globalization is more adverse in developing economy especially considering the fact that they have little or no access to the resources required to compete favorably in the global scene. However, the key players in the global economy were considered to be at more advantage at the expense of the third world nations resulting from inadequate infrastructure, monumental corruption, policy reversal, lack of technical manpower to fit the global reality.

Consequently, the foreign direct investment, gross domestic product of the developing nations is relatively low hence affecting the profitability profile of most organization. The banking sector plays a pivotal role in the economy of every nation therefore it is against this backdrop that this research is being carried out.

**Research Proposition**

That Globalization has significantly affected banking operations in Nigeria

**Scope of the Study**

The concept of globalization is so broad, diverse and significant to the socio-economic scene of every nation. This study shall focus on the effect of globalization on the operations of banking sector in Nigeria. For purpose of emphasis, the research shall empirically focus on zenith bank PLC and its profitability profile for the period of 2005-2014. Finally the nation’s economy shall be x-rayed using two variables such as foreign direct investment and gross domestic product and how the duo have affected banking operations in Nigeria.

**Statement of hypotheses**

The following hypotheses were designed in their null forms

**Ho1:** Foreign direct investment has not affected the gross domestic product in Nigeria
Ho2: Foreign direct investment has not significantly contributed to the profitability of banking operations in Nigeria.

Operational Definition of terms

Globalization operationally is the mechanism of global economic, political and cultural integration. Banking operations operationally, encompasses all activities carried out by commercial banks in order to maximize growth, profitability and economic survival. Foreign direct investment operationally, is an investment in a business by investors from other nations. Finally, gross domestic product operationally, is the variable used to measure the economic health of the nation as well as the living standard of the citizens.

Conceptual Framework

Conceptualizing globalization in the banking sector especially the commercial banks have attracted significant research interest from several authors. Though, its impact cut across both socio-economic and political coloration its effects in Nigeria undoubtedly significantly interprete how direct foreign investment and gross domestic product affect the economic fortune of the nation and the citizens (Osamor, Akinlabi and Osamor, 2013). Therefore, this research shall conceptualize these concepts and its effects in Nigeria

Globalization

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

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

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

Foreign Direct Investment

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

Foreign Exchange

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

Global Interdependence and Economic Reality: The Nigerian Situation

Globalization has thrives on the waves of global interdependence resulting from the structure of the world economy because movement of resources and intellectual capacity have been made easy (Rodrik 1999). Broader trends in global scene have been integrated through the successful penetration of the world economy and development of advanced technology without hindrance. More so, Durham (2000) posits that global interdependence is manifested through the free movement of capital, technological and intellectual property with the instrumentality of liberalization. In Nigeria, despite the global trend resulting to technological and economic interaction between Nigerian and other nations, it has been bedeviled with high rate of unemployment, monumental corruption, low income per capital, insecurity, infrastructural decay hence, it has not been able to fully utilized the economic and socio-political benefits of globalization. This according to Rupali (2008) has been the bane of inadequate utilization of the impact of globalization to Nigerian state.

Players of Global Economy

The global economic environment is seen as the process of changes through fundamental restricting of the global economy. Onuoha (2012) concludes that the institutional changes of the global scene have been made possible through some key drivers and instruments. This according to Ikem (2000) is characterized through policies that favoured the promotion of globalization which have impacted the world economy.

Therefore, information technology play a pivotal role in the process of globalization and Akinuli (1999) Nwosu (2000) posit that it combines the progress in electronic, computing and telecommunications through highly dynamic process. Internationalization result to externalization of domestic competition where intense competitiveness strives across the global scene The key variables in global interdependence include information technology, internationalization, deregulation, institutionalization of democracy and liberalization of economic trade which enhances economic cooperation among nations ( Onuoha 2012)

Effect of Globalization in Nigeria

Globalization have been able to bridge the gap in economic and social status among nations especially as Obadan (2001) rightly observed that it creates a perpetual intensity for improvement through innovation, research, policy dynamics and liberalization.Globalization exposes the developing nations including...
Nigeria to greater risk and economic inequality resulting from the inability of the nation to compete favourably at the global scene. More so, Nigeria as a developing nation need to explore its natural resources to produce its primary commodity like agriculture hence, Onimode (2003,) and Ibrahim (2010) argued that the hasty quest to institutionalize globalization even to developing nations that were not adequately prepared for such rather exposes them to diversion of focus hence making them to neither remain here nor there.

