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Global Financial Crisis, International Shareholdings and Financial Distress in Banking Sector in Nigeria

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Abstract
The experience of the global financial crisis on economic activities of nations around the world, which made the owner of the real and financial sector hold the horn by the bull resulting to significant structural changes on the financial positions of deposit money banks not only in developed countries but also in developing economies including Nigeria. This main objective of this study is to examine the impact of global financial crisis and international shareholdings on financial distress in banking sector in Nigeria. The research design adopted in this study is the case study method, in other to have an intensive insight of the subject matter. This study employed the Stratified Sampling technique where the selected banks made a good representation of the banking industry in Nigeria. The expert opinion was sought for in order to validate the content and the structure of the questionnaire during the pilot study. The result of the findings shows that global financial crisis and international shareholding have significant effect on financial distress in the banking sector in Nigeria. The study concluded that in addition to the current security challenges that are wreaking havoc on all areas of the economy and require urgent attention from the government and policy makers, regulatory measures and bank efforts are crucial to stabilizing the system in the short term. The central bank should adopt strict monetary discipline to reduce its monetization of the debt and implement policies to control inflation, among other measures.

Keywords: Financial Crisis, Economy, Inflation, Global.

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I. Introduction

The global banking industry has undergone major structural changes as a result of the experience of the global financial crisis. Significant flaws in the banking system and the regulatory environment were exposed by the crisis, which encouraged excessive lending and risk-taking that was not supported by adequate capital and liquidity buffers (Agur & Demertzis, 2012). Although the headwinds have started to ease, the crisis's repercussions have had a significant negative impact on bank performance, financial stability, and economic growth in many jurisdictions. At the same time, a number of banking systems in industrialized economies must deal with poor profitability, legacy issues, technological development, greater non-bank competition, and changes in globalization, to name a few of the system's more general environmental concerns.

The CBN, Nigeria's top industry regulator, responded to the crisis by improving supervision and reforming the country's prudential and guiding principles (Adegbite, 2015). These reforms' main objectives have been to improve recovery and resolution procedures, strengthen capital and liquidity buffers for banks, and decrease implicit state subsidies and the effects of bank failures on the economy and taxpayers (Angeloni, Faia & LoDuca, 2015). In addition, the system's dynamic adaptation and the introduction of new hazards demand continual monitoring.When the unanticipated worldwide epidemic COVID 19 struck in the middle, affecting lives and livelihoods across Africa, Nigeria's banking sector was quick to react. The Central Bank of Nigeria (CBN) launched a stimulus package right away to address the pandemic's effects on important industries, including lowering the interest rate on its intervention facilities from 9% to 5%.

However, Nigerian banking has a difficult path ahead of it. The ongoing pandemic, currency depreciation, and other macroeconomic issues continue to obstruct the sector's progress. The sector was already under stress before the crisis as a result of a slow economy, a difficult operating environment, and rising competition intensity. In the past, more than ten years have passed since the 2008 financial crisis and six years have passed since the oil crisis, and Nigeria's banking sector is still dealing with macroeconomic pressures like slowing real gross domestic product (GDP) growth rates, rising unemployment and inflation rates, and erratic naira-to-dollar exchange rates brought on by volatile oil prices. These elements are working together to reduce government spending, investment, and consumption, which has an impact on the banking industry.

Banks are under more pressure as a result of legislative initiatives to strengthen the financial system and expand lending to boost the production of goods and services. The CBN's January 2020 downward pricing changes to electronic banking costs, which were intended to safeguard the protection of consumer rights as more people become financially engaged, have had a detrimental impact on banks' fees and commission income (Cao & Illing, 2015). The Cash Reserve Requirement (CRR), which at 27.5 percent is among the highest in the world, also has a negative impact on profitability (Duhnfort, Klein, & Lampenius, 2008). The CRR limits banks' ability to lend because these reserves can only be used for intervention funds, forcing them to park an increasing percentage of local currency deposits with the central bankIn addition to all of these factors, the CBN's goal of reaching an 80 percent financial inclusion rate by 2020 has increased competition in payments from nonbank rivals (IMF, 2020).

