

## Evaluating the Influence of Investment Decision on Financial Performance: Perspectives from the Banking Sector of Bangladesh

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### Abstract

**Research purpose:** The fundamental aim of this study is to determine whether the various components of investment decisions have any significant impact on financial performance.

**Design/methodology/approach:** This study used secondary data and investigated all the listed banks (30) on the Dhaka Stock Exchange (DSE) using the purposive sampling method. The study spans ten years, from 2014 to 2023. This study employed a multiple linear regression model to empirically investigate the relationship between financial performance and investment decision attributes.

**Findings:** The results of the study exhibited that while the price earnings ratio have no significant effect the financial performance assessed by ROE, EPS, investment in fixed assets, investment size, and asset growth ratio have a significant influence on ROE. Furthermore, company age and cash flows have no influence on financial performance, while firm size as measured by total assets of the firm have a significant influence on return on equity.

**Originality/value:** The study offers originality and value by evaluating the impact of investment decisions on financial performance specifically in the banking sector of Bangladesh providing context-specific insights.

**Practical implications:** The findings from the research have significant implications for all parties (e.g. investors, policy makers, financial analysts, bankers etc.) involved in banking industries for assessing the quality of investment decisions and their financial outcomes.

**Research limitations:** The study is entirely based on quantitative financial metrics. Qualitative aspects like corporate governance practices, market reputation, management quality of the firm, etc., are not considered in this study, which may also influence financial performance.

**Keywords:** Investment decision, Financial performance, ROE, Banking sector

**JEL Classification:** G21, G31, G32, O16

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## 1. Introduction

Financial management is an essential component for accomplishing an organization's goals and objectives. It is all about analyzing financial performance, determining how to use resources more efficiently, and devising innovative methods to employ resources to generate additional resources for the entity. In the current era, proper capital allocation is fundamental, and financial management comprises making decisions about allocating capital to investments. Business firms are increasingly concerned with controlling their investments in order to earn enough returns. The relevance of management may be seen in business owners' need for reasonable returns on their investments. Profit growth must then be commensurate with the capital spent in the business (Ikeolape, 2018). Making an investment decision is a vital issue of the firm's operations related to allocating funds for investments in assets in order to attain both its short- and long-term goals. It is anticipated that investing in corporate assets generate returns in the form of profits and chances for future expansion (Efni et al., 2012; Sherine et al., 2021).

The performance of an organization is greatly impacted by efficient investment management. Management strategies that maintain a balance between inventory and profitability must be implemented to ensure a company's expansion and survival (Lu & Wang, 2009; Musawa et al., 2023). Investment decisions measured by asset growth are one of the financial management functions that involve fund allocators in various types of investment decisions to maximize company value by obtaining higher profits from future funding costs (Achmad & Amanah, 2014; Suleman & Sumani, 2021). Making the decision to invest must be carefully deliberated, considering that it affects the company's policy about the use of funds and returns or its decision to invest in an asset with the expectation of generating a return higher than the minimum permissible rate. Generating judgments about investments becomes essential because it's closely related to the community's trust (Pristiana et al., 2018). In making long-term investments, investors are becoming more and more concerned with both profitability and financial stability. Superior profitability supports investment decisions that improve a company's image in the eyes of investors, attract their interest in making investments, and raise the firm's worth (Alghifari et al., 2022).

Several studies have demonstrated a strong association between sound investment decisions and financial metrics such as EPS, return on equity (ROE), and return on assets (ROA). However, contextual elements including institutional capacities, economic situations, and regulatory frameworks frequently affect how effective these techniques are. Therefore, it is essential to analyze the nexus between the investment decision attributes and financial performance within specific national contexts, especially in economies like Bangladesh that are characterized by volatility and structural challenges.

This study contributes to the literature by empirically analyzing how several components of investment decisions affect financial performance, employing data from 30 listed banks in Bangladesh over a ten-year period (2014–2023). It measures how factors like fixed asset investment, asset growth rate, and EPS affect profitability and emphasizes on

return on equity (ROE) as a key performance indicator. Moreover, the inclusion of control variables like firm size, firm age and cash flows from operations offers more sophisticated understanding of how bank-specific factors moderate these relationships. The findings of the study offer evidence-based insights that can support bank administrators make improved investment decisions and direct regulators and policymakers in strengthening financial control in the banking sector.

### *1.1 Rationale of the Study*

Investment decisions, as a component of financial management, necessitate that the investor's decision to allocate their resources to assets with the possibility of future return be informed by logical requirements. One way to achieve this is through company financial performance analysis employing financial performance indicators. When making investment decisions, investors are now more interested in the overall performance of the firm than in the dividend return on their shares or the price appreciation of the share. In the case of financial institutions, these includes a number of indicators that demonstrate the stability and liquidity of the institution as well as several additional relevant indicators (Hussain, 2007; Abdullahi & Musa, 2019).

Capital investment has a noteworthy impact on a firm's future cash flow because it takes over a huge quantity of capital. Investment decisions by the management can influence a company's future; the proper investment decision can reduce risk and increase profits, but the wrong investment decision can be disastrous (Hua, 2022). Investment decisions are inevitable and affect how well business' function. The financial manager determines which investments to make. Every company must make a variety of financial decisions, and the stakeholders use the financial measures provided by financial statements to inform their judgments. An entity's ability to develop and survive rest on its ability to implement management strategies that raise profitability. Making financial decisions requires carefully considering all of the alternatives that are consistent with the overall company plan.

By offering loans in a variety of formats to alleviate capital deficits across various industries, the banking sector plays a pivotal role in promoting economic growth and bolstering national development indicators. In this context, banks' capacity to effectively manage investment turn out to be crucial for maintaining institutional stability and long-term financial sustainability (Olaiifa, 2018). Despite the significance of these choices, there remains a partial understanding about the effects of certain investment components—such as P/E ratio, earnings per share (EPS), fixed asset investments, investment size, and asct growth rate— on financial performance in emerging nations like Bangladesh. This gap is particularly critical given the volatile and dynamic character of Bangladesh's financial sector, where decisions about capital allocation may have a significant impact on performance outcomes and profitability. Therefore, it is crucial to empirically scrutinize the association between vital investment decisions and financial performance within the country's banking sector.

