Investment response to business environment and governance: evidence from select quoted companies in Nigeria

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Abstract

This study examined the response of investment to business environment and governance of select quoted companies in Nigeria from the year 2020 to the year 2024. Using the Random effect panel data regression model, the study utilized various proxies of governance and business environment. The study employed control of corruption, voice and. accountability, political stability, crime rate, interest rate, exchange rate, total kilometer of rail and roads, financial development, exchange rate and interest rate as measures for governance and business environment, while share capital was used as proxy for investment. The study discovered that interest rate, total kilometer of rail lines, political stability, exchange rate and government effectiveness were found to have negative impact on investment. Moreover, total electricity generation, rule of law, total kilometer of roads, voice and accountability, Regulatory quality and financial development were found to have positive impact on investment. Crime rate had a negative and insignificant relationship with investment.

Keywords: Business, Environment, Investment, Governance, Nigeria

1. Introduction

The business environment is the interplay of political, social, cultural and economic factors that are critical to investment decision making. Moreover, investment decision making, sometimes, incorporates government policies that plays important role in determining and directing economic activities. Governance is the set of policies, institutions and agencies that take decisions on behalf of an organization or legally constituted authority (Fukuyama, 2013).

Earlier, investment focused on the quantity aspect, given the proof of existence of financing gap as barrier and hindrance in addition to the assumption that investment was mainly determined by income, interest rate and aggregate demand. However, modern literatures have changed focus and reasoning by revealing the critical role of environmental and policy factors in investment decision. The outcome of returns from an investment depends largely on a mixture of factors including but not limited to environmental, legal, cultural, economic, political and social variable (Easterly, 1997; World Bank, 2010).

The environment that offers adequate information on policies, investment promotion and facilitation strategies, capital market institutions and penal measures is capable of being friendlier

than that with less. Oftentimes, the business environment investment relationship becomes more critical during periods of inactions or policy delay, when economic parameters remain increasingly bearish or weak. In view of this, global economic, social and political organizations like World Economic Forum, Transparency International, political risk services and Heritage Foundation launched different effort to make available information and the country, regional and global levels to investors, governments and researchers to enable greater benefits (Dumey and Kim, 2005).

In Nigeria, the governments have tried to ensure its policies stabilizes the business environment to ensure sustained growth (Ubi-Abai and Bosco, 2017; Udonwa and Ubi-Abai, 2018), even in critical times such as pandemic outbreaks (Eruaga *et. al*., 2023). However, most opinions differ on the nature and strength of the business environment in relation to variation in the level of investment. Some perceived the environment as challenging and demoralizing citing high cost of business registration, inadequate infrastructure, insecurity and unstable policies, while others view the environment as encouraging and variable, giving governments effort towards surmounting the challenges.

Over the years, financial analysts and economists have decried the slow pace of investment in the economy. They have differently attributed the trend to the challenges bedeviling the environment such as high cost of business registration, inadequate infrastructure, unstable policies, the epileptic nature of power supply, insecurity, instability in labor contract and institutional inefficiency. A friendly business environment according to scholars entails providing enabling conditions for effective, efficient, and profitable enterprise development, and it is the primary responsibility of governments at all levels to provide the needed environment. Indeed, the quality of business environment is directly linked to the quality of governance (Orisewezie, 2010).

Against this backdrop, governments at both the national and sub national (state) levels have made frantic efforts to improve the business environment and increase the inflow of investment into the economy. This includes investment promotion efforts demonstrated through discussions with the business community, provision of incentives and the signing of trade agreements, which often like the chief executives or their representatives beyond the shores of the country to canvas and brainstorm with investors. At the domestic front, several symposiums and seminars have been convened between the government and business executives with the aim of increasing investment levels and ensuring better benefits despite these efforts the level of investment still remains low and their attendant challenges unabated. Therefore, this study investigates the response of investment to business environment and governance at firm level using select quoted companies in Nigeria.

2. Literature Review

Theories of investment dates back to Keynes (1936) when he identified that, though savings and investment must be identical ex-post, savings and investment decisions are in general undertaken by different decision makers and there is no reason why ex ante savings should equal ex-ante investment, at the wake of this assertion came other theories of investment like, the accelerator theory of investment, which stressed that investment is dependent on the level of output and capital stock. The flexible accelerator (capital stock Adjustment model), which focused on removing the major weakness of the accelerator theory, stated that lags exist in the adjustment process between the level of output and capital stock in contrast to the assumption by the accelerator theory.

