Investor Behaviour toward Subsidiary and Agricultural Financing: A Study of Financial Sustainability Practices in Nigerian Banks

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Abstract

This study investigates the impact of sustainability practices, specifically investment in subsidiaries and agricultural financing, on investor behavior in Nigerian deposit money banks. Using panel data from 13 listed banks on the Nigerian Exchange Group covering 2013 to 2024, fixed-effects regression analysis was employed to assess the relationship between these variables and market capitalization. The results reveal that neither investment in subsidiaries nor agricultural financing has a statistically significant effect on market capitalization, indicating limited influence on investor behavior within the sampled banks. These findings suggest that investors may not perceive these sustainability practices as value-enhancing in the Nigerian banking sector. The study contributes to the understanding of how specific sustainability initiatives impact investor decisions in emerging markets and highlights areas for banks to reconsider in their sustainability strategies to attract investor interest.

Keywords: Sustainability Practices, Investor Behavior, Investment in Subsidiaries, and Agricultural Financing.

1. Introduction

Sustainability has emerged as a critical priority on the global agenda, particularly following the adoption of the United Nations Sustainable Development Goals (UN-SDGs) in 2015. These goals advocate for development strategies that meet present needs without compromising the capacity of future generations (Zyadar, 2016). Within the financial services industry, sustainability is increasingly viewed as a strategic framework for achieving long-term value creation, managing environmental and social risks, and enhancing institutional reputation.

Globally, sustainable banking practices such as responsible lending, ethical investment decisions, and the integration of environmental, social, and governance (ESG) principles are gaining widespread recognition. Empirical evidence suggests that banks adopting such practices often experience stronger investor confidence and improved market valuation (Hornuf et al., 2021; Olmo et al., 2021). In Nigeria, the Central Bank introduced the Nigerian Sustainable Banking Principles (NSBPs) in 2012, providing a framework for banks to embed sustainability into their operations in support of inclusive growth and environmental stewardship (Lagos Business School Sustainability Centre, 2019).

Despite the increasing emphasis on sustainability, limited scholarly attention has been given to the relationship between specific financial sustainability practices and investor behavior in Nigeria,

particularly among deposit money banks (DMBs). While some recent studies have identified a potential link between sustainability engagement and investor sentiment (Damilola & Adeleke, 2023), most research remains concentrated on short-term financial outcomes or broad ESG indices. There is a noticeable gap in understanding how targeted sustainability-linked financial strategies such as investment in subsidiaries and agricultural financing shape investor behavior as reflected in the market capitalization of banks.

This study therefore explores the impact of financial sustainability practices on investor behavior within the Nigerian banking sector. Specifically, it examines how investments in subsidiaries and agricultural financing influence the market capitalization of listed DMBs. The following null hypotheses are tested:

H_{01}: Investment in subsidiaries has no significant effect on the market capitalization of DMBs in Nigeria.

H_{02}: Agricultural financing has no significant effect on the market capitalization of DMBs in Nigeria.

The findings of this research are expected to contribute valuable insights for bank executives, investors, and regulators seeking to align financial strategies with sustainable development goals, particularly within emerging markets.

2. Review of Related Literature
2.1: Conceptual Review
Sustainability

Sustainability generally entails meeting present needs without compromising the ability of future generations to meet theirs. It encompasses environmental, social, and economic dimensions aimed at preserving ecological balance while fostering human development (Mensah & Enu-Kwesi, 2018; Tjarve & Zemite, 2016). Thomas (2015) emphasizes that achieving sustainability requires a conscious balance between development and the responsible use of natural and economic resources.

Nigerian Sustainable Banking Principles (NSBPs)

The adoption of sustainable banking frameworks in Nigeria was formalized in 2012 when the Bankers' Committee, with support from the Central Bank of Nigeria (CBN), introduced the Nigerian Sustainable Banking Principles (CBN, 2012). These principles guide financial institutions in integrating environmental and social considerations into their business operations, especially in high-impact sectors such as power, oil & gas, and agriculture (Aro-Gordon, 2016). Oboro and Onuorah (2022) note that these principles also promote transparency, ethical conduct, and stakeholder inclusivity.