## 2. Literature Review

Investment decisions are essential in influencing the financial success and sustainability of banking institutions, particularly in emerging economies like Bangladesh. Prudent investment choices—be it in fixed assets, financial instruments, or technology advancements can significantly improve profitability, mitigate risk, and secure sustained development. In the banking sector, such judgments are especially crucial because to the industry's dependence on asset-liability management and susceptibility to macroeconomic factors. Prior studies have studied the relationship between capital allocation techniques and financial results using several performance metrics such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM).

Alghifari et al. (2022) concentrated on strategically planned corporate financial decisions that are tempered by profitability and involve investments aimed at boosting firm value. The result demonstrates that investment choices have a positive consequence on the value of firms, and profitability plays a moderating role in enhancing this impact. Details regarding the firm's investment decisions are indicative of significant potential for progress, which will raise the company's valuation and eventually affect shareholders' well-being. Profitability also reinforces the firm's positive image for decision making in the eyes of investors.

Afşar and Karaçayır (2020) looked into how financing and investment decisions affected the value of the company. The research consequences specify that the earnings per share, current ratio, intangible assets, turnover rate of assets, return on assets, and stock turnover rate have a positive and noteworthy consequence on firm worth. The firm's worth is unfavorably and significantly affected by the leverage ratio, debt turnover rate, and crisis variables. Furthermore, it has shown that there is no significance between the firms' value and the factors related to the receivables turnover rate as well as the size of the firm.

Bamidele et al. (2018) examined the impact of financial reporting quality on the process of making investment decisions. The results indicated that quality of financial disclosures actions, including profit after tax, cash employed for investing or received from it, and cash plus cash equivalents, had significant effects on investment. The outcome further demonstrates that the bank's investment decisions have been greatly impacted by its financial reporting quality.

Hajering et al. (2018) looked at how the company's financial performance was affected by funding choices, dividend policy, and investment choices. The findings showed that funding and investment choices had a favorable but negligible bearing on financial performance but a big and positive impact on the firm's value. Both financial performance and business value are positively and meaningfully impacted by the dividend policy. The worth of the firm is positively and meaningfully impacted by financial success.

Mweresa and Muturi (2018) evaluated whether financial performance was impacted by investing decisions. The study discovered that investment done in production section has a significant consequence on financial performance. Investments in financial assets have little impact on the sample corporations' financial performance, whereas investments in the distribution system have a moderate influence.

Nianty et al. (2023) evaluated the impact of investment decisions, capital structure, and dividend policy on the financial performance and overall value of banking companies. The findings suggest that financial performance is meaningfully impacted by decisions made regarding investments, acquiring wealth, and separation policies. The value of the company is significantly impacted by the savings discovery and the separation regulation. The worth of the firm is unaffected by its wealth structure. Investment decisions, wealth distribution, and distinct policies all have a substantial indirect impact on corporate value through financial performance.

Quddus et al. (2022) studied the relationship between firm-level investment and firm performance in the manufacturing industry. The study found that investment, particularly made in tangible assets, is significantly negatively impacted by the restraining effect of economic policy indecision. In contrast, when it comes to investment and firm performance as determined by ROA, economic policy uncertainty is favorable and significant when it comes to financial leverage but negative and significant when it comes to investments in tangible assets. The key finding is that there is a substantial and negative association among economic policy uncertainty, investment, and company performance. Investment decreases as a result of a result of economic policy uncertainty at the firm level, ultimately having an effect on firm performance.

Santoso (2019) examined how investment decisions and funding affect financial performance and firm value. The findings demonstrated that asset construction has a bearing on financial performance as well as the firm value. The capital structure influences financial performance but not on the firm value.

Sherine et al. (2022) examined the impact of investment decisions, funding decisions, and profitability on firm value. The results demonstrate that, simultaneously, finance decisions have a positive and major impact on company value, investment decisions have a positive and significant impact, and profitability has a positive and minor impact.

Suleman and Sumani (2021) investigated the impact of investment decisions, capital structure, profitability, and company size on the value of the firm and used samples from real estate, construction, and property companies. The study's findings demonstrated that firm value was not significantly impacted by capital structure, profitability, and investment decisions. On the other hand, the company's size significantly detracts from its overall value. The study's findings also showed that a firm's value is concurrently prejudiced by its capital structure, profitability, investment decisions, and company size.

Susena et al. (2022) examined a study on manufacturing companies to see whether investment decisions and financial performance affected the value of a company. The findings indicate that, for the sample companies, there is no noteworthy association between financial performance and company value. Company values are significantly impacted by investment decisions.

Suteja et al. (2023) focused on raising the value of the company by utilizing profitability and CSR to influence its investment decisions in emerging economies. The findings indicated that investment decisions had an adverse impact on firm value and that this impact was strengthened by the importance of profitability and corporate social responsibility. The value of the firm is negatively impacted by investment decisions; however, this impact is mitigated by CSR and profitability.

From the preceding research results in existing literature, it is apparent that the investment decision has a noteworthy impact on the financial performance. The purpose of the study is to look at how various aspects of investment choices affect the financial performance of Bangladeshi banks.

## *2.1 Theoretical Review*

**2.1.1 Agency theory:** Agency theory introduced by Jensen & Meckling in 1976, which describes how managers and shareholders/ owners interact in contemporary corporations. Because of competing interests and unfinished contracts, this context stretches agents the power to decide on behalf of principals, which may cause agency problems. Making sure agents behave in the principals' best interests is the main problem. Agency theory underlines how decisive monitoring systems are in preventing managers from putting their own interests ahead of that of shareholders. It delivers insightful information on manager-owner affairs and how they affect the success of the firm (Eisenhardt, 1989; Agarwal et al., 2014; Solaiman, 2023).

