

Impact Of Investment Decisions On Financial Performance Of Listed Firms In Nigeria

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Abstract

Investment decisions play an important role in enhancing efficiency and productivity of banks. However, taking advantage of various investment opportunities has continued to pose a major threat because of its potential to cause financial risks to banks. Hence, this study examined the impact of investment decisions on financial performance of commercial banks in Nigeria. Data obtained from the financial reports of six (6) selected commercial banks in Nigeria for a period of five years (5) from 2020 to 2024 were analysed using Generalized method of moments (GMM), and statis panel. Findings revealed that capital investment has a significant impact on ROA in Nigeria. The study also revealed a significant relationship exist between financial investment and ROA. Conclusively, investment decisions have positive significant impact on performance of banks in Nigeria. That is investment decisions enhance the performance of banks tremendously in Nigeria. The study therefore recommends that banks should ensure they are liquid enough to take advantage of capital and financial investment as these investment decisions are seen to positive and significantly impact financial performance of banks.

Keywords: Financial investment; Capital investment; Investment Decisions; Financial Performance; Banks.

INTRODUCTION

The growth of any nation depends on the health of its banking sector as the banking sector helps in facilitating the channeling of funds adequately to the needy sector of the economy. According to Kolawole, et al., (2025), the banking sector helps in enhancing the resilience and also boosts the economy of any country. However, the growth rate of any economy is often impeded when there is a lack of adequate allocation of capital resources by banks to crucial economic sectors, particularly the real sectors of the economy. These roles among others had naturally configured the environment in which banks operate to be a complex network of investment decisions that require adequate and appropriate management thereby emphasizing the criticality of effective management investment decisions to the survival and financial performance of the banking sector (Falade et al., 2024; Adegbite, & Ajagbe (2023)). Investment decisions have a heavy effect on the financial success and sustainability of a company within the active and unpredictable economic activity of Nigeria. According to Brealey et al., (2020), investments decisions generally involve the capital allocated to various projects and assets that need to be acquired, the acquisition is followed by the management of financial risks and the structuring of portfolio scalability to the desired strategic goals of the firm. Investments activities in any corporation affect the financial performance of the corporation in areas like profitability, liquidity, solvability and market value. However, for deposit-taking institutions, the risk is more and the consequences are higher because poor



investments can lead to loss of confidence by depositors, increase in likelihood of the borrower default, loss of liquidity and risk to the entire financial market. On the other side, proper investments can guarantee revenues, increase institutional reputation and also aid in capital formation.

According to Central Bank of Nigeria CBN (2022) investments plan are vital for the institution's survival and should meet the governance guide of the CBN along with the guide to the economy of the state (Conteh & Akuntansi, 2021). Nigerian banks with broader portfolios, robust digital frameworks and proactive investment approaches were more proficient in asset management and recorded higher return on assets (ROA) than banks with concentration and high-risk portfolios. For example, Zenith Bank and Guaranty Trust Holding Company (GTCO) Tier 1 banks have been acknowledged for their investments in government securities, digital banking and ICT-based financial service ventures, which helped maintain competitive performance during external shocks (Eze & Chukwu, 2023). On the other hand, many Tier 2 banks, although still growing, tend to have higher concentration ratios with lower capital and lower-level diversified investment portfolio relative to Tier 1 banks. This makes them more susceptible to changes in the macro economy. These banks spend more time on core lending than any other market and digitized their operations more slowly. This greatly impedes their ability to compete with Tier 1 banks. Thus, the performance gap between Tier 1 and Tier 2 banks shows how pivotal growth investment choices are to financial resilience and sustainability in the banking system of Nigeria. According Ajiboye and Olagunju (2024), investment decision is said to be the most crucial financing decision as it affects the valuation of the bank while inappropriate investment decision are detrimental to the value of the firm as it destroys the assets of the owners (Trang & Duang, 2022).

According to Mohammed and Musa-Mubi (2020), a number of Nigerian banks suffered significant financing constraints over the years due to decline in the financial performance. This decline in the financial performance was said to be related to their investment decisions (Nguyen, 2022). However, several studies (such as Bamidele et al., 2018; Sa'diyah, 2021; Ajiboye & Olagunju, 2024) have considered the impact of financial investment as the variable for investments decisions while neglecting capital investment. Similarly, the previous studies have considered return on asset as a variable for financial performance while ignoring the importance of net interest margin as an indicator of financial performance. Net interest margin is important because it helps banks in measuring the management of banking core business of lending at higher rates than the interest paid on deposits. Finally, the concentration of previous studies has been on static panel technique as a method of analyzing their obtained data while neglecting the usage of generalized method of moment (GMM). GMM is a crucial technique since it helps to reduce simultaneity bias and any bias from unobserved firm-specific effects.