SustainabilityPractices

Sustainability Practices in Banking Sustainability practices in the banking industry refer to a bank's intentional alignment of its policies and operations with long-term environmental, social, and governance (ESG) goals. These practices often include responsible lending, environmental risk assessment, and community investment initiatives (Mohamed, 2021). According to Jacobsen et al. (2020), these practices can be categorized into informing, co-creating, productizing, and system-building. The aim is not only to mitigate ESG risks but to generate lasting value for stakeholders.

Investment in Subsidiaries

Investment in subsidiaries involves a parent company acquiring and maintaining controlling interests in other legally distinct entities. In the financial sector, such investments often allow banks to diversify their services, expand into new markets, or manage operational risks (Sunyoung Leigh, 2015). Sruti (2020) highlights that while subsidiaries may operate independently, their performance and sustainability obligations are linked to the parent entity's strategic goals.

Agricultural Financing

Agricultural financing entails the provision of capital to support agricultural activities, from crop production to value chain development. This includes credit for inputs like seeds, machinery, and fertilizers, as well as insurance and infrastructure financing (Olotoye et al., 2022). Famogbiele (2013) views it as vital to food security and rural development. However, banks often shy away from agriculture due to its perceived high risk (Nwadioha&Igoni, 2021). In Nigeria, agricultural financing has been identified as a key component of sustainability practices within deposit money banks, with implications for investor behavior (Okwuego et al., 2025a & Okwuego et al., 2025b).

Investor Behavior

Investor behavior refers to how individuals or institutional investors make decisions regarding the allocation of capital. Factors such as risk tolerance, market sentiment, psychological biases, and external signals like ESG disclosures all play roles in shaping investor preferences (Huang et al., 2018; Lakonishok et al., 2016; Acharya et al., 2018). Understanding investor behavior is central to evaluating how markets respond to firm-level financial and non-financial strategies.

Market Capitalization as a Proxy for Investor Behavior

Market capitalization, calculated by multiplying a firm's stock price by its number of outstanding shares, reflects the market's valuation of a company. It is widely used as a measure of investor confidence and firm performance (Riantani et al., 2023; Suharti et al., 2023). In Nigerian banking, market capitalization serves as a valid proxy for investor behavior, especially in relation to sustainability practices such as agricultural financing and other ESG-aligned investments (Okwuego et al., 2025a & Okwuego et al., 2025b). Permata et al. (2020) add that companies integrating sustainability considerations into their operations often experience improved market valuation due to heightened investor interest.

2.2 Theoretical Framework

This research is underpinned by Legitimacy Theory, a widely utilized perspective in the field of social and environmental accounting. It provides a foundational lens for understanding how organizations respond to societal expectations regarding sustainability practices.

Legitimacy Theory

Legitimacy Theory, originally proposed by Dowling and Pfeffer (1975), explores the dynamic relationship between organizations and the societies in which they operate. It posits that businesses exist within a framework of a social contract, which obliges them to conduct their operations in a manner consistent with prevailing societal norms and values. According to the theory, legitimacy is maintained when there is alignment between an organization's actions and society's expectations. Conversely, any deviation from these expectations can result in a legitimacy gap, potentially undermining the organization's continued existence.

2.3 Empirical Review

Several studies have explored the link between sustainability practices and investor behavior across different markets and contexts. In Nigeria, Okwuego et al. (2025a) examined the impact of sustainability practices specifically agricultural financing, housing finance, and long-term investments on investor behavior in deposit money banks. Utilizing panel data regression over the period 2012–2023, the study found that housing finance had a positive and significant influence on market capitalization, while agricultural financing and long-term investments showed weaker effects.

Similarly focusing on Nigeria, Okpo et al. (2024) analyzed how sustainability performance disclosure among listed oil and gas firms affects investor behavior. The study, covering 2015 to 2022, found a low but significant positive relationship between environmental and governance disclosures and market capitalization, though social disclosures were not statistically significant. The authors advocate for enhanced sustainability reporting to attract investor interest.

On a broader scale, Buchanan et al. (2025) surveyed 5,030 Finnish private investors to investigate the determinants of sustainable investment decisions. The study revealed that ESG considerations were central to 60% of respondents, particularly among women and millennials. Factors such as education, location, and pandemic experience also influenced investor behavior, underlining the complex socio-demographic dynamics that shape sustainable investing.