**2.1.2 Signaling theory:** Signaling theory (1973) developed by Spence, refers to how a signaler communicates important information about his or her activities, such as products or services, to a recipient or receiver. The theory is suitable for characterizing behavior when two parties have entree to different sorts of information. Signaling theory explains an action finished by a corporation's management to inform investors about the concern's future prospects. Investment activity and strong profits can send a good signal about the firm's future growth, causing stock prices to rise, which is employed to measure company value (Spence 1973; Ansah et al., 2022; Bliege Bird Smith, 2005; Lester et al., 2006; Connelly et al., 2011; Bennet et al., 2019; Brigham et al., 1993; Achmad & Amanah, 2014; Amarudin et al., 2019; Susena et al., 2022; Suleman & Sumani, 2021; Alghifari et al., 2022). Management conveys pertinent information in the form of signals in order to make well-informed judgments for the investors. Building confidence among stakeholders is facilitated by a significant correlation between signaling and financial success. For example, managers and shareholders receive a good signal about the company's future prospects when management makes investments in asset expansion.

2.1.3 Modern portfolio theory: The foundational ideas of portfolio management initially developed in 1952 by Professor Markowitz. By sensibly balancing the quantities of diverse assets, Markowitz's theory, now known as the Modern Portfolio Theory, purposes to exploit portfolio anticipated return for a stated level of portfolio risk, or equivalently, lessen risk for a stated level of expected return. In terms of mathematical modelling of finance, the Modern Portfolio Theory represents a significant advancement above conventional investment model. The theory supports asset diversification as a way to protect against both market risk and company-specific risk (Yu & Zhang, 2023; Bera, 2022; Omisore et al., 2012; Edwin & Martin, 1997; Wen, 2023; Solaiman, 2023). Investors can use the contemporary portfolio theory to build an asset portfolio, which maximizes the expected return for certain levels of risk. The return and risk of the whole portfolio should be considered when evaluating an investment rather than the risk and return of a single investment. In order to reduce overall risk and maximize return, an investor can create a combination portfolio containing a variety of assets.

2.1.4 The Q theory of investment: The Q theory (1968) developed by J. Tobin and W. Brainerd, contends that capital investment directly influences portfolio decisions. The main challenge with this theory, though, is figuring out the marginal Q because only the average Q is recognized for absolutely. The Q theory of investment predicts a significant relationship between firms' market valuations and their investment rates, and a straightforward regression of investment on Q ought to yield a strong fit for evaluating Tobin's marginal Q using a valuation ratio, average Q. It also demonstrates that Q, or the discounted value of the company's future marginal revenue products, is the worth of an extra unit of capital. Additionally, it demonstrates that Q is the discounted value of the company's future marginal revenue products, or the worth of an additional unit of capital (Andrei et al., 2017; Hayashi, 1982; Yokinawa, 1980; Ariemba et al., 2016; Mcdonald John, 2004; Romer, 1996). A widely recognized theory of real investment is the Q theory, which holds that investors should increase their portfolio choice if Q is higher than one ( $Q > 1$ ) and decrease their investment if Q is lower than one ( $Q < 1$ ). It is postulated that investment is an advantageous consequence of Q, which is the market value of replacing the cost of capital ratio. This theory played a significant role in comparing investment selection costs to financial outcomes.

### **3. Conceptual Review and Hypotheses Development**

#### *3.1 Investment Decision*

Investment is the dedication of present finances or other properties with a prospect of future benefits. It entails the decision to invest funds in long-term assets. Such decisions are essential to the organization and the individual because they influence growth, profitability, and risk, hence determining value and size (Amahalu et al., 2020). Considering investment decisions are one of the crucial components of investment, any firm must be able to make proper and sensible decisions in order to anticipate risks that could hurt both inside and outside parties to the business. the company's assets in the hopes that the

present investment would eventually yield a high rate of return (Sherine et al., 2021). Keeping an eye on cash management in relation to the firms' investment decisions allows for an assessment of investment decisions. Risk management has been viewed as a factor in investment decisions. Analysis of risk, judgments about portfolio management, dividend and profit payments, and asset liability management are all connected to the investments. Depending on the kind of project to be invested in, risk analysis is the process of making decisions about investments that are vulnerable to unpredictability in future returns (Mweresa and Muturi, 2018).

Decisions concerning investments influence growing firm value since they influence how the business operates and how well it achieves its objectives (Fama, 1978; Alghifari et al., 2022; Sun & Chen, 2017; Al Daas et al., 2020; Pramatha et al., 2020; Susanti et al., 2019; Sherine, 2021; Shantatus, 2015). A comprehensive process that distributes funds in order to maximize return is called an investment decision. Both longstanding and short-range investment decisions are ended by the entity when deciding how best to utilize its properties for maximizing returns for its investors. How to best distribute capital to maximize its value is a key consideration in investment decisions, which are an important aspect of corporate success. Investment managers and investors make decisions about their investments. The decision to make is determined by the investor's characteristics, risk tolerance, and investing goals. It entails allocating financial resources in an economical and efficient way to raise the performance of the business and accomplish its objectives. Considering a high value indicates the wealth of the owners, the firm's many interested shareholders desire a high business value. An organization's financial performance reveals the management's skill, and decisions regarding investments are essential in enhancing corporate expansion by raising profitability levels. The company would typically decide which investments to make for growth, acquisition, advancement, and long-term asset replacement.

### *3.2 Financial Performance*

Determining particular indicators that quantify a business's ability to turn a profit and assessing how well it carries out its strategy are known as financial performance. These indicators support profitability, liquidity, efficiency, and solvency, allowing for smooth business operations. One of the main purposes of financial measures in financial reports is to serve as a guide for decision-making and as a means of ensuring external parties are satisfied. One way to conceptualize financial performance is as a formal effort undertaken by the organization to evaluate the efficiency of its functions over a given time period. The assessment process is also essential to the data review, calculation, measurement, and providing a response to the financial company within a specific timeframe (Sucipto, 2003; Hanafi, 2007; Sucipto, 2003; Srimindarti, 2006; Hajering et al., 2018; Tudose et al., 2022; Gowsalya & Hasan, 2017; Sutrisno, 2009; Husnan, 2015; Fahmi, 2012; Attarie et al., 2018; Karim et al., 2023; Lukitasari & Kartika, 2014; Fransisca et al., 2023; Suresh & Pradhan, 2023; Edan et al., 2022). Several studies have demonstrated that investment decisions have significant impacts on every company's growth and overall performance (Edan et al., 2022;

Al Daas et al., 2020; Pramatha et al., 2020; Salehi et al., 2022; Triani & Tarmidi, 2020; Komala et al., 2019; Bon & Hartoko, 2022; Alghifari et al., 2022; Chandra, 2020; Kasasbeh, 2021).