Consequently, this has crippled the institutional development of Nigeria resulting from inferior level of technological development, lack of required degree of sophistication, infrastructural bankruptcy and lack of correlation between foreign direct investment (FDI) and the gross domestic product (Ajayi 2001). Though, globalization has significant impact on lowering the cost of capital acquisition by enterprises and also enables business entities including banks to raise funds for business development its benefits has not been fully accessed In Nigeria due to the institutional injury of Nigerian state and the barrier to trade, investment and financial flows as compared to other developed economies.

Overview of Nigerian Banking Sector

The Nigerian banking sector started in 1892 when the first commercial bank (the African banking cooperation) was established in Lagos. The 1952 ordinance set standards required reserve funds, established bank examinations, and provided for assistance to indigenous banks. Yet for decades after 1952, the growth of demand deposits was slowed by the Nigeria propensity to prefer cash and to distrust checks for debt settlements.

In 1952 several Nigeria members of the federal house of assembly called for establishment of a central bank to facilitate economic development but it began operation on July 1, 1959. And the period (1959-1969) marked the establishment of formal money, capital markets and portfolio management in Nigeria. The period marked the beginning of serious banking regulation in Nigeria with the CBN in operation, the minimum paid-up capital was set at ₦400,000 (USD 480,000) in 1958. By 2001, the banking sector was fully deregulated with the integration of universal banking system in Nigeria which merged merchant banks operation to commercial banks system preparatory towards the 2004 bank consolidation.

In the 1990 the unguided nature of banks led to the failure of many which led to another recapitalization that meant bank capital being increase to ₦5000 million (USD 5.088) and subsequently increase to 2 billion naira with the formulation of 13-point reform agenda aimed at solving the fragile nature of the banking system. The banks and minimum paid up capital between 1952 and 1978; the banking sector recorded forty-five banks and rose to fifty four between 1979 and 1987. The number of banks dropped to twenty five with the increase in minimum paid-up capital from ₦2 billion (USD 0.0166billion) in January to ₦25 billion (USD 0.2 billion) in July 2004. Somoye (2008) observed that after the consolidation, the number of banks reduced to twenty three resulting to merger of some banks. These banks accept deposits from customers provide credit facilities, manage customer’s portfolio of investment.

Theoretical Framework

The study adopts the dependency theory which as depicted in Agba (2014) is a radical type of developmental attribute which explains the underdevelopment of less developed nations and inequality that exist between the developed and underdeveloped nations. The dependency theory of globalization portrays the phenomenon in which scarce resources are distributed to enrich the wealthy and developed nations at the detriment of the third world nations.
This theory agrees with the argument of Ajayi (2001) which posits that the underdeveloped states must vigorously pursue internal growth with the instrumentality of import substitution and rapid industrialization as the trend of globalization have rather not make the underdeveloped nations better. Therefore, the internal forces should be integrated to address poverty, unemployment, deprivation and exploitative tendency being witnessed from the international capital bourgeoisie. In Nigeria, the gross domestic product have shown that much more need to be done to improve the socio-economic wellbeing of the citizens hence exploration of internal mechanism to improved productivity should adequately be harnessed.

Research Methodology

The researchers explore data from both primary and secondary sources. This is aimed at integrating data from the duo sources. More so, the paper focused on zenith bank PLC and the variables used were Foreign Direct Investment (FDI), Gross Domestic Product (GDP) and Profitability which covers the period of ten years. These variables are expected to give an in-depth exposition of the effect of globalization on banking operation I n Nigeria.

Test of Hypotheses

Regression analysis on the effect of Foreign Direct Investment on Gross Domestic Product

| Source: Data analysis SPSS |

The table depicts the mean and the standard deviation of FDI and GDP.