Therefore, this study examined the impact of investment decisions on performance of firms in Nigeria. Specifically, the study examined (i) the impact of financial investment on performance of commercial banks in Nigeria; and (ii) the impact of capital investment on performance of commercial banks in Nigeria.

LITERATURE REVIEW AND HYPOTHESIS

Investment Decision

Investment decision refers to the process of evaluating and selecting the most profitable investment alternative from available options based on expected returns, risk, and organizational objectives. Investment decision can be defined as the process through which an investor or organization determines the most appropriate assets, projects, or securities in which to invest resources to achieve future economic benefits. Investment decision is one of the most important financial management decisions made by individuals, firms, and financial institutions. It involves the selection of assets, projects, or securities in which funds will be

committed with the expectation of generating future returns. Investment decisions determine how scarce financial resources are allocated among competing opportunities to maximize wealth and achieve organizational objectives. For banks, investment decisions involve choosing among various financial assets such as treasury bills, government bonds, corporate securities, and other investment instruments to enhance profitability, liquidity, and financial stability. According to Adegbite *et al.*, (2019), investment decisions focus on the acquisition of assets expected to generate cash flows over time. Investment decision refers to the process of selecting the most appropriate investment opportunities capable of generating optimal returns at acceptable levels of risk. It determines the profitability, growth, liquidity, and sustainability of organizations. In the banking industry, effective investment decisions enable banks to maximize returns, manage risks, maintain liquidity, and improve overall financial performance. Consequently, investment decisions remain central to achieving organizational objectives and enhancing shareholder wealth.

In the banking sector, investment decisions determine how banks allocate their funds among various financial assets such as treasury bills, government bonds, corporate securities, equities, and money market instruments. The quality of these decisions significantly influences bank performance in terms of profitability, liquidity, solvency, efficiency, and shareholder value. A sound investment decision enables banks to maximize returns while controlling risk, whereas poor investment decisions may lead to losses, reduced profitability, and financial instability.

Investment decisions and bank performance are closely related because investment choices determine the quality, profitability, liquidity, and risk profile of a bank's asset portfolio. Sound investment decisions enable banks to generate higher returns, diversify risks, improve liquidity, and enhance shareholder wealth, all of which contribute to superior financial performance. Conversely, poor investment decisions may result in financial losses, reduced profitability, and weakened financial stability. Therefore, effective investment decision-making is a key driver of sustainable bank performance.

Financial investment

Financial investment is a critical component of banking operations and significantly influences the performance, profitability, liquidity, and sustainability of banks. Banks invest in various financial assets such as government securities, treasury bills, bonds, equities, mutual funds, and other money market instruments to generate income, diversify risk, and enhance shareholder value. The effectiveness of these investment decisions often determines the overall financial performance of banking institutions. Financial investment is a critical component of banking operations and significantly influences the performance, profitability, liquidity, and sustainability of banks (Sa'diyah, 2021). Banks invest in various financial assets such as government securities, treasury bills, bonds, equities, mutual funds, and other money market instruments to generate income, diversify risk, and enhance shareholder value. The effectiveness of these investment decisions often determines the overall financial performance of banking institutions.

Bank performance is commonly measured using indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), Earnings per Share (EPS), and market value (Adegbite, 2020). Financial investments contribute to these performance indicators by providing additional income streams and strengthening banks' financial positions. Financial investment in banking refers to the allocation of funds into financial assets with the objective of earning returns while maintaining adequate liquidity and managing risk. Unlike lending activities, which constitute banks' primary source of income, investment activities provide supplementary income and portfolio diversification. According to Adegbite (2024), financial investment leads to improved bank performance by generating additional

income, enhancing liquidity, diversifying risks, preserving capital, improving asset quality, and creating alternative revenue streams. Through prudent investment management, banks can strengthen profitability, maintain financial stability, and enhance shareholder value. Therefore, financial investment serves as a vital mechanism through which banks achieve superior financial performance and long-term sustainability. For empirical research, financial investment can be measured using investment securities, treasury bills, bonds, and investment income, while bank performance can be assessed using ROA, ROE, EPS, and net profit margin.