### *3.3 Development of Hypotheses*

To comprehend a concern's operating outcomes and financial positions which show both the company's strengths, weaknesses and the effectiveness of its management financial performance analysis essentially refers to the analysis of various financial measurements. The financial performance of a company's structure is greatly impacted by its investment decisions, which are fundamental. On the other hand, insufficient investment decisions could have an unfavorable bearing on financial performance and undermine business organizations. A company's competitiveness, potential, and economic interests are largely determined by its financial performance, which is one of the key factors. This study has postulated the following hypotheses in order to fulfill its objective:

The price earnings (P/E) ratio is commonly known as a vital market-based factor of a firm's projected forthcoming profitability. According to Signaling Theory (Spence, 1973), a higher P/E ratio demonstrates positive investor outlooks, which may be grounded on the firm's strong financial projections. The ratio is also measured a proxy for market confidence and estimate. Past empirical evidence supports this hypothetical link. For example, Rani et al. (2022) mentioned that companies with more P/E ratios established higher financial results in terms of ROE and ROA. Likewise, Islam and Kabir (2020) presented a positive connection between P/E ratio and firm performance amongst Bangladeshi listed firms. These results strengthen the view that P/E ratios aid as significant forecasters of a firm's financial strength and rationalize the construction of this hypothesis.

*H<sub>1</sub>: The price-earnings ratio has a significant impact on financial performance.*

Another important financial-based performance measure that displays the firm's capacity to turn a profit on each outstanding share is earnings per share, or EPS. Both the Efficient Market Hypothesis (Fama, 1970) and accounting valuation theories contend that EPS has an important bearing on investment selections and offers vital insights into firm profitability. Rahman et al. (2021) exposed that among Bangladeshi manufacturing corporations, EPS expressively enhanced financial performance, particularly ROE. In a comparable vein, Bhunia and Sarkar (2020) initiated that EPS had a better influence on firm profitability than other metrics like return on capital employed or net profit margin. These results analytically validate this hypothesis by weighting the significance of EPS in collaborating business profitability to shareholders. This study has postulated the following hypothesis:

*H<sub>2</sub>: The earnings per share have a significant impact on financial performance.*

Investment in fixed assets, such as real estate, machinery, and equipment, can progress manufacturing capacity and operational efficiency, which can influence financial performance. The Resource-Based View (Barney, 1991) positions that these types of

investments yield physical resources that can consequence in a longstanding competitive benefit. This connection is reinforced by prior empirical research in literature. According to Chen et al. (2023), Chinese manufacturing corporations' financial performance was significantly enhanced by making fixed asset investments. In Bangladeshi textile firms, Uddin and Rahman (2020) also exposed a positive association between capital spending and profitability. These outcomes support the formulation of the hypothesis by representing that accurately accomplished fixed asset investments can rise business productivity and financial returns.

*H<sub>3</sub>: The investment in fixed assets has a significant impact on financial performance.*

Investment size, which denotes the scale of capital organized in business activities, is closely connected to the firm's growth trajectory and operational growth. According to Capital Budgeting Theory and Investment-Based Valuation Models, larger investments may lead to increased capacity, economies of scale, and greater profitability if executed efficiently. Ahmed et al. (2022) found that the size of investment has a positive influence on firm profitability and market value among listed companies in Bangladesh. Correspondingly, García-Sánchez et al. (2021) found that large-scale investments, predominantly in technology and innovation, resulted in better financial outcomes for European firms. These results confirm that strategic investment size contributes significantly to financial performance, confirming the following hypothesis.

*H<sub>4</sub>: The investment size has a significant impact on financial performance.*

An enterprise's growth in terms of capital investment and the gathering of resources can be seen in its asset growth rate, which may have a bearing on its efficiency and profitability. Although extreme or unbalanced growth can result in inefficiencies, theoretical models such as Growth Theory and Agency Theory demonstrate that modest asset growth that is in line with strategic objectives may enhance financial performance. According to Hasan et al. (2023), controlled asset growth correlated well with ROA and ROE in the context of Bangladeshi banks. Furthermore, Agyemang and Aboagye (2020) found that asset increase improves firm performance in Ghana when accompanied by efficient administration practices. The incorporation of the following hypothesis is thus rationalized by the significance of the asset growth rate as an indicator of financial profitability.

*H<sub>5</sub>: The asset growth rate has a significant impact on financial performance.*

## **4. Methodology of the Study**

### *4.1 Sample Size Selection and Sampling Method*

An explanatory approach has been employed in this study to clarify the relationship between dependent variables, such as financial performance, and independent variables, including various elements of investment decisions. The target population of this research is the banking sector of Bangladesh. The study uses a purposive sampling technique and considers all the listed commercial banks (36 banks) on the Dhaka Stock Exchange. Out of 36 listed banks, 30 listed banks are taken into consideration of this study. Six (06) banks are

not considered since these banks were started operations in 2013 and listed on DSE in 2021 and onwards. The banks are Global Islami Bank PLC, Midland Bank PLC, NRB Bank PLC, NRBC Bank PLC, SBAC Bank PLC and Union Bank PLC.

#### *4.2 Nature of Data and Period of the Study*

This study is entirely grounded in secondary data. The required data have been obtained from the DSE official website, journals, publications, and published annual reports of the listed banks. The study period spanned from 2014 to 2023, a ten-year period. Multiple regression analysis and Pearson correlation analysis were employed in this study to analyze the collected data.