The ownership of a company has a significant impact on its success or failure, especially when they are actively involved in its administration and operations. Similar situations where foreign investors were involved can also come to light. Insider abuse resulted from directors failing to uphold their fiduciary obligations to manage the assets of the companies in a prudent manner due to poor corporate governance standards and control fraud (Akintoye, 2014: Oyetunji et al 2022).Foreign shareholders' potential ignorance or complacency regarding their rights and obligations could make the issue worse. In these situations, it can be claimed that shareholders primarily struggle with ignorance, and even when they are aware of their rights, they often respond passively and without knowledge of the appropriate course of action. Despite this, the Nigerian financial crisis has raised a lot of awareness about shareholder activism in the nation. These can be found in the form of policies, rules, and academic articles that explain the rights and obligations of shareholders in the company.

In view of this, it is the focus of this study toexamine the extent to which shareholders can be said tohave contributed to the banking financial distress in Nigeria.The study also intends to determine the effect of global financial crisis and international shareholding on financial distress in the banking sector in Nigeria.The paper is organized in the following order: The introduction is followed by the review of related previous literature and conceptual clarifications. Thereafter, we provide the theoretical and empirical framework that influences our discussion. The next theme shows the methodology and the result, and last theme shows the discussion, conclusion and recommendations.

II. Literature Review

Global Financial Crisis (GFC)

When the value of financial assets and instruments drastically drops, a financial crisis has occurred. As a result, firms struggle to pay their debts, and financial institutions are unable to fund projects or satisfy urgent needs due to a lack of cash or convertible assets (Okonjo-Iweala, 2009). The period of high stress in the world's financial markets and banking institutions between mid-2007 and early-2009 is known as the global financial crisis (GFC) (Thalif, 2009).

A decline in the US home market during the GFC served as the impetus for a worldwide financial crisis that expanded from the US through connections in the global financial system.Nigerian banks were among those to suffer significant losses, and they resorted to government assistance to stay afloat (Johannes, 2009). As the major industrialized economies went through their biggest recessions since the Great Depression in the 1930s, millions of people lost their employment. Additionally, the crisis' recovery took significantly longer than it did compared to previous recessions that weren't related to a financial crisis (Jonathan, 2009). Following the 2001 financial crisis and the subsequent reform, the banking industry had tremendous development from 2002 to 2008. The number of branches and the workforce significantly increased during this time.

Likewise, as at now, the sector's financial structure also strengthened, risk management procedures improved, and public monitoring became more efficient. There are a number of factors contributing to the banking system's strong performance between 2010 and 2012, including the relevant domestic and global economic situation and changes to risk management theory (Rygh, 2016). The Nigerian banking industry has likewise been impressed by the global financial crisis. Despite this, the country's banking industry experienced comparatively little damage from the crisis compared to counterparts in developing and other emerging countries.

Financial distress

A general term used to describe situations in which businesses have financial trouble is "financial distress." Failure, default, insolvency, and bankruptcy are the words that are most frequently used as synonyms for financial trouble (Geng, Bose, and Chen, 2015). Early warning signals have been argued to be crucial to limiting the potential negative impact of financial distress on the economy (Simpson and Gleason, 1999). Financial distress in banking continues to be a serious issue for owners, managers, and the general public (Li, Crooks, and Andreeva, 2014). The extreme and irreversible result of financial hardship, however, is bankruptcy, and as a result, many financially challenged businesses avoid bankruptcy through early operation rehabilitation.

There are many definitions of financial distress because different countries have different accounting procedures and rules. According to common consensus, it occurs when operating cash flow is below negative net assets (Li *et al*., 2014). According to Geng *et al*. (2015), some of the techniques that have been employed for the prediction of financial distress include discriminant analysis, logit or probit regression models, linear conditional probability models, neural network, decision trees, case-based reasoning, genetic algorithm, rough sets, support vector machines, and others. The majority of these methodologies' fundamental presumptions, however, are not grounded in reality. Due to the shortcomings of statistical techniques that have been widely employed throughout the years, current research has concentrated on developing better models for predicting financial trouble.