Financial investment refers to the allocation of funds into financial assets with the expectation of generating future returns in the form of income, capital appreciation, or both. It plays a crucial role in economic development by mobilizing savings, facilitating capital formation, and promoting wealth creation among individuals, businesses, and governments. Financial investment involves committing financial resources to assets that are expected to yield benefits over time. According to investment theory, investors sacrifice current consumption in anticipation of future gains. Financial investment influences bank performance by generating additional income, improving liquidity, diversifying risk, strengthening asset quality, and enhancing overall financial stability (Adegbite & Ajagbe, 2023). Unlike capital investment, which focuses on physical and technological assets, financial investment involves the acquisition of financial securities such as treasury bills, government bonds, corporate bonds, equities, and other marketable instruments. For banks, financial investments are an important component of asset management and a significant source of earnings beyond traditional lending activities. Therefore, it is hypothesized that:

H1: Financial investment has significant effect on Nigeria bank financial performance

Capital investment

Capital investment refers to the expenditure of funds on long-term assets that are expected to generate benefits over several years. It involves committing financial resources to acquire, improve, or maintain fixed assets such as buildings, machinery, equipment, technology, infrastructure, and other productive resources with the aim of increasing future earnings and organizational value. Capital investment is one of the most important financial decisions made by businesses because it affects long-term profitability, growth, competitiveness, and sustainability. Capital investment is the allocation of funds to acquire or upgrade physical and long-term productive assets that contribute to the production of goods and services. Unlike financial investment, which involves purchasing financial securities such as stocks and bonds, capital investment focuses on acquiring real assets used in business operations (Adegbite & Ajagbe, 2023).

According to Adegbite (2024), capital investment refers to expenditures made on assets that provide benefits over multiple accounting periods. It is often regarded as an investment in productive capacity intended to increase future revenue and profitability. Capital investment is the commitment of funds to long-term productive assets that generate future economic benefits. It is a critical strategic decision that influences organizational growth, profitability, efficiency, and competitiveness. In the banking sector, investments in technology, infrastructure, and operational systems significantly improve service delivery and financial performance. Consequently, effective capital investment decisions are essential for achieving long-term sustainability and maximizing shareholder wealth. Capital investment enhances bank performance by improving operational efficiency, service quality, profitability, competitiveness, and long-term sustainability (Adegbite et al (2020). Banks invest in physical and technological assets with the expectation that these investments will generate future economic benefits and improve overall financial performance. Capital investment leads to improved bank performance by increasing operational efficiency, reducing costs, enhancing

customer satisfaction, strengthening risk management, expanding market reach, and creating sustainable competitive advantages. Consequently, banks that make strategic investments in technology, infrastructure, and productive assets are more likely to achieve superior financial performance as measured by ROA, ROE, profitability, and overall organizational growth. This causal relationship forms the basis for many contemporary studies on banking performance and financial sustainability.

H2: Capital investment has significant effect on Nigeria bank financial performance

Financial performance

Financial performance refers to the extent to which an organization effectively utilizes its financial resources to achieve its objectives, generate profits, and create value for stakeholders. It is a key indicator of an organization's financial health, operational efficiency, profitability, and long-term sustainability. Financial performance refers to the extent to which an organization successfully achieves its financial objectives through effective utilization of resources. It is a comprehensive measure of profitability, efficiency, liquidity, and shareholder value. In the banking sector, financial performance reflects a bank's ability to generate profits, manage risks, maintain liquidity, and create value for stakeholders.

In the banking industry, financial performance reflects a bank's ability to generate earnings from its assets and equity while maintaining liquidity, solvency, and operational efficiency. Financial performance is often used by investors, regulators, managers, and researchers to assess the success and stability of a bank. Financial performance is defined by Adegbite (2020) as the measurement of a firm's financial results over a specified period, usually assessed through profitability, efficiency, liquidity, and market-based indicators. It indicates how well an organization converts its resources into revenues, profits, and shareholder value. Consequently, it serves as a critical indicator of organizational success and is widely used in academic research, financial analysis, and strategic decision-making.

Empirical Review

Research has come to focus on the impact of investment decisions on the financial success and stability of the deposit money banks Nigerian firms. This has been evident in the various strands of the literature on investment appraisal and reporting, the digital economy, entrepreneurship, corporate governance and investor perception. This body of work sheds light on the strategic bifurcation faced by financial institutions in Nigeria regarding capital investment and the subsequent implications on profitability, confidence of depositors and sustainability for the institution in the long run. Okeke (2024) studied how appraising liquidity management impacts the financial effectiveness of money deposit banks in Nigeria. This research examined the correlation of liquidity level indicators with core profit metrics employing secondary data and an ex-post facto approach. The results, however, show that although the bank's profitability and return on assets are significantly influenced by liquidity management, the control of Union Bank's return on equity highly profits. Given the fact that liquidity control is an important factor for the stability of the banking system, the effect on shareholders is much more complex. This research also provides ways in which equity can be maximized and liquidity maintained simultaneously. The suggestions for the commercial banks in Nigeria are: improving operational productivity and efficiency, advancing the frontiers of innovation with customer engagement, designing value-adding and risk-managed customer-focused approaches to resources mobilization, along with responsive responsive lending that is customer-need-driven.