In the Indian context, Supriya et al. (2024) examined the behavioral factors influencing ESG investment intentions among 390 retail investors. The results indicated that financial self-efficacy, risk perception, investment attitude, and return expectations positively influenced ESG investment intention, whereas social norms did not. The authors suggested that enhancing financial literacy and risk awareness could foster greater ESG-aligned investment behavior.

Other studies extended the discussion by linking sustainability to broader financial inclusion and sectoral performance. Aruwa et al. (2023) assessed the impact of financial inclusion on sustainable development in Nigeria, using ECM and FMOLS over 2001–2022. Their findings showed a significant long-run relationship between rural banking services and improvements in the Inequality-adjusted Human Development Index (IHDI), underscoring the developmental value of inclusive financial services.

Damilola and Adeleke (2023) explored how agriculture contributes to the sustainable growth of Nigeria's financial sector. Through ARDL modeling from 1999–2020, they found that agricultural productivity significantly influenced financial sector sustainability, while institutional credit to agriculture was positive but insignificant. This supports the demand-following hypothesis and affirms the strategic relevance of agriculture to financial sustainability.

From the U.S. market, Camille and Jean-Yves (2023) provided insights into shifting investor behavior towards sustainable mutual funds. Analyzing 2,103 equity mutual funds, the study found that sustainable investors are increasingly performance-sensitive and display a "smart money" effect, suggesting that financial considerations now significantly influence sustainable investment decisions.

Together, these studies highlight a growing recognition of sustainability in shaping investor behavior, with contextual differences across regions and sectors. While ESG-aligned investments attract increasing attention, their effectiveness in influencing investor actions depends on disclosure practices, financial literacy, and institutional frameworks.

3.1: Methodology

This study investigates the impact of sustainability practices on investor behavior in Nigeria's banking sector, specifically examining the relationship between market capitalization and two sustainability practice variables: investment in subsidiaries and agricultural financing. The sample consists of 13 deposit money banks listed on the Nigerian Exchange Group, covering the period from 2013 to 2024. Banks were purposively selected based on the completeness of their financial records.

Panel data regression techniques were employed to analyze the data, with both Fixed Effects (FE) and Random Effects (RE) models estimated. The Hausman test was conducted to determine the most appropriate model, and the Fixed Effects model was selected to explain the relationship between the variables.

This study adapts the model proposed by Omeni and George (2021), modifying it to align with its specific objectives. The original model examines the relationship between Return on Equity (ROE) and variables such as Treasury Bills (TB), ordinary shares (OS), investments in subsidiaries (INVS), and foreign investments (FION). The functional form is expressed as:

$LnROE = \beta_0 + \beta_1 LnTB + \beta_2 LnOS + \beta_3 LnINVS + \beta_4 LnFION + U$

For this study, the model is specified as:

$LnMKTCP = \beta_0 + \beta_1 LnINVS + \beta_2 LnAGFN + U$

Where:

LnMKTCP= Natural Logarithm of Market Capitalization
LnINVS= Natural Logarithm of Investment in Subsidiaries
LnAGFN= Natural Logarithm of Agricultural Financing
U=Error term
β_0=Constant
β_1, β_2, = Coefficients to be estimated

3.2: Decision Rule:

The null hypothesis is rejected if the p-value is less than or equal to 0.05, indicating a statistically significant relationship between the independent variables and market capitalization. If the p-value is greater than 0.05, the null hypothesis is accepted, suggesting no significant effect.

3.3: Measurement of Variables

The variables for this study were measured as follows;

Variables Measurements

	Variables	Measurement	Source	Apriori Expectation
	Independent Variables			
1	Investments in Subsidiaries	Natural log of Investments in Subsidiaries	Omeni and George (2021)	Positive
2	Agricultural Financing	Natural log of credits to Agriculture	Ademola (2019)	Positive
	Dependent Variable			
1	Market Capitalization	Natural log of Current share price by the total number of outstanding shares	Qasem et al. (2023).	