Financial Distress in the Nigerian Banking Industry:

Financial distress has been a major problem in Nigeria since it has occasionally affected the banking industry. Three periods, from 1940s to the 1950s; 1989 to 1998; and 2007 to 2010, can be used to succinctly partition the history of Nigerian financial distress. The hardship faced throughout the 1940s and 1950s was caused by a variety of factors, including poor asset management, insufficient money, and a lack of managerial experience among unskilled staff, to name a few (Adekanye, 1983; Osaze and Anao, 1990). When government agencies began to withdraw large amounts of money from their accounts in 1989, the second financial crisis was first noticed. After the presidential election on June 12 was declared invalid in 1993, the situation grew worse.This led to the collapse of the inter-bank market which eventually spread to all areas of the financial system (Ailemen, 2003; Hecko, 2007; Sanusi, 2010). (Ailemen, 2003; Hecko, 2007; Sanusi, 2010). The third phase of financial distress crisis happened in the aftermath of the 2007- 2009 global financial crises that prompted the Central Bank of Nigeria (CBN) to offer funding support to the banking industry. The third era of misery was partly explained by the global financial crisis, yet, it was apparent that the banks contributed in no small degree to its growth.

The CBN commissioned a special study into the 24 banks in the nation's financial standing during this time. Eight banks' boards were terminated at the conclusion of the investigation due to insider trading, fraud, poor risk management, insufficient capital, and corporate governance violations (Osaze, 2011; Sanusi, 2011). As a result, the CBN provided the banking sector with new Tier II capital worth US$4.1 billion (Sanusi, 2010; Fadare, 2011). In the Nigerian banking industry, financial difficulty is not a brand-new occurrence. Despite this, there aren't many research on the subject, and those that have been done almost exclusively used logit/probit models and centered on bankruptcy, which is the end result of financial trouble.

International Shareholdings

In a foreign direct investment, the foreign investors (foreign shareholders) are involved in the management and control of the physical enterprises. Opening a subsidiary or associate firm abroad, obtaining a controlling stake in an existing foreign business, merging with another foreign business, or forming a joint venture are all examples of foreign direct investments.Foreign direct investment isn't exactly defined in a way that is generally accepted. In addition to finance, external resources such as administrative, technological, and marketing know-how are typically included in foreign direct investment (Aremu, 2005). This typically boosts host economies' efficiency and encourages positive change by introducing new resources, technology, management, and marketing, among other things.

Foreign direct investment, according to Sullivan and Sheffrin (2017), is when one corporation from one country makes a physical investment into developing a factory in another country; The establishment of an enterprise is what it is. Foreign investment, as defined by Oloyede and Obamuyi (2000), is an investment made in a foreign nation where the investing party (a corporation or firm) maintains control over the investment. Foreign investments typically take the form of branches, affiliates, or subsidiary operations. In other words, foreign investors exercise control.

According to Shiro (2010), outside resources such as technology, management and marketing know-how, and capital are used in international investments. In his own words, Okon (2006) defines foreign investment as the purchase of real property and/or stock in corporations by either citizens or governments of different nations. It is the international purchase of material or financial assets. Foreign investment and foreign trade are distinguished by how money is used to execute an enterprise.

Foreign investment, according to Odiase-Alegimenlen (2014) and James Harrison (2014), is a way through which cash, technology, and other managerial capabilities are acquired outside the country by a state.According to the rules established by the Organization for Economic Cooperation and Development (OECD), a minimum 10% ownership stake in a foreign-based company, typically represented for the investor purchasing 10% or more of the ordinary shares or voting shares of a foreign company, is the requirement for a foreign direct investment that establishes a controlling interest (Ikeobi, 2015).