The relationship between risk management and the financial performance of Nigerian deposit money banks was examined by Kumshe et al. in 2024. The study's population, which consisted of all 19 DMBs in Nigeria as of December 31, 2022, was selected using a correlation

research design. The criteria that required the bank to have been listed before December 31, 2017, and to have comprehensive annual reports and accounts for a five-year period from 2018 to 2022, were used to purposively sample 16 of the 19 institutions. The effect of fair value accounting on the share prices of Nigerian listed deposit money banks between 2016 and 2022 was examined by Alkali et al. in 2023. OLS regression was then used to analyse the accounting data. The findings of the regression analysis demonstrate that earnings per share, fair value hierarchy, and fair value through other comprehensive income all have a positive and significant impact on the value relevance of listed deposit money banks in Nigeria. From the analysis, the study posits that investors will most likely base their investment decisions on earnings per share and so banks providing information on the fair value hierarchy system will attract investors, increasing stock tail end market prices.

With the aid of secondary data, Odusina (2023) examined the impact of capital investment decisions and corporate taxation on the performance of firms. An ex-post facto research design was employed. The research took place from 2012 to 2020 and data was obtained from the audited accounting reports of 61 purposively sampled companies. The study employed panel regression analysis and fixed effect estimation and established that corporate taxes, investment decisions and business performance all had strong positive correlations. The analysis found that, the corporate taxes, along with certain investment decisions, instrumental in the financial success of non-financial enterprises in Nigeria. Odukwu et al, (2023) assessed descriptive inquiries concerning the investment of assets and the financial outcomes of deposit money banks in Nigeria by employing time series and Linear regression analysis to examine the effect of asset investment on the financial performance of deposit money banks in Nigeria with samples of six banks. It discovered a significant predictive relationship among cash equivalents, certain intangible assets and the return on assets of deposit money banks in Nigeria. Therefore, the redundant central research banks of Nigeria should be able to construct evaluative frameworks to determine appropriate control limits to be able to invest in intangible assets, property and equipment of the suggested central investment control bank.

AliMomoh et al. (2022) studied the effect of financial statements on the financial choices made by Nigerian listed DMBs. Correlation analysis, descriptive and inferential analytical techniques were used and it was found that DMBs capital structure decisions are positive but marginally impacted by asset tangibility. Also, asset tangibility had a negligible and adverse effect on the liquidity decisions made by Nigerian deposit money institutions. Obizue and Obizue (2022) reviewed the investment mix and financial performance of deposit money banks in Sub-Saharan Africa from 2000–2020. This study examined the corporate financial features and performance of 5 deposit banks in each of the five economic regions of Africa as per (UNCTAD, 2011). The banks studied include 25 banks of which 5 are from Egypt as a frontrunner, South Africa as a global achiever, Nigeria as a developing country, Kenya as a less developed and Tanzania as the emerging market. The determining independent variables (capital structure) for this study were fixed FA and current CA, while performance metrics used were return on assets ROA. The authors used secondary data collected from the annual financial statements published by the banks in each country and all data was converted and standardized to the naira exchange rate for analysis purposes. The panel data panel used in the study showed that fixed and current assets had high and substantial impacts on the performance indicator ROA in Nigeria, South Africa, Kenya, and Tanzania, while in Egypt, current assets showed a positive and significant relationship with ROA and fixed asset had a negative influence on ROA. It was suggested that the DMBs should adopt the optimal investment mix which will make them more profitable in order to augment their retention earning capabilities coupled with excellent financial performance.

Sa'diyah (2021) researched on the effect of investment performance and the blend of profits on company value from the side of Listed Banks in Indonesia. The study applied

multiple linear regression for the analysis. At the core of research study is to investigate the effect of profitability, capital structure, and investment decisions on the value of the firm in the property, real estate, and building construction sector of the Indonesia Stock Exchange from 2015 to 2019. The group for this particular study comprised 83 firms. For this study, purposeful sampling technique was used and this involved thirty companies. From this, it can be concluded that a firm's market value is enhanced due to the firm's capital structure, investment decisions and profitability. Okunade (2021) investigated how Nigerian registered deposit money banks' financial reporting quality affected the value of their traded equities. For this study, an ex post facto research design was adopted. This investigation showed that the quality of financial reporting has a beneficial impact on the value of the shares that are available for trading.