#### *4.3 Research Model*

This study adopts multiple linear regression model to empirically examine the association between firm financial performance and investment decision attributes. This method is extensively used in financial and economic research due to its ability to measure the combined and individual effects of multiple independent variables on a single dependent variable. Besides, multiple linear regression model allows the control of confounding effects, recognizes the strength and direction of each relationship, and offers a comprehensive view of the elements of financial performance. Preceding studies, such as those by Al-Shubiri (2011), Omondi and Muturi (2013), and Khan et al. (2019), have effectively applied multiple regression to examine how financial and investment aspects effect firm performance, supporting its use in this study.

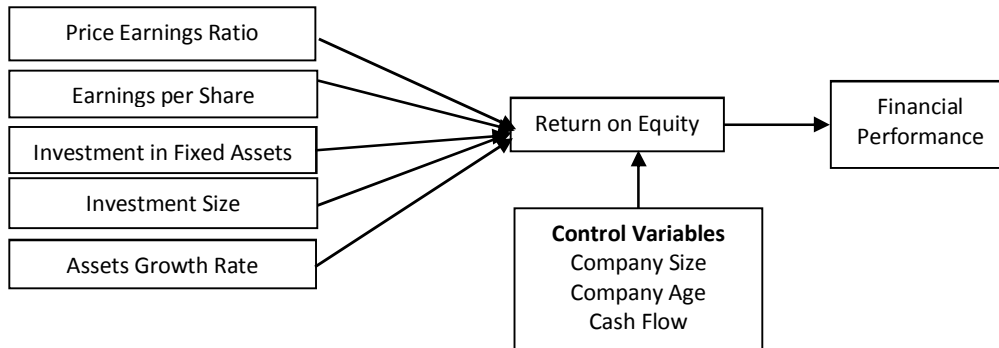
The research illustrates the relationship between the study's variables by graphically presenting how investment decision elements (independent variables) influence financial performance (dependent variable). An explanatory research approach is adopted to examine and clarify these relationships, providing a structured analysis of how specific financial indicators—such as PER, EPS, IFA, IS, AGR, TA, CA, and CFO—impact firm performance as measured by ROE.

Return on Equity (ROE) is used in this study as the main indicator of financial performance due to numerous compelling reasons. ROE emphasizes shareholder value by measuring how efficiently a firm uses equity to make profits, aligning well with the motive of measuring investment decisions (Penman, 2012). Contrasting Return on Assets (ROA), which comprises both debt and equity and may obscure the returns specific to shareholders, ROE incorporates the impact of financial leverage and offers a more accurate representation of equity efficiency (Brealey, Myers & Allen, 2017). Unlike ROE, Return on Sales (ROS) overlooks the role of financing and leverage, which are vital in understanding returns to shareholders (Brigham & Ehrhardt, 2013). Furthermore, ROS may not entirely capture firm value formation when profit margins are high but capital efficiency is low (Palepu, Healy, & Peek, 2013). In contrast to Tobin's Q, which is extremely sensitive to market fluctuations and external sentiment, ROE offers a more reliable, accounting-based indicator of internal performance (Chung & Pruitt, 1994). Additionally, ROE has a sturdy

empirical support in the literature, having been used in studies such as Hossain and Hossain (2015) and Mwangi et al. (2014) to assess the influence of investment attributes and financial performance. ROE is a hypothetically and practically inclusive choice for this research due to its simplicity, ease of calculation, and widespread acceptance in both academic and professional contexts.

#### INDEPENDENT VARIABLES

#### DEPENDENT VARIABLE



Source: Research model developed by the researchers

#### 4.4 Model Specification

The following regression model has been developed in order to find the influence of investment decisions on the financial performance of listed banks in Bangladesh. The following models are specified:

$$Y = \alpha + \beta_1 \text{PER} + \beta_2 \text{EPS} + \beta_3 \text{IFA} + \beta_4 \text{IS} + \beta_5 \text{AGR} + \beta_6 \text{TA} + \beta_7 \text{CA} + \beta_8 \text{CFO} + \varepsilon$$

Were:

Y = Corporate Financial Performance Presented by Return on Equity

PER = Price Earnings Ratio

EPS = Earnings per Share

IFA = Investment in Fixed Assets

IS = Investment Size

AGR = Assets Growth Rate

TA = Total Assets

CA = Corporate Age

CFO = Cash Flow from Operations

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$  and  $\beta_8$  are the regression coefficients individually for the independent variables. They are taken to portray the connection among the independent and dependent variables.

$\alpha$  = the constant term

$\varepsilon$  = the error term of the model

Table 1: Summary of Variables

Variable	Definition	Proxy	Source
<b>Dependent Variable</b>			
Return on Equity	The proportion of a business's net income to its equity shareholders' part	ROE	Hajering et al., 2018; Nianty et al., 2023; Quddus et al., 2023; Sherine et al., 2021; Suteja et al., 2023; Meidiawati & Mildawati, 2016; Tiurmauli et al., 2018; Prasetyorini, 2013; Shahzad, 2023
<b>Independent Variables</b>			
Price Earnings Ratio	The price earnings ratio shows a company's market price of shares to its earnings per share, demonstrating its valuation.	PER	Alghifari et al., 2022; Sherine et al., 2021; Suteja et al., 2023; Tiurmauli et al., 2018; Triani and Tarmidi, 2019; Prasetyorini, 2013
Earnings per Share	The amount of profit made by each share is expressed as earnings per share, which serves as an assessment of a concern's success.	EPS	Afşar & Karaçayır, 2020
Investment in Fixed Assets	The cumulative amount spent on a concern's fixed assets.	IFA	Hajering et al., 2018; Ding et al., 2018; Quddus et al., 2023; Santoso, 2019
Investment Size	The total amount of money that the company has invested.	IS	Gutiérrez et al., 2014; Morwabe and Muturi, 2019
Assets Growth Rate	The asset growth rate displays the rate at which the assets of a company have increased. It's computed as the percentage change in assets over a specified time frame.	AGR	Suleman & Sumani, 2021; Afşar & Karaçayır, 2020; Meidiawati & Mildawati, 2016; Aggarwal and Padhan, 2017
<b>Control Variables</b>			
Corporate Size	Company size refers to the size of the corporation's activities and measures the total amount of assets possessed by the company.	TA	Gutiérrez et al., 2014; Quddus et al., 2023; Meidiawati & Mildawati, 2016; Aggarwal & Padhan, 2017; Ding et al., 2018; Afşar & Karaçayır, 2020; Bamidele et al., 2018
Corporate Age	The span of time that a firm has currently been in operation since its inception.	CA	Quddus et al., 2023; Ding et al., 2018
Cash Flow from operations	The volume of cash that the company generates over time from carrying out its operational activities.	CFO	Gutiérrez et al., 2014; Quddus et al., 2023; Ding et al., 2018