The profits theory of investment postulated that investment is dependent on profits especially undistributed profits, profits in turn depends on income and relates to the current and past levels of profit. Retained earnings are of great importance to small and large firms when the capital market is imperfect because is cheaper to use.

The financial theory of investment (cost of capital theory of investment) stressed the critical role of cost of capital in investment decision against the accelerator theory's earlier assumption that the market rate of interest represents the cost of capital to the firm which does not change with the amount of investment made. This suggests unlimited availability of funds to firms at the market rate of interest which is very elastic, whereas in reality as more and more funds are required by firms cost of funds (rate of interest) rises. In order to finance investment, the firm may borrow in the market at whatever rate of interest funds are available.

Tobin's q theory of investment postulated that investment is dependent on market value of capital stock and replacement cost of capital. The market value of firm's capital is determined by the stock market, while the replacement cost of firm's capital, is the annual cost of existing capital stock if it is purchased at today's price. To Tobin, net investment depends on whether q is greater than or less than 1. If g>1, the market value of stock market shares are greater than the replacement cost of real capital, machinery etc. the firm can acquire additional capital and issue additional shares in the stock market, through which, the firm can earn profit and finance new investments.

Aside the above listed theories, recent literatures have introduced elements of uncertainty into investment theory due to irreversibility of investment. The argument is that, since capital goods are often firm-specific and has low resale value; disinvestment is more costly than positive investment. Net-investment when the value of a capital unit is at least as large as its cost-must be modified when there is irreversible investment because when an investment is made, the firm cannot

disinvest should market conditions change adversely. This option value is an opportunity cost that must be included as part of the cost.

Available literary works on efforts by scholars to explore the relationship between investment, business environment and governance, stress their importance in the socio-economic and political development of any nation. Studies on this relationship have been on the increase of recent socio-economic and political development of any nation.

Busse and Hefeker (2007) investigated the link between governance (institutions) and investment lows in 83 developing countries covering 1983-2003, using the Arelano Bond GMM dynamic estimator, they find some governance indicators like political instability, accountability, coruption and Rule of law to be related to investment influx. Asante (2000) analyzed the determinants of private investment in Ghana using time series and eross-sectional analysis upon data spanning 1970-1992. The results showed that lagged investment, public investment, private sector credit, real interest rate, and real exchange rate has positive impact on private investment, while trade, political instability, macroeconomic instability and growth rate of real GDP has negative relationship with private investment.

Ribeiro (2001) employed the Johansen multivariate co-integration technique and Engle-Granger Two Step approach to model private-sector investment in Brazil during the period 1956-1996. The result reveals that output, public investment and financial variables has positive impacts on investment, while exchange rate volatility presents a negative relationship. Also, the result from his weak exogeneity and super-exogeneity tests confirms the importance of credit and public investments as instruments of economic policy.

In a separate study, Busari and Omoke (2008) presented an empirical assessment of trade policies and credibility on private investment using firm level data from 67 Nigerian firms over the period 1980-2003. The result underscores the robustness of the relationship between private investment, trade policy and macroeconomic uncertainty. Akanbi (2010) empirically examines the pattern of domestic investment in Nigeria using neoclassical supply-side model, and employing the Johansen estimation technique over the period 1970 to 2006. The result reveals real output, user cost of capital, level of financial development and governance as significant and strong determinants of domestic investment.

Frimpong and Marbuah (2010) assessed the factors that either stimulated or dampened private investment in Ghana, Employing co-integration and error correction techniques within an ARDL framework, their result suggests that private investment is determined in the short-run by public investment, inflation, real interest rate, openness, real exchange rate and a regime of constitutional

rule, while real output, inflation, external debt, real interest rate, openness and real exchange rate significantly influences private investment response in the long-run. Singh and Jun (1995) used the Business Environment Risk Intelligence index, comprising of socioeconomic factors like, economic growth, balance of payment performance, currency convertibility, political continuity, attitude towards foreign investors and contract enforceability. The index is significantly positive in some models, but turned insignificant when the ratio exports/GDP was added as an independent variable.