Conteh and Akuntansi (2021) studied financial statement analysis and investment decision in the Gambia for the years 2017 and 2018 by applying the accounting techniques of the liquidity, efficiency and profitability ratios which are believed to influence a firm's financial performance. This case illustrates the relevance of financial statements in the investment decisions process. It focused on assessing a firm's performance to make investment decisions and determines the value of financial statement analysis used. The targets were to work with prospective investors, large bank depositors and shareholders in order to attain the defined goals. Gardi et al. (2021) confirmed the factors impacting financial statements and their relevance on making investment decisions. Multiple the regression method and the result showed significant factors such as financial statement quality and growth which were strongly associated. Business factors were also determined to predict financial statement quality. Obiora and Ujam(2021) studied impact of portfolio management and the performance of listed deposit money banks in Nigeria from 2016 to 2020. It employs the linear regression technique. It shows evidence of the significant and positive connection between credit risk and its management; Liquidity risk and its management and the performance of Nigeria banks.

Sanyaolu et al. (2020) investigated the influence of financial statement analysis on the investment decisions of some Nigerian DMBs. It employs the fixed-effect regression technique and showed that financial leverage and liquidity investments do not enhance investment decisions, while profitability does enhance investment decisions. Nwankwo (2018) examined how Nigerian Deposit Money banks' financial performance is impacted by their capital structure. The analysis focused on 10 firms for the period 2006-2010 and used the static trade-off, agency and pecking order theory. Panel Least square test was used and the ImPesaran and series testing for unit roots and concluded that the firms within the sample study did not optimally use the fixed asset percentage of the total asset composition to enhance the performance of their firms. Adebayo et al. (2013) researched the role of accounting information systems in improving the quality of investment decisions made by organizations. The study was based on primary data which were obtained through a survey. The researchers utilized data analysis techniques of regression and Karl Pearson's correlation. The outcomes of the study established that in the current dynamic and unpredictable conditions, investment decisions made are greatly impacted by the existence of an accounting information system.

METHODOLOGY

Research design employed in this study is ex-post facto research design which was chosen because the study made use of secondary data thereby the fact of the study already existed before the researcher commenced the study. Data for this study was gathered from secondary sources, including the audited financial reports of the chosen banks; First Bank of Nigeria, Access Bank, United Bank for Africa, Guaranty Trust Holding Company (GTCO) Plc, Zenith Bank and Ecobank Nigeria. The time-frame for the study covers 5 years starting from 2020 to 2024. The choice of 2020 was because it was post-covid 19 thereby eliminating

the impact of the recession on investment decisions which was caused by the pandemic while the data stops at 2024 because the 2025 annual reports of the selected banks are not yet published. Hence, the need to stop at 2024. The method of data analysis for the study is static panel data regression. However, the study made use of panel Generalized Method of Moment (GMM) approach as a robustness assessment since it eliminates effects from simultaneity bias and any bias from unknown firm-specific effects.

Model Specification

Model One

In order to broaden the gap in literature, this study uniquely reclassified investment into capital investment and financial investment. Furthermore, this study uniquely introduced some important bank specific variables such as debt, size and age. Therefore, the model is stated as:

$$ROA_{it} = \beta_0 + \beta_1 CAPINV_{it} + \beta_2 FININV_{it} + \beta_3 CASH_{it} + \beta_4 TDEBT_{it} + \beta_5 SIZE_{it} + \beta_6 AGE_{it} + \mu_{it} \quad (1)$$

Model Two

One of the main gaps of the study is the consideration of net interest margin as an indicator of financial performance. Net interest margin is important because it helps banks in measuring the management of banking core business of lending at higher rates than the interest paid on deposits. Hence, net interest margin is a function of investment decision and the model is stated as:

$$NIM_{it} = \beta_0 + \beta_1 CAPINV_{it} + \beta_2 FININV_{it} + \beta_3 CASH_{it} + \beta_4 TDEBT_{it} + \beta_5 SIZE_{it} + \beta_6 AGE_{it} + \mu_{it} \quad (2)$$

Model Three

To ensure robustness, a dynamic model is also estimated by analyzing the data using GMM thereby stating the dynamic model for GMM as:

$$ROA_{it} = \beta_0 + \beta_1 ROA_{1it} + \beta_2 CAPINV_{it} + \beta_3 FININV_{it} + \beta_4 CASH_{it} + \beta_5 TDEBT_{it} + \beta_6 SIZE_{it} + \beta_7 AGE_{it} + \mu_{it} \quad (3)$$

Model Four

To consider net interest margin as an indicator for financial performance, a dynamic model is also estimated by analyzing the data using GMM thereby stating the dynamic model for GMM as:

$$NIM_{it} = \beta_0 + \beta_1 NIM_{1it} + \beta_2 CAPINV_{it} + \beta_3 FININV_{it} + \beta_4 CASH_{it} + \beta_5 TDEBT_{it} + \beta_6 SIZE_{it} + \beta_7 AGE_{it} + \mu_{it} \quad (4)$$