## 5. Data Analysis and Discussion

### 5.1 Multicollinearity Diagnostics

Table 2: The results of collinearity statistics

Variables Name	Collinearity Statistics	
	Tolerance	VIF
Price Earnings Ratio	0.892	1.121
Earnings Per Share	0.703	1.423
Invested in Fixed Assets	0.582	1.718
Investment Size	0.421	2.373
Assets Growth Rate	0.921	1.086
Total Assets	0.203	4.935
Corporate Age	0.802	1.247
Cash Flow from Operations	0.360	2.780

Table 2 displays the results of collinearity statistics. The results of collinearity statistics have been employed in this study to explore the multicollinearity problem in various independent variables. If the variance inflation factor (VIF) is less than 10, there is no problem with multicollinearity (Arif & Tuhin, 2013; Rahman and Uddin, 2016; Moulick et al., 2021; Saha, 2021; Banu, 2021; Solaiman, 2023; Neogy & Rahman, 2023; Neogy, 2024; Cyril & Singla, 2020; Quddus et al., 2022). From results of Table-2, the entire value of tolerance is less than 1, and the VIF is less than 10, representing that there are no multicollinearity issues in forming the regression model in this research study.

### 5.2 Univariate Analysis

This section presents the univariate analysis of the data used in the study, concentrating on the understanding the distribution and features of each variable independently. It contains two fragments: (a) descriptive statistics and (b) correlation analysis.

#### 5.2.1 Descriptive statistics

Table 3: Results of descriptive statistics

Name of Variables	N	Minimum	Maximum	Mean	Std. Dev.
Return on Equity	300	-70.19	29.15	10.78	8.02
Price Earnings Ratio	300	-0.81	624.03	17.53	67.25
Earnings Per Share	300	-10.20	21.00	3.10	2.88
Invested in Fixed Assets	300	1593.76	14721.19	4876.39	2638.49
Investment Size	300	7634.56	147906.01	45295.70	24219.20
Assets Growth Rate	300	-9.32	28.52	11.21	6.18
Total Assets	300	88738.51	712755.71	294018.02	121458.54
Corporate Age	300	12.00	57.00	29.63	12.18
Cash Flow from Operations	300	8253.72	39691.20	18102.92	6483.20

Table 3 shows the findings of descriptive statistics for each of the variables employed in this current study. The descriptive statistics reveal substantial variations in crucial financial and investment-related factors among the listed banks in Bangladesh, highlighting diverse strategies and performance levels within the sector. Return on Equity (ROE) displays a modest average rate 10.78% but an extensive range, representing both highly profitable and underperforming banks. The price-earnings ratio fluctuates between -0.81 and 624.03, with an average of 17.53 and a standard deviation of 67.25. Thus, P/E ratio is highly volatile with extreme values reflecting investor uncertainty. The earnings per share ranging from -10.20 to 21.00, with a mean of 3.10 and a standard deviation of 2.88 indicates inconsistent profitability. Furthermore, when it comes to investments in fixed assets, both in fixed assets and overall size, vary extensively, signifying divergent investment capacities and priorities. Although the average asset growth rate is strong 11.24% is strong, some banks exhibit adverse growth. Total assets and cash flows from operations also demonstrate extensive variability, representing different scales and liquidity strengths. Finally, the average corporate age suggests an established industry, though newly established banks also function within the listed banks considered. These variations highlight the importance of assessing how investment decisions impact on financial performance, as differences in strategy and scale may account for disparities in results across the sector.

#### 5.2.2 Correlation matrix and multicollinearity assessment

This segment comprises two components: intercorrelation among independent variables and Pearson correlation between ROE and the independent variables. To evaluate multicollinearity before regression analysis, the correlation matrix among independent variables has been examined in Table 4.

Table 4: The results of intercorrelation coefficients

	CF	AG	PER	CA	EPS	FA	IS	TA
CF	1.000							
AG	0.036	1.000						
PER	0.224	0.171	1.000					
CA	-0.115	0.020	-0.080	1.000				
PPS	-0.449	-0.187	-0.034	0.228	1.000			
FA	0.037	0.066	0.106	-0.233	-0.196	1.000		
IS	0.092	0.071	0.075	-0.030	-0.123	0.213	1.000	
TA	-0.584	-0.099	-0.209	-0.008	0.335	-0.435	-0.635	1.000

This study additionally considered the coefficients of correlation of the various independent variables to check for multicollinearity. If the correlation coefficients of different independent variables are less than 0.9, there is no multicollinearity problem (Dormann et al., 2012; Yu et al., 2015; Moulick et al., 2021; Solaiman, 2023; Neogy, 2023). Referring to the preceding Table-3 information, it is clear that the entire coefficient of correlation value is less than 0.9, signifying that there are also no multicollinearity issues in constructing the regression model.

The Pearson correlation analysis was directed to observe the strength and direction of relationships between Return on Equity (ROE) and several investment decision variables. The results are shown in Table 5.