<table>
<thead>
<tr>
<th></th>
<th>FDI</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>5.5832E9</td>
<td>1124.1630</td>
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<tr>
<td>Std.deviation</td>
<td>2.10559E9</td>
<td>557.14310</td>
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<td>10</td>
<td>10</td>
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<table>
<thead>
<tr>
<th>Correlations</th>
<th>FDI</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson correlation</td>
<td>FDI</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>GDP</td>
<td>-0.068</td>
</tr>
<tr>
<td>Sig (1-tailed)</td>
<td>FDI</td>
<td>.426</td>
</tr>
<tr>
<td></td>
<td>GDP</td>
<td>.426</td>
</tr>
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<td>FDI</td>
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</tr>
<tr>
<td></td>
<td>GDP</td>
<td>10</td>
</tr>
</tbody>
</table>

| Source: Data analysis from SPSS |

Research Centre for Management and Social Studies (RCMSS)
Model Summary

<table>
<thead>
<tr>
<th>MODEL</th>
<th>R SQUARE</th>
<th>ADJUSTED R SQUARE</th>
<th>STD. ERROR OF THE ESTIMATE</th>
<th>CHANGE STATISTICS</th>
<th>DURBIN WATSON</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.068</td>
<td>.120</td>
<td>2.22808E9</td>
<td>.005</td>
<td>.03</td>
</tr>
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</table>

**Source:** Data Analysis SPSS

- Predictors: (constant) : GDP
- Dependent Variable: FDI

R square is 0.68 meaning that 68% of the total variation in FDI could be explained by GDP of the nation.

Anova

<table>
<thead>
<tr>
<th>MODEL</th>
<th>SUM OF SQUARES</th>
<th>DF</th>
<th>MEAN SQUARE</th>
<th>F</th>
<th>SIG</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>1.869EI7</td>
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<td>1.869E17</td>
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<td>.851*</td>
</tr>
<tr>
<td>Residual</td>
<td>3.97IE19</td>
<td>8</td>
<td>4.964E18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3.990EI9</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Hypothesis to be tested**

HO: Foreign direct investment has not affect the gross domestic product in Nigeria.

**Decision Rule**

Accept HO if the P-value is greater than 0.05 otherwise reject.
Conclusion
Since the P-value (.851) is greater than 0.05 we accept HO, therefore we conclude that foreign direct investment has not affected the gross domestic product in Nigeria at 0.05 level of significance.

Coefficients a

<table>
<thead>
<tr>
<th>MODEL</th>
<th>UNSTANDADIZED COEFFICIENTS</th>
<th>95% confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std error</td>
</tr>
<tr>
<td>1. constant</td>
<td>5.874E9</td>
<td>1.656E9</td>
</tr>
<tr>
<td>GDP</td>
<td>-25860.910</td>
<td>-1333039.942</td>
</tr>
</tbody>
</table>

Source: Data analysis SPSS

The simple linear regression model is given below:
\[ Y (FDI) = 5.874E9 - 25860.910 (GDP) \]

We deduced from the model that FDI reduces by 25860.910 units for every 1 unit of GDP.

Hypothesis 2
Regression analysis on how foreign direct investment has contributed to banking operations in Nigeria.

Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>5.5832E9</td>
<td>2.10559E9</td>
<td>10</td>
</tr>
<tr>
<td>BAP</td>
<td>44935.7000</td>
<td>34931.05324</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: SPSS Data analysis
The table depicts the mean and the standard deviation of FDI and BAP.
Correlations

<table>
<thead>
<tr>
<th></th>
<th>FDI</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson correlation</td>
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<tr>
<td></td>
<td>BAP</td>
<td>-.546</td>
</tr>
<tr>
<td>Sig (1-tailed)</td>
<td>FDI</td>
<td>-.546</td>
</tr>
<tr>
<td></td>
<td>GDP</td>
<td>1.000</td>
</tr>
<tr>
<td>N</td>
<td>FDI</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>GDP</td>
<td>10</td>
</tr>
</tbody>
</table>