Whereas:

NIM	-	Net Interest Margin
ROA	-	Returns on Assets
CAPINV	-	Capital investment
FININV	-	Financial Investment
CASH	-	Cash and Cash Equivalent
SIZE	-	Firm size
TDEBT	-	Total debts
Age	-	Firm Age

RESULTS AND DISCUSSION

Table 1. Descriptive Statistics

VARIABLES	N	Mean	Std. Dev.	Min	Max
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ROA	30	3.310557	2.173683	4403	8.9392
NIM	30	8.879198	4.361119	2.8151	19.5771
CAPINV	30	-53.92252	324.8719	-1.774	7.482167
FININV	30	6.032512	1.357766	4.53939	8.318297
CASH	30	6.642789	.8770891	4.779373	8.847868
SIZE	30	6.815263	.9966497	4.435048	7.920404
TDEBT	30	7.188647	.5864807	6.276	9.8433
AGE	30	55.83333	36.02402	30	130

Source: Authors' Computation (2025)

Table 1 denotes the summary statistics of the variables used in the study. The average value for ROA is 3.310557 while the minimum value and maximum value for ROA are .4403 and 8.9392. For NIM, the 8.879198, 2.8151 and 19.5771 respectively while the average, minimum and maximum values are average, minimum and maximum values of capital investment are -53.92252, -1.774 and 7.482167 respectively. The average, minimum and maximum values of FININV are 6.032512, 4.53939 and 8.31829 respectively while for CASH, the average, minimum and maximum values are 6.642789, 4.779373 and 8.847868. The summary statistics for size is as follows; 6.815263, 4.435048 and 7.920404 for average, minimum and maximum values respectively while the average value for TDEBT is 7.188647 while the minimum and maximum values are 6.276 and 9.8433 respectively. For AGE, the average, minimum and maximum values are 55.8333, 30 and 130 respectively. The wide variance in minimum and maximum values for the variables shows that the data are good for analysis and the model is fit for policy recommendations.

Table 2. Correlation Matrix

	CAPINV	NIM	FININV	CASH	SIZE	TDEBT	AGE	VIF
CAPINV	1.0000							1.27
NIM	0.2357	1.000						
FININV	0.0263	0.3367	1.0000					1.33
CASH	0.0112	0.2331	0.2863	1.0000				1.73
SIZE	-0.0692	0.0675	0.2749	0.5636	1.0000			1.45
TDEBT	0.4524	0.4580	-0.0468	0.1783	-0.0906	1.0000		1.58
AGE	0.0939	0.3237	-0.3431	0.1510	-0.0282	0.2886	1.0000	1.31

Source: Authors' Computation (2025)

The existence of multicollinearity in a regression makes such regression a spurious one even if the regression seems significant. It is because of this problem that necessitated the need to test for the presence of multicollinearity. This study then employed pairwise correlation and variance inflation factor (VIF) to test for the presence of multicollinearity. The rule of thumb for pairwise correlation is that when variables have 0.8 then there is a presence of multicollinearity. With the results of the pairwise correlation test, no variable has a value of 0.5 depicting the absence of multicollinearity. In addition, with VIF test, all of the variables have a value less than 3 which also buttress the result of pair wise correlation of an absence of multicollinearity. Therefore, the inclusion of all the variables in a regression analysis is okay for the model.

Table 3. Unit Root Tests

	Breusch-Pagan Lagrange Multiplier (BP) Test	Hausman Test
ROAchi2(3)	3.25	0.98
ROAProb	0.124	0.9862
NIMchi2(3)	2.37	2.20
NIMProb	0.366	0.9006

Source: Authors' Computation, (2025)

Interpretation of Result of Breusch-Pagan Lagrange Multiplier (BP) Test

The drawback of BP test is that it assumes that heteroskedasticity has linear function of the exogenous variables. The ROA results for the BP indicate that the null hypothesis of homoskedasticity is rejected with a probability of 0.124. Similarly, the BP's NIM results indicate a probability of 0.366, indicating that the homoskedasticity null hypothesis is rejected. Therefore, with the results it can be seen that static panel is better to ordinary least square. Hence, the adoption of static panel to analyze the obtained data.

Interpretation of Result of Hausman Test

Hausman test is used to choose between the fixed effect and random effect when the results of the two models are good. It is expected to choose the fixed effect when the p-value is significant but the option of random effect is preferable when the p-value is not significant. However, from the result of ROA, the result of the hausman shows a chi-square statistics of 0.98 with a p-value of 0.9862 depicting that random effect should be preferred to fixed effect because of the insignificant value. Similarly, for NIM, the result of the hausman shows a chi-square statistics of 2.20 with a p-value of 0.9006 depicting that random effect should be preferred to fixed effect because of the insignificant value. This shows that random effect is preferred for the two models.