Table 5: The results of the Pearson correlation analysis

		ROE	PER	EPS	IFA	IS	AGR	TA	CA	CF	
ROE	Pearson Correlation Sig. (2-tailed)	1.000									
PER		0-.178*	1.000								
EPS		0.611**	-0.143	1.000							
IFA		-0.006	-0.044	0.125	1.000						
IS		-0.030	0.014	0.038	0.323**	1.000					
AGR		0.326**	-0.185*	0.210**	0.006	-0.003	1.000				
TA		-0.231**	0.052	0.004	0.579**	0.743**	0.030	1.000			
CA		-0.230**	0.080	-0.168*	0.343**	0.221**	-0.066	0.331**	1.000		
CF		0.085	-0.138	0.320**	0.466**	0.511**	0.090	0.717**	0.242**	1.000	
			0.299	0.093	0.000	0.000	0.000	0.276	0.000	0.003	
			0.000	0.023	0.010	0.941	0.972	0.000	0.023	0.010	
			0.939	0.590	0.128						
			0.720	0.861	0.646	0.000					
		0.005	0.531	0.962	0.000	0.000	0.718				

Correlation is significant: \*\*at the 0.01 level (2-tailed) and \*at the 0.05 level (2-tailed)

Correlation analysis determines whether there is a correlation between two variables. Pearson correlation is applied to assess the level of correlation between financial performance measured by return on equity and the various components of investment decisions. Table -4 shows the Pearson correlation analysis results. Based on the foregoing findings, it is clear that the price earnings ratio ( $r = -0.178$ ,  $p = 0.029$ ) is negatively correlated with ROE but statistically significant. Earnings per share ( $r = 0.611$ ,  $p = 0.000$ ) has a statistically noteworthy positive connection with ROE. Moreover, there is a statistically significant positive correlation ( $r = 0.326$ ,  $p = .000$ ) between asset growth rate and ROE. Furthermore, the total assets ( $r = -0.231$ ,  $p = .005$ ) have a negative correlation with ROE but are statistically significant. Furthermore, corporate age ( $r = -0.230$ ,  $p = .005$ ) has an adverse but statistically noteworthy association with ROE.

### 5.3 Multivariate Analysis

This section presents the multivariate regression analysis aimed at determining the influence of investment decision variables on financial performance, as measured by Return on Equity (ROE). The analysis comprises both the model summary and regression coefficients, followed by an explanation of each variable's influence, supported by related theories and previous empirical studies.

Table 6: The results of the model summary

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std. Error of Estimate	R <sup>2</sup> Change	F Change	Sig. F Change	Durbin-Watson
One	0.734	0.538	0.512	5.60483	0.538	20.534	0.000	1.552
<i>Predictors: (Constant), CF, AGR, PER, CA, EPS, IFA, IS, TA, Dependent Variable: ROE</i>								

The influence of investment decision components on financial performance, as determined by return on equity, has been investigated employing regression analysis. It can be determined from the results shown in Table 6 that R, the correlation coefficient, demonstrates the connection between the study variables. As indicated by 0.734 in the results, there is a noteworthy positive association between the studied variables. The adjusted R-square demonstrates how the changes in the independent factors affect the dependent variable in an organized way. The adjusted R-squared value of 0.512 indicates that independent variables, such as the various components of investment decisions used to determine ROE, contribute to 51.20% of the total variation in the dependent variable ROE. The error term accounts for the remaining 48.80% of the variation, which is instigated by explanatory factors external to the purview of this model. The F-value is 20.534 and the significance level is 0.000, which is less than ( $P = 0.000 < 0.05$ ) at the 5% significance level. This indicates that the different components of investment decisions, such as price earnings ratio, earnings per share, investment in fixed assets, investment size, and asset growth rate, as well as control variables including corporate size, age, and cash flows from operations, had a significant influence on the corporate financial performance restrained by return on equity. The Durbin-Watson value of 1.552 falls within the acceptable threshold range of 1.5 to 2.5, suggesting there is no autocorrelation in the regression model (Mweresa & Muturi, 2018; Bamidele et al., 2018; Morshed et al., 2024; Abdullahi & Musa, 2019; Amahalu et al., 2020).

Table 7: The results of the regression coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t-values	Sig. Levels	Significance
	B	Std. Error	Beta			
(Constant)	6.962	1.837		3.790	0.000	
PER	-0.000	0.007	-0.001	-0.010	0.992	Not Significant
EPS	1.276	0.190	0.459	6.719	0.000	Significant
FA	0.001	0.000	0.170	2.266	0.025	Significant
IS	0.000	0.000	0.338	3.829	0.000	Significant
AG	0.296	0.077	0.228	3.820	0.000	Significant
TA	-0.000	0.000	-0.690	-5.424	0.000	Significant (Negative)
CA	-0.058	0.042	-0.087	-1.367	0.174	Not significant
CF	0.000	0.000	0.182	1.904	0.059	Not significant
<i>Dependent Variable: ROE</i>						

Table 7 displays the regression coefficients, including the beta coefficient, t-value, and p-value, for each element that contributes to an investment decision. The extent and type of relationship between the various components that make up the investment decision are indicated by the standardized beta coefficients. While significance levels display the crucial value achieved, which is used to indicate the significance or insignificance of the relationships, the t-value evaluates whether the independent variables statistically influence the dependent variable. In this study the design of the regression model is –

$$Y = \alpha + \beta_1 \text{PER} + \beta_2 \text{EPS} + \beta_3 \text{IFA} + \beta_4 \text{IS} + \beta_5 \text{AGR} + \beta_6 \text{TA} + \beta_7 \text{CA} + \beta_8 \text{CFO} + \varepsilon$$

The above equation signifies the final estimated regression model, demonstrating the level to which each independent variable affects the dependent variable. After inserting the unstandardized coefficients in the model, the outcome is as follows:

$$Y = 6.962 + \beta_1 -0.000 + \beta_2 1.276 + \beta_3 0.001 + \beta_4 0.000 + \beta_5 0.296 + \beta_6 -0.000 + \beta_7 -0.058 + \beta_8 0.000$$

The findings of the regression coefficients, which are displayed in Table-6, make it clear that the various components that go into making an investment decision can both significantly and insignificantly influence the return on equity.

#### *5.4 Discussion of Results*

This study considered the price-earnings ratio (PER) as an independent variable of influencing investment selections to assess the first hypothesis. As shown in Table 6, the results disclose a t-value of -0.010 and a p-value of 0.992, which is significantly larger ( $p > 0.05$ ) at the 5% level of significance. This indicates that PER does not have any significant effect on financial performance as measured by Return on Equity (ROE). This consequence contradicts the outcomes of some previous studies, like Reilly and Brown (2012) and Sharif et al. (2015). The most likely explanation for this discrepancy is that, especially in emerging markets like Bangladesh, where investor sentiment and market inefficiencies may reduce the predictive power of conventional valuation metrics, PER may be more indicative of market expectations than actual financial performance like ROE (Ahmed & Chowdhury, 2009; Hasan et al., 2020). Consequently, despite the fact PER is commonly used in investment decisions, its isolated effect on financial-based performance measures like ROE seems limited in this context.