**Source:** Data analysis SPSS

**Model Summary b**

<table>
<thead>
<tr>
<th>MODEL</th>
<th>R SQUARE</th>
<th>ADJUSTED R SQUARE</th>
<th>STD. ERROR OF THE ESTIMATE</th>
<th>CHANGE STATISTICS</th>
<th>DURBIN WATSON</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.298</td>
<td>.211</td>
<td>1.87084E9</td>
<td>.298</td>
<td>3.400</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>.102</td>
</tr>
</tbody>
</table>

**Source:** Data Analysis SPSS

b. Predictors : (constant) : BAP
c. Dependent Variable : FDI

The correlation between FDI and BAP is 0.55, meaning that FDI and BAP are not too strong but linearly correlated.

R square is 0.298 meaning that 55% of the total variation in FDI could be explained by BAP in the banking sector.
Hypothesis to be tested
HO: Foreign direct investment has not significantly contributed to the profitability of banking operations in Nigeria.

Decision Rule
Accept HO if the P-value is greater than 0.05 otherwise reject.

Conclusion
Since the P-value 0.102 is greater than 0.05 we accept HO, therefore we conclude that foreign direct investment has not significantly contributed to profitability of banking operations in Nigeria at 0.05 level of significance.

Coefficients a

<table>
<thead>
<tr>
<th>MODEL</th>
<th>SUM OF SQUARES</th>
<th>DF</th>
<th>MEAN SQUARE</th>
<th>F</th>
<th>SIG</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>1.190e19</td>
<td>1</td>
<td>1.190e19</td>
<td>3.400</td>
<td>.102a</td>
</tr>
<tr>
<td>Residual</td>
<td>2.800e19</td>
<td>8</td>
<td>3.500e18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3.990E19</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Data Analysis SPSS

c. Predictors: ( constant ) ; BAP
d. Dependent variable ; FDI

Model

<table>
<thead>
<tr>
<th>MODEL</th>
<th>UNSTANDADIZED COEFFICIENTS</th>
<th>95% confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std error</td>
</tr>
<tr>
<td>BAP</td>
<td>-3290.214</td>
<td>17852.724</td>
</tr>
</tbody>
</table>

Source: Data Analysis SPSS
a. Dependent variable: FDI

The simple linear regression model is given below:

\[ Y \text{ (FDI)} = 7.0693E9 - 32920.214 \text{ (BAP)} \]

We deduced by the model that FDI decreases by 32920.214 for every unit of profitability.

Summary of Findings

This research revealed the following findings:

i. That from the regression analysis, foreign direct investment has not significantly affected the gross domestic product in Nigeria.

ii. That from the regression analysis foreign direct investment has not significantly affected the profitability of banking sector in Nigeria.

iii. Globalization has significant impact on banking operations in Nigeria.

iv. Foreign direct investment is enhanced through globalization and integration of the political and socio-economic activities at the global scene.

v. Despite the benefits of globalization, there is wide gap between the developed nations and the third world nations resulting to inequality, economic stagnation and infrastructural bankruptcy of the developing nations.

Conclusion

From the empirical evidence in the research, the paper concludes that globalization is a salient tool for economic growth and development. Though, Nigeria has witnessed economic growth as banking operations has created employment opportunities for the citizens but this has not translated into economic development resulting from high cost of doing business, infrastructural deficiency and inability to domesticate the local raw materials to expand the economy hence, the gross domestic product has been adversely affected. This vindicates the argument of Ajayi (2001) that suggest the integration of domestic economic mechanism to enhance the standard of living.

Recommendations

In the light of the findings, the researchers recommend that:

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

2. Financial and business environment reforms should be strengthened especially improvement of Nigerian basic infrastructure.

3. Macroeconomic policies should be aggressively implemented to enable domestic banks compete favourably with their foreign counterparts.

4. Trade policies in favour of export expansion should be encouraged.

5. Capacity building and entrepreneurial skills should be encouraged to improve employment and the nation’s gross domestic product.
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