Table 4. Panel Regression Results for Return on Asset

Dependent Variable: Return on Asset				
Independent Variables	Pooled OLS	Fixed Effect	Random Effect	GMM
ROA_L1				1.011842*** (.0108658)
CAPINV	.1103743*** (.0012822)	.533826** (.2497586)	1.0011742*** (.0002192)	1.734861** (.7595922)
FININV	.5461173** (.2130928)	1.147365** (.061739)	.5777407** (.2267295)	2.608205** (1.083689)
CASH	.3855901 (.5539401)	.0528184 (.5024025)	.4792687 (.5072968)	.385493 (.4293296)
SIZE	.816879** (.246241)	.7803572*** (.090506)	1.095397** (.4086668)	-.0001548 (.0017582)
TDEBT	.700012 (.7902908)	.4049779 (.7755159)	.6186387 (.7237461)	.0058844 (.0160844)
AGE	.0133413 (.0117297)	.000238 (.0010581)	.012799 (.010742)	.6426144 (.6119103)
Cons	-3.845471** (.622527)	-34.93462** (13.60552)	-14.57758 (5.149094)	7.709908 (2.773943)
Sargan test	93.91 (0.384)		0.12(0.903)	
Hansen Test	9.47 (1.000)			

Autocorrelation test (Arellano- Bond test) AR(2)
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Note: Standard errors in parentheses***, ** and * denotes 1%, 5% and 10% level of significance respectively

Source: Authors' Computation (2025)

From the results of BP and Hausman test presented in Table 3, it was shown that random effect is the most preferred technique among the static panel technique and pooled OLS. The results of the random test shows that all the independent variables (capital investment, financial investment, cash, size, total debt and age) are positively related with the dependent variable (return on asset). However, the result shows that capital investment, financial investment and size are the only significantly related variables to return on asset. This implies that a unit increase in capital investment will lead to 1.0011742 increase in ROA. In addition, with the result of positive and significant relationship between financial investment and ROA, therefore a unit increase in financial investment will lead to .5777407 increase in ROA. Finally, size of the banks shows a positive and significant relationship with ROA, therefore a unit increase in size will lead to 1.095397 increase in ROA.

In order to have a robustness check, GMM was conducted which gives a dynamic perspective to the analysis and from the results of GMM, all the independent variables except size have positive relationship. However, only the lag of ROA, capital investment and financial investment are significant determinant of ROA. Therefore, a unit increase in lag of ROA will lead to 1.011842 increase in the current value of ROA. In addition, a unit increase in capital investment will lead to 1.734861 increase in ROA. The test result of Sargan test statistic shows a value of 93.91 while the p-value is 0.384 therefore the hypothesis of over identifications restrictions of instruments cannot be rejected depicting that the instruments are valid. Arellano-Bond test also shows the value of 0.12 with p-value of 0.903 therefore showing that the study does not suffer from autocorrelation problem. Hence, the tests shows that this regression can be used for policy inference.

Table 5. Panel Regression Results for Net Interest Margin

Dependent Variable: Net Interest Margin				
Independent Variables	Pooled OLS	Fixed Effect	Random Effect	GMM
NIM_L1				16.25748 (7.733895)
CAPINV	.0025531** (.0001713)	.0018251** (.0016518)	.0038605*** (.0001104)	.0093892** (.0038892)
FININV	2.222465** (.6234436)	1.356761 (.2265598)	1.989674** (.9426809)	31.87463** (14.87552)
CASH	.2827729 (1.103029)	.6216996 (.8789508)	18.88942 (5.14987)	14.14445** (6.156009)
SIZE	1.225984 (.888575)	1.957384 (1.907836)	2.395598 (1.143574)	5.141637** (2.148486)
TDEBT	-1.129899 (1.57366)	-.3809683 (1.857507)	-3.939758 (.0395905)	32.0899*** (3.800993)
AGE	.0131375 (.0233567)	1.005566** (.4544464)	.0114017 (.0353166)	.7847816 (.4205978)
Cons	13.4181*** (1.19581)	-63.35305 (23.8028)	16.13023 (6.92868)	1.609138 (.039575)
Sargan test statistic	97.40 (0.226) 9.47 (1.000)		0.26(0.795)	

Hansen Test	Autocorrelation test (Arellano- Bond test) AR(2)
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Note: Standard errors in parentheses***, ** and * denotes 1%, 5% and 10% level of significance respectively

Source: Authors' Computation (2025)

From the results of BP and hausman test presented in Table 4.3, it was shown that random effect is the most preferred technique among the static panel technique and pooled OLS. The results of the random test shows that all the independent variables (capital investment, financial investment, cash, size, total debt and age) are positively related with the dependent variable (Net Interest Margin, NIM). However, the result shows that capital investment and financial investment are the only significantly related variables to NIM. This implies that a unit increase in capital investment will lead to .0038605 increase in NIM. In addition, with the result of positive and significant relationship between financial investment and NIM, therefore a unit increase in financial investment will lead to 1.989674 increase in NIM.