This study's second hypothesis observed Earnings per share (EPS) as a key factor that influences investment decisions. As presented in Table 6, the results display a t-value of 6.719 and a significance level (p-value) of 0.000, which are significantly below the 5% threshold ( $p < 0.05$ ). This result is consistent with preceding empirical evidence suggesting that higher EPS frequently indicates increased profitability and shareholder value, which enhances financial performance measures like ROE (Saeed, 2013; Khan et al., 2016). EPS is frequently seen a trustworthy indicator of business performance and provides investors with important information about a company's profitability (Gitman & Zutter, 2015). The significance of EPS as a predictor of ROE becomes even further noticeable in emerging markets like Bangladesh, where financial based measures are vital for decision-making due to market inefficiencies, (Hossain & Kabir, 2015).

This study has postulated the third hypothesis, which examines the impact of investment in fixed assets into consideration as a component of investment decisions on return on equity (ROE). The results presented in Table -6 demonstrate that the t-value is 2.266 and the significance level is 0.025, indicating a statistically significant relationship since the p-value is lower ( $0.025 < 0.05$ ) at the 5% level of significance. This result is supported by the Pecking Order Theory (Myers & Majluf, 1984), which recommends that internal financing decisions impact firm performance, and Agency Theory (Jensen & Meckling, 1976), which highlights the role of management oversight in asset distribution. Previous studies, such as Chen et al. (2011), also stated a positive connection between fixed asset investment and profitability, while others, like Nguyen & Nguyen (2020), noted that the consequence diverges across industries. Consequently, even though the result is significant, its implications rest on context and asset efficiency.

This study's fourth hypothesis tests investment size as an important factor in making investment decisions. The outcomes, revealed in Table 6, show a t-value of 3.829 and a significance level of 0.000, at the 5% significance level ( $p < 0.05$ ) that investment size significantly effects return on equity (ROE). Conferring to Modern Portfolio Theory (Markowitz, 1952), the size of investment plays a crucial part in matching risk and return, thereby affecting firm performance. Supporting this, Fama and French (1992) stated that higher investments frequently associate with enhanced profitability due to economies of scale. Contrarywise, Ghosh (2005) advised that beyond a certain point, bigger investment size may lead to inefficiencies, highlighting the importance of optimum investment scale.

The fifth formulated hypothesis of this study reflects the asset growth rate as a factor inducing investment decisions. According to Table 6, the t-value of 3.820 and significance level of 0.000 indicating at the 5% level ( $p < 0.05$ ) confirms that asset growth rate significantly influences return on equity (ROE). This outcome is consistent with Growth Theory (Solow, 1956), which relations asset growth to firm profitability and long-term value formation. Empirical study, such as by Cooper et al. (2008), supports this, viewing that firms with more asset growth incline to display better financial performance, even though speedy growth can sometimes strain resources and diminish efficiency.

This study includes some control variables, counting firm size (measured by total assets), firm age, and cash flow from operations, to well understand their impact on financial performance. The outcomes in Table 6 display a t-value of -5.424 and a significance level of 0.000 for total assets, representing that firm size has a statistically noteworthy adverse impact on return on equity (ROE) at the 5% significance level ( $p < 0.05$ ). This result is consistent with the Resource-Based View (Barney, 1991), which proposes that larger firms may aspect lessening returns owing to inefficiencies in resource managing. Equally, firm age, having a t-value of -1.367 and significance level of 0.174, does not significantly impact on financial performance. This makes similar results with preceding research by Berger and Ofek (1995), which encountered mixed indications concerning the influence of firm age on profitability. Moreover, cash flow from operations displays a t-value of 1.904 and a p-value of 0.059, representing no statistically significant consequence

on ROE. This consequence repeats results by Dechow (1994), who highlighted that although cash flow is a vital liquidity measure, its direct effect on profitability may differ depending on firm-specific aspects.

## 6. Conclusion

The study used multiple regression and Pearson correlation analyses to examine the influence of investment decisions attributes on financial performance, measured by Return on Equity (ROE). Crucial investment attributes comprised price-earnings ratio, earnings per share (EPS), investment in fixed assets, investment size, and asset growth rate. The outcomes exposed that EPS, investment in fixed assets, investment size, and asset growth rate significantly and positively affect ROE, although the price-earnings ratio does not have a significant consequence. Amongst the control variables, firm size (measured by total assets) has a significant influence on ROE, while it displays a negative connection in the Pearson test. Firm age also displays a statistically significant negative correlation with ROE, but it does not affect ROE in the regression model. Cash flows from operations showed no significant influence. Overall, the results recommend that well-informed investment decisions—mostly those connected to profitability and asset growth rate—play a vital role in enhancing corporate financial performance.

Grounded on the study's results, it is recommended that investment decisions be documented as vital financial strategies for enhancing profitability in banking institutions. To progress financial performance, banks should emphasis on enhancing fund utilization and handling investments effectively, taking into account the key factors that influence financial outcomes. Management should prioritize profitability as a foundation for making sound investment decisions and aimed at guaranteeing efficient operational management. Close monitoring of all investment-related indicators is crucial. Eventually, making better-informed investment decisions can significantly expand the financial performance of banking firms and contribute to better managerial efficiency and long-term growth.

This study has some limitations. It is entirely based on secondary data from financial statements, which may not capture qualitative aspects influencing investment decisions. Furthermore, the sample is limited to banking institutions, constraining the generalizability of the results to other areas or nations. Besides, financial performance is measured by Return on Equity (ROE) only, which may not entirely reflect complete firm performance. Forthcoming research could overcome these limitations by combining primary data sources, increasing the sample to comprise multiple segments and regions, and using a wider range of financial and non-financial performance indicators.

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