Effects of Global Financial Crisis on Nigeria Economy

Before the financial crisis, the Nigerian economy was unstable. Without a doubt, the situation will worsen due to the global financial crisis. The impact of the economic collapse will undoubtedly be exacerbated by the increase in food prices as well as the unpredictability and volatility of the industrial world.As a one-product economy that relies on imports for the majority of its needs, including infrastructure, technology, power, and even food, Nigeria is negatively impacted by the collapse of other economies in two ways: the short sale of its economic mainstay, oil and the high cost of imported inputs and finished goods.

The greatest revenue-producing and most significant sector for Nigeria's economic expansion is the oil and gas sector. More than 70% of all government revenue in Nigeria comes from oil sales alone. Additionally, the GDP was boosted by the oil and gas industry, which accounted for over 70% of all exports. Since the large-scale discovery of oil, the industry has been the main driver of the economy. The economy will be impacted by any decrease or change in the price of oil.

Theoretical Review

Agency theory is the most prominent and rooted in the idea of separation of business ownership and control between shareholders and managers. The agency problem arises out of the possibility of opportunistic behaviour on the part of the agents against the welfare of their principals (Duhnfort, Klein, and Lampenius, 2008; Idam, 2015). However, agency theory is limited because it does not explain the multidimensional complexity and character of corporate governance phenomenon (Adegbite, 2015; Briano-Turrent and Rodriguez-Ariza, 2016). The stewardship theory sees managers as good stewards of the business organization who work diligently to attain high level of corporate profit and shareholders' returns.

The stakeholder theory on the other hand sees the organization as a system of stakeholders operating under a wider societal system, which provides the input, market, legal and other operational infrastructure for the organization. The theory advocates that stakeholders, including employees, customers, suppliers, communities and other groups, are directly or indirectly affected by the organization's operations, and should have a representation on the board of directors.

The Lending Credibility Theory

By Randall Stone (1992), the Lending Credibility Theory was first put forth when internal auditors who report both functionally and via reporting relationships are viewed negatively by lenders, according to James' (2003) research, which will impact how investors view transparency. This notion is based on the idea that the main goal of auditing is to give the management-presented financial statements more credibility (Nwaobia, 2017). The auditors' addition of a financial statement service undermines its credibility.

In a similar vein, managerial ownership is a value added in that it contributes to the credibility of the financial statement by guaranteeing overall quality management of the business affairs.They must have confidence that the reports are an accurate reflection of the economic value of the company if stakeholders like investors, the government, creditors, etc. are required to base economic decisions on the financial reports. It is anticipated that auditing will drastically minimize the information asymmetry.

Elster (1999) provided additional psychological evidence for the lending credibility theory by arguing that a person's behavior and character might give credibility to a report.

The credibility of a report depends on the audit's quality and integrity as well as the management's efforts to produce a document that, to the best of their knowledge, accurately depicted the firm's condition of affairs.To ensure that they receive the proper returns and benefits in the end, debt and equity providers must have faith in the management of the business organization's ability to steer the concern to a "utopian height or Eldorado." The type of ownership structure that is common in a company will also play a significant role in winning back the trust of present and potential stakeholders. The implication is that different stakeholders will have different attitudes about ownership, with some favoring management ownership, others institutional ownership, and some, of course, favoring foreign ownership.

Empirical Review

Baklouti *et al.* (2016) investigated the relationship between governance mechanism, and the financial distress in European Union banking sector for the period of 2005-2011. The study involved a sample of 147 banks spread throughout 18 countries and used concentration of ownership, size of board of directors and accumulated function of CEO and investors protection as a measure of banking governance; the bank specific characteristics was represented by CAMEL in addition to bank size; and, the macroeconomic variables were also included. The bank size was appeared to be a key determinant of financial distress. As far as the CAMEL type variables is concerned, the return on assets coefficient before the crisis has significantly negative association with the likelihood of financial distress, while it was not significant for other periods.

Baklouti *et al* (2016) documented negative relationship between economic growth and distress of banks. This was because as the weaker the economic growth is, the more the businesses & households will reduce their inflows, resulting, in an increase in the probability of financial distress of banks, as far as the banking sector of Sub-Saharan Africa is concerned.