4. Data Presentation and Analysis
4.1: Descriptive Statistics Table

```
. summarize LnMKTCP LnAGFN LnINVS
```

Variable	Obs	Mean	Std. Dev.	Min	Max
LnMKTCP	143	22.97834	2.698455	0	26.11105
LnAGFN	137	23.40631	2.196589	16.1624	26.2416
LnINVS	98	22.20476	4.023739	13.81551	26.29417

Source: Researcher's Computation using STATA 14

Table 4.1 above presents the descriptive statistics for the key variables used in the analysis: LnMKTCP (logarithm of market capitalization), LnAGFN (logarithm of agricultural financing), and LnINVS (logarithm of investment in subsidiaries). The dataset comprises an unbalanced panel with varying observations for each variable due to missing data.

The dependent variable, LnMKTCP, has 143 observations with a mean value of 22.98 and a standard deviation of 2.70. The minimum and maximum values range from 0 to 26.11, indicating considerable variation in market capitalization among the listed deposit money banks over the study period.

LnAGFN, representing agricultural financing, has 137 observations. Its mean value is 23.41, with a standard deviation of 2.20. The values range from 16.16 to 26.24, reflecting notable differences in the extent of agricultural financing provided by the banks during the study period.

LnINVS, the proxy for investment in subsidiaries, has 98 observations, with a mean of 22.20 and a standard deviation of 4.02. The minimum and maximum values span from 13.82 to 26.29, showing significant variability in subsidiary investments across banks and years.

The variation in the number of observations for the independent variables is attributed to missing or incomplete data for some banks or years. Overall, these descriptive statistics highlight the heterogeneity in sustainability-related financial activities and market capitalization within the Nigerian banking sector, setting the stage for further econometric analysis.

4.2: Correlation Matrix Table

```
. corr LnAGFN LnINVS
(obs=95)
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	LnAGFN	LnINVS
LnAGFN	1.0000	
LnINVS	0.3722	1.0000

Source: Researcher's Computation using STATA 14

The correlation matrix in Table 4.2 presents the relationships between the independent variables, LnAGFN (logarithm of agricultural financing) and LnINVS (logarithm of investment in subsidiaries), based on 95 observations. The correlation coefficient between LnAGFN and LnINVS is 0.3722, indicating a moderate positive relationship. This suggests that as agricultural financing increases, investment in subsidiaries tends to increase as well, albeit moderately. The correlation values are well below the threshold of 0.8, indicating no significant multicollinearity concerns between these variables, which supports their inclusion in the regression analysis.

4.3: Fixed Effect Table

```
. xtreg LnMKTCP LnAGFN LnINVS, fe

Fixed-effects (within) regression              Number of obs     =         95
Group variable: bank_id                        Number of groups  =         12

R-sq:                                          Obs per group:
    within  = 0.0118                                          min =          1
    between = 0.0976                                          avg =        7.9
    overall = 0.0830                                          max =         12

                                               F(2,81)           =       0.48
corr(u_i, Xb)  = 0.2075                         Prob > F          =     0.6192
```

LnMKTCP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
LnAGFN	-.0444497	.0552951	-0.80	0.424	-.1544696	.0655701
LnINVS	.0515836	.0583838	0.88	0.380	-.0645819	.1677491
_cons	23.0883	1.305984	17.68	0.000	20.4898	25.68679
sigma_u	1.7998095					
sigma_e	.59798033					
rho	.90058634	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(11, 81) = 44.37                      Prob > F = 0.0000
```

Source: Researcher's Computation using STATA 14

The fixed-effects regression was conducted to examine the impact of agricultural financing (LnAGFN) and investment in subsidiaries (LnINVS) on market capitalization (LnMKTCP) for 12 banks over the period analyzed, with a total of 95 observations.

The within R-squared value is 0.0118, indicating that only about 1.18% of the variation in market capitalization within banks over time is explained by changes in agricultural financing and investment in subsidiaries. The overall R-squared is 0.0830, suggesting that 8.30% of the total variation in market capitalization across banks and over time is accounted for by the model.

Neither agricultural financing (coefficient = -0.0444, p = 0.424) nor investment in subsidiaries (coefficient = 0.0516, p = 0.380) are statistically significant predictors of market capitalization at conventional levels. This implies that these sustainability practice proxies do not have a discernible effect on market capitalization within the sampled banks during the study period.