In order to have a robustness check, GMM was conducted which gives a dynamic perspective to the analysis and from the results of GMM, all the independent variables have positive relationship. However, all the variables except age are significant determinant of NIM. Therefore, a unit increase in lag of NIM will lead to 16.25748 increase in the current value of NIM. In addition, a unit increase in capital investment will lead to .0093892 increase in NIM. Similarly, a unit increase in cash, size, and total debt will lead to 14.14445, 5.141637 and 32.0899 in NIM respectively. The test result of Sargan test statistic shows a value of 97.40 while the p-value is 0.226 therefore the hypothesis of over identifications restrictions of instruments cannot be rejected depicting that the instruments are valid. Arellano-Bond test also shows the value of 0.26 with p-value of 0.795 therefore showing that the study does not suffer from autocorrelation problem. Hence, the tests shows that this regression can be used for policy inference.

Discussion of findings

The study examined how investment choices affected financial performance using the static panel technique and GMM technique. The findings showed that capital investments had an impact on the return on assets (ROA) of Nigerian commercial banks. This outcome is in line with the findings of the studies conducted by Eze & Chukwu (2023); Adegbite, & Ajagbe (2023); and Ekokeme & Seiyaibo (2024). Therefore, the null hypothesis that capital investment does not impact financial performance should not be accepted. The result of both static panel and GMM shows that financial investment impact financial performance of commercial banks which is in line with the work of Ajayi-Owoeye et al. (2022) and therefore, the null hypothesis of financial investment not being significant on financial performance should be rejected.

Similarly, firm size (FSIZE) was discovered to have a significant positive impact on financial performance. Larger financial institutions tend to benefit from economies of scale, greater diversification of income streams and enhanced bargaining power in credit and capital markets. This finding is consistent with prior studies (Eze & Chukwu, 2023; Ojianwuna, 2022 and Adegbite *et al*, 2020) which argue that larger firms are more likely to have better access to investment opportunities, stronger risk management frameworks and more efficient resource utilization, all of which contribute to improved profitability. The study also employed the use of static panel technique and GMM technique to analyse the impact of investment decisions on financial performance while considering NIM as the dependent variable. The result shows that the lag of NIM impact on the current value of NIM. In addition, capital investment was shown

to have significant impact on financial performance of commercial banks which is in line with the work of Eze & Chukwu, 2023. This buttress the opinion of the null hypothesis of capital investment not being significant on financial performance should be rejected. The study also shows that financial investment impact on NIM which is consistent with the works of Adegbite (2024) and Ojianwuna, (2022) Therefore, the null hypothesis of financial performance not being significant should not be accepted

CONCLUSION

This study examined the impact of investment decisions on financial performance of commercial banks in Nigeria. Data obtained from the financial reports of six (6) selected commercial banks in Nigeria for a period of five years (5) from 2020 to 2024 were analysed using Generalized method of moments (GMM), and statis panel. Findings revealed that capital investment has a significant impact on ROA in Nigeria. The study also revealed a significant relationship exist between financial investment and ROA. Conclusively, investment decisions have positive significant impact on performance of banks in Nigeria. That is investment decisions enhance the performance of banks tremendously in Nigeria. Nigerian commercial banks' financial performance is impacted by financial investment. Ultimately, the financial success of Nigerian commercial banks is impacted by investment choices.

The study therefore recommends that banks should ensure they are liquid enough to take advantage of capital and financial investment as these investment decisions are seen to positive and significantly impact financial performance of banks. Once the investment decisions still are hugely influenced by the Nigerian regulatory system as encapsulated by the Nigerian Exchange Group (NGX), the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN), They should emphasize the importance of meeting the prescribe risk exposure limits and liquidity as well as capital ratio guideline, which are vital for a company's health and economy of the country. Furthermore, banks should ensure they are liquid enough to take advantage of capital and financial investment to enhance the financial performance of Nigeria banks.

Future studies on investment decision-making in Nigerian businesses should examine how investment strategies perform in comparison across various industries, and how artificial intelligence plays a part in financial forecasting and investment planning. Furthermore, analysis of how CBN's monetary policies affect profitability and capital allocation can be done.

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