Angeloni *et al*. (2015) also supported the existing evidence linking monetary policy and bank riskiness through a risk taking channel: lowering policy rates raises bank riskiness especially on the funding side. Their results highlight a new channel arising from the endogenous formation of risk. The higher the investment project risk, the more likely bank runs materializes. This threatens bank funding and investment through increased volatility, and hampers output potential in the long run.

The relationship between excessive bank risk taking and monetary policy is further investigated by Agur and Demertzis (2012). They suggest that banks' moral hazard dampens the ability to contain the build-up of risk, as it amplifies their levering activities. They conclude that the correlation between banks' assets matters for the impact of monetary policy, which implies that regulations aimed at containing common exposures in the financial system interact with monetary transmission.

Dell'Ariccia *et al.* (2016) presented evidence of a risk-taking channel of monetary policy for the U.S. banking system using confidential data on banks' internal ratings on loans to businesses. The study found that ex-ante risk taking by banks (measured by the risk rating of new loans) is negatively associated with increases in short-term interest rates. This relationship is however, more noticeable in jurisdictions that are less in sync with the nationwide business cycle and less prominent for banks with relatively low capital or during financial distress episodes.

Garcia-Torea, N.,Fernandez-Feijoo, B. & de la Cuesta (2016) have established that the shareholder and stakeholder perspectives are the most relevant approaches for analyzing the firm's corporate governance. While the former considers that the key aim of corporate governance is the protection of shareholder interests, the latter advocates that the main objective of corporate governance is to guarantee the interests of all of the firm's stakeholders.

III. Methodology

The research design adopted in this study is the case study method, in other to have an intensive insight of the subject matter. Primary data used is the survey technique. This was supplemented with data from secondary sources of information. The research was carried out in the Nigeria banking industry based on a sample of four deposit money banks in Nigeria. Out of the One hundred and twenty (120) questionnaires that were administered on the 4 deposit money banks, 30 questionnaire each for the 4 different banks, only 90 questionnaires were retrieved from the respondents who were mainly bank employees amongst who are professional experts and investment analysts, shareholders and customers among others. The choice of respondents was based on their knowledge and experience in the industry.

This study employed the Stratified Sampling technique. Stratified sampling, is the population categorized into groups that are distinctly different from each other on relevant variables. Each group is called stratum (plural strata). In applying stratified sampling, we categorized the population and stratified using bank capital. Each group is called stratum. In this study, the elements in a particular stratum are the same with respect to the relevant parameter (bank capital). The banks are grouped into stratum and were selected using simple random sampling supported by judgment sampling (non-probability) methods. These banks were selected using judgmental sampling technique in order to have a representation of the population. Four sample banks were selected including Wema Bank, Guarantee Trust Bank, First Bank and Unity Bank plc. Amadi (2005) agrees with the sample as they proposed the population proportion of 0.05 as adequate to provide the maximum sample size required for generalization. To the best of the researchers judgment, the banks make a good representation of the banking industry in Nigeria. The expert opinion was sought for in order to validate the content and the structure of the questionnaire during the pilot study.

The method that was used in the presentation of data in this study is the Statistical Package for Social Sciences (SPSS) which contains all the necessary and important statistical technique for data analysis. For testing the hypothesis, correlation analysis which measures the degree of relationship between variables was used to analyze the result generated from the questionnaire. Correlation analysis is a technique used to assess the extent to which two sets of observations or series of data regarding a particular problem or situation can be regarded as positively or negatively related to each other by association. Correlation analysis helps in determining whether or not two sets of observation co-vary and as such help to determine whether there is any correlation between good corporate governance and distress in the Nigerian banking sector.