The constant term is positive and statistically significant (23.09, p < 0.001), representing the baseline level of market capitalization when both independent variables are zero.

The F-test for group-specific effects (F(11, 81) = 44.37, p < 0.001) is significant, confirming the necessity of using the fixed-effects model to control for unobserved heterogeneity between banks. The estimated fraction of variance due to differences across banks (rho = 0.901) indicates that 90.1% of the total variance is attributable to bank-specific effects, underscoring the importance of accounting for these individual effects in the analysis.

4.4: Random Effect Table

```
. xtreg LnMKTCP LnAGFN LnINVS, re

Random-effects GLS regression              Number of obs     =         95
Group variable: bank_id                    Number of groups  =         12

R-sq:                                      Obs per group:
     within  = 0.0060                                      min =          1
     between = 0.2790                                      avg =        7.9
     overall = 0.2865                                      max =         12

                                           Wald chi2(2)      =       4.23
corr(u_i, X)   = 0 (assumed)               Prob > chi2       =     0.1206
```

LnMKTCP	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
LnAGFN	-.0181994	.0556154	-0.33	0.743	-.1272035	.0908048
LnINVS	.1010078	.0510604	1.98	0.048	.0009313	.2010843
_cons	21.59341	1.35317	15.96	0.000	18.94124	24.24557
sigma_u	1.0971281					
sigma_e	.59798033					
rho	.77096827	(fraction of variance due to u_i)				

Source: Researcher's Computation using STATA 14

The random-effects model was estimated to assess the influence of agricultural financing (LnAGFN) and investment in subsidiaries (LnINVS) on market capitalization (LnMKTCP) across 12 banks with 95 observations.

The overall R-squared of 0.2865 indicates that approximately 28.65% of the total variation in market capitalization is explained by the model. The between R-squared (0.2790) shows that about 27.90% of the variation between banks is accounted for by the independent variables, while the within R-squared is very low at 0.0060, suggesting minimal explanatory power for changes within banks over time.

Regarding the individual predictors, investment in subsidiaries (LnINVS) has a positive and statistically significant effect on market capitalization (coefficient = 0.1010, p = 0.048), implying that higher investments in subsidiaries are associated with increases in market capitalization. In contrast, agricultural financing (LnAGFN) is negatively related but not statistically significant (coefficient = -0.0182, p = 0.743), indicating no meaningful impact on market capitalization.

The constant term is statistically significant (21.59, p < 0.001), representing the expected level of market capitalization when both LnAGFN and LnINVS are zero.

The estimated fraction of variance due to differences across banks (rho = 0.771) suggests that 77.1% of the total variance in market capitalization is attributable to differences between banks rather than random error, justifying the use of a random-effects model.

The Wald chi-square test ($\chi^2(2) = 4.23$, p = 0.121) shows that, collectively, the explanatory variables are not statistically significant at the 5% level, although LnINVS individually is significant.

4.5: Hausman Test

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. hausman fixed, sigmamore
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| | ─── Coefficients ─── | | | |
| | (b) | (B) | (b-B) | sqrt(diag(V_b-V_B)) |
	fixed	.	Difference	S.E.
LnAGFN	-.0444497	-.0181994	-.0262504	.0217494
LnINVS	.0515836	.1010078	-.0494242	.0369929

```
                 b = consistent under Ho and Ha; obtained from xtreg
          B = inconsistent under Ha, efficient under Ho; obtained from xtreg

     Test:  Ho:  difference in coefficients not systematic

                  chi2(2) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =        14.59
                Prob>chi2 =       0.0007
```

Source: Researcher's Computation using STATA 14

The Hausman test was conducted to determine whether the fixed-effects (FE) or random-effects (RE) model is more appropriate for analyzing the impact of agricultural financing (LnAGFN) and investment in subsidiaries (LnINVS) on market capitalization (LnMKTCP).

The null hypothesis (H0) states that the random-effects estimator is consistent and efficient, while the alternative hypothesis (Ha) asserts that the fixed-effects estimator is consistent and the random-effects estimator is inconsistent.

The test statistic, chi-square(2) = 14.59, with a p-value of 0.0007, strongly rejects the null hypothesis at the 1% significance level. This indicates that the differences in coefficients between the fixed and random effects models are systematic, and the random-effects model assumptions are violated.

Consequently, the fixed-effects model is preferred as it provides consistent estimates by accounting for unobserved heterogeneity among banks that correlate with the explanatory variables.

4.6: Multicollinearity Diagnostics
4.6: Variance Inflation

```
. vif
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Variable	VIF	1/VIF
LnAGFN	1.16	0.861486
LnINVS	1.16	0.861486
Mean VIF	1.16	

Source: Researcher's Computation using STATA 14

The Variance Inflation Factor (VIF) was calculated to assess potential multicollinearity among the independent variables. The VIF values for both agricultural financing (LnAGFN) and investment in subsidiaries (LnINVS) are 1.16, which are well below the commonly accepted threshold of 5 (or 10). This indicates that multicollinearity is not a concern in this model, and the independent variables do not exhibit strong linear relationships that would distort the regression estimates.

4.7: Test of Hypotheses
The hypotheses were tested using the Fixed Effects (FE) model.

Ho1: Investment in Subsidiaries has no significant effect on market capitalization of deposit money banks in Nigeria.
The fixed-effects model shows a positive but statistically insignificant effect of investment in subsidiaries on market capitalization (Coef. = 0.052, p = 0.380). Therefore, we reject the alternative hypothesis and conclude that investment in subsidiaries does not have a significant effect on market capitalization.

Ho2: Agricultural Financing has no significant effect on market capitalization of deposit money banks in Nigeria.
The fixed-effects model shows a negative but statistically insignificant effect of agricultural financing on market capitalization (Coef. = -0.044, p = 0.424). Therefore, we reject the alternative hypothesis and conclude that agricultural financing does not have a significant effect on market capitalization.

4.8: Discussion of Findings
Investment in Subsidiaries
Investment in subsidiaries showed a positive but statistically insignificant effect on market capitalization. Although this does not align with our a priori expectation of a significant influence, the lack of significance suggests that the type and nature of investments in subsidiaries as a sustainability practice may not strongly impact the market value of banks. This finding aligns with Okpo et al. (2024), who found an insignificant relationship between governance and environmental sustainability performance disclosure on market capitalization.

Agricultural Financing
Agricultural financing had a negative but statistically insignificant effect on market capitalization. Contrary to the study's expectations, this indicates that agricultural financing is not perceived as value-enhancing by investors within this sample. This finding does not support the work of Damilola and Adeleke (2023), who emphasized that agricultural growth promotes sustainability. However, it aligns with Okwuego et al. (2025a), who also found agricultural financing to have a negative and insignificant impact on market capitalization.

5. Summary of Findings, Conclusion and Recommendation
5.1: Summary of Findings
The analysis revealed that:
   i.   Investment in subsidiaries had a positive but insignificant effect on market capitalization, indicating a limited impact on investor behavior.
   ii. Agricultural financing had a negative and insignificant effect on market capitalization, implying that investors may not perceive agricultural financing as value-enhancing within the sample.

5.2: Conclusion
This study examined the impact of selected sustainability practices on investor behavior in the Nigerian banking sector. The findings indicate that neither investment in subsidiaries nor

agricultural financing had a statistically significant effect on market capitalization during the study period. This suggests that these sustainability practices may not be strong factors influencing investor decisions in the sampled banks..

5.3: Recommendation
Based on the study's findings, it is recommended that:
  i. Banks should reassess their investments in subsidiaries and agricultural financing to better align these practices with investor expectations and market value creation.
  ii. Policymakers and bank management should work on enhancing the visibility and effectiveness of sustainability practices to build stronger investor confidence and improve market performance.

5.4: Contribution to Knowledge
This study contributes to the existing literature by:
  i. Highlighting the limited impact of investment in subsidiaries and agricultural financing
     on investor behavior in Nigeria's banking sector.
  ii. Providing empirical evidence on sustainability practices and market capitalization relationships in an emerging market context.

5.5: Suggestions for Further Studies
Future studies could explore a broader range of sustainability practices, such as housing finance or long-term investments, to better understand their effects on investor behavior. Comparative studies across different emerging markets could also offer deeper insights into global sustainability trends and investor responses.

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