IV. Empirical analysis

Demographic Information

Ninety respondents finally participated in the study, which represented 75% response. Among the respondents,46(51.1%) represents male and 44(48.9%) represents female. Majority of the respondents are in the middle age which is between 31 to 40 years (58%) have been working with the organization for more than 5 years and 32% have been working between 5-10years.Majority of the respondents have First degree (57%), while those with Masters Degree are 20% and only 23% with diploma qualification.

Theoretically, two sets of data or observations are said to be correlated if there is evidence to believe that there is a positive or negative association in their magnitude and direction. The numerical method which entails using the coefficient of correlation and Karl Pearson's Product Moment Correlation is used because it is a measure of linear relationship between two variables a and b.

Hypothesis Testing:

Hypothesis

Global financial crisis and international shareholding do not have significant effect on financial distress in the banking sector in Nigeria.

The study employed coefficient of correlation and Karl Pearson's Product Moment Correlation for the analysis as shown in the table below:

Table 1.1Pearson's correlation of Global financial crisis and international shareholding on bank distress

Correlations

		Global Financial Crisis and International Shareholding	Financial Distress in The Banking Sector
Global Financial Crisis	Pearson	1	.314
Correlation			.003
And			90
International Shareholding	Sig. (2-tailed)	90	
	N		
		.314	1
Financial Distress in	Pearson Correlation	.003	
The Banking Sector	Sig. (2-tailed)	90	90
	N		

Source: SPSS: 2022; Correlation is significant at the 0.01 level (2-tailed).

Interpretation

The correlation coefficient is .314 and the level of significance is 1%;

The coefficient is .314 x 100= 31.4

since $0.20 \leq r \leq 0.50$ = moderate effect,

This means that there is a moderate effect of global financial crisis and international shareholding on financial distress in the banking sector and it is significant at 1% level of significance.

Decision

From the table above, there is a positive effect of global financial crisis and international shareholding on financial distress in the banking sector at the 1% level of significance.Therefore we reject the null hypothesis (H0) and accept the alternative (H1). Thissimply implies that global financial crisis and international shareholding have significant effect on financial distress in the banking sector in Nigeria.

V. Conclusions and Recommendations

The study examined the impact of global financial crisis and international shareholding on financial distress in the banking sector in Nigeria. Our results indicate that all sizes of banks suffered substantially fromthe financial shock, however, the impact of the shock on relatively small banks wasoverwhelming. The too-big-to fail syndrome might have played some role forthis outcome (Union Bank Plc). The economic units that are concerned with the survival of relativelysmallbanks might have switched to larger banks, expecting that large banks would notbe allowed to fail. The fact that the banks that failed during thecrisis were relatively small size banks somehow validates such behavior andargument.

Additionally, our results suggest that the deterioration of bank efficiency andproductivity scores preceded the crisis. One implication is that efficiency andproductivity indices could be incorporated into the econometric models alongwith other factors to predict future systemic disruptions. However, more researchand applications from other country experiences are required to warrant thisimplication.

Evidence in recent past decades revealed series of disruptions from global financial crisis to economic activities that occurred from around the globe, with adverse repercussions for the financial systems of nations around the world, including Nigeria. It should be noted that the Nigerian economy was strengthened immediately following each crisis in light of previous experience, which helped to mitigate the impact of the global crisis that emerged in the economy, particularly in the second half of 2007 and 2010.

However, the economic distress in the banking sector has recently been significantly reduced. As a result of structural measures and improvements, the capital structure is stronger and/or the equity capital structure is stronger. Apart from other factors such as socio-infrastructure and securities that are threatening the economy, most foreign investors are increasing their stakes in various sectors of the economy. It is clearly known that the recent security challenges had caused a lot of havoc to all sectors of the economy.

Apparently, regulatory measures along with banks' own efforts have been somewhat successful in stabilizing the system in the short run. However, repeating economic crises in the country indicate that financial problems in the economy have deeper roots, but no bank was allowed to be distressed thereafter. Hence, for long term successes,long term remedies are needed. Adoption of a strictmonetary discipline by the state to reduce its monetization of the debt;implementing polices to control inflation and maintain the value of the currency to curb incentives for currency substitutionamong others

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