Wei (201l) established a link between structure of capital influx and degree of corruption, arguing that, countries with severe problem of chronic capitalism are likely to experience distorted structures of capital flows that makes it vulnerable to sudden reversal of international capital flows. He observes the behavior of investment and bank loans in relation to local corruption, and finds that corrupt countries tend to have a composition of capital flows that is relatively light in investment and heavy in bank loans. Using firm-level data across 77 developing countries, Kinda (2010) revealed that business environment constrains such as physical infrastructural problems, financial challenges and institutional problems obstructs and depress investment. Using similar methodology for eight Latin American and Asian Countries,

Dollar *et. al.* (2006) analyzed the impact of business environment on investment probability; they concluded that a better business environment encourages investment. Blejer & Khan (1994) examined the role of government policy in stimulating Investment and derived an explicit functional relationship between principal policy instruments and private capital formation. Also using the model, they investigate the extent of the crowding out phenomenon. Their study made a distinction between government investments related to infrastructural development and other kinds of investment.

Alba and Garde (2008) using log model regression analysis observes that economic factors, quality of business environment and governance are strong determinants of investment. Moreover, Haile and Assefa (2006) used time series analysis to reveal that growth rate of real GDP, export orientation and liberalization has positive impact on investment while macroeconomic instability and poor infrastructure has negative impact on investment.

Villanger (2007) identified institutional quality and democracy as important determinants of investment in the services industry than investment risk and political stability in a panel data study. Moreover, Ajaiyi (2006) identified government failure, policy problems, macroeconomic failures and poor liberalization policies as deterrents to investment influx; and Ndebbio (2006) analyzed the subjective indices of corruption, red tape, judicial system deficiency and various categories of

political stability for a cross-section of 67 countries, Using the OLS and 2SLS equations, the results showed that corruption impacts negatively on investment and economic growth.

Research Methodology

Research Design

The study adopted the descriptive and quasi-experimental approach to data analysis. The descriptive approach comprised explaining certain descriptive statistics on the variables in the model while the quasi-experimental approach ensured that relationships between the dependent and independent variables are analysed.

Model Specification

The model was specified with respect to some theories. The accelerator theory of investment states that investment is dependent on level of output and capital. The profit theory of investment perceives investment to be dependent on profit, especially undistributed profit. While the Tobin q theory of investment believes investment was determined by market value of capital, modern theories of investment introduced elements of uncertainty in governance and business environment into investment theory. The dependent variable (investment) is proxied by share capital, the explanatory variables, business environment and governance would be proxied by voice and accountability, political stability, government effectiveness, rule of law, total electricity generation, total kilometer of roads, total kilometer of Railings, financial development, regulatory quality, and control of corruption. The estimation involved a test of stationarity, to ascertain the stationarity property of each time series, descriptive statistics, and correlation matrix to capture the level of correlation between the dependent and explanatory variables.

The model is specified thus, INVST = f (BusEnvi, Gov)

With a linear relationship as

INVST = f (GE, RQ, CC, PS, RL, VA, TKRL, TKR, EG, CR, FD, IR, ER,)

The econometric regression is written as:

$$INVST_{it} = \alpha_0 + \beta_{1i}GE_{it} + \beta_{2i}RQ_{it} + \beta_{3i}CC_{it} + \beta_{4i}PS_{it} + \beta_{5i}RL_{it} + \beta_{6i}VA_{it} + \beta_{7i}TKRL_{it} + \beta_{8i}TKR_{it} + \beta_{9i}EG_{it} + \beta_{10i}CR_{it} + \beta_{11i}FD_{it} + \beta_{12i}IR_{it} + \beta_{13i}ER_{it} + e_{it}$$

where

$INVST_{it}$ = Investment

α_0 = constant parameter

β_{1i}	=	coefficient
GE	=	Government effectiveness
RQ	=	Regulatory quality
CC	=	Control of corruption
PS	=	Political Stability
RL	=	Rule of law
VA	=	Voice and Accountability
TKRL	=	Total kilometer of rail.
TKR	=	Total kilometer of road
EG	=	Total Electricity Generation
CR	=	Crime rate
FD	=	Financial development
IR	=	Real Interest rate
ER	=	Exchange rate
e	=	Stochastic error term.
i	=	individual firm in a cross section,
t	=	time dimension (2020-2024)

Description of Variables

(a) **Voice and Accountability (VA) –** this is measured by the perception or extend of political, civil and human rights.

(b) **Political Stability and Absence of Violence (PV) –** this is measured by the perception or likelihood of violent threats to change in government.

(d) **Regulatory Quality (RG) –** this is measured by the perception or ability of the government to formulate and implement market friendly policies.

(e) **Rule of Law (RL) –** this is measured by the extent of confidence by agents on contract enforcement, property rights and the courts.

(f) **Control of Corruption (CC) –** this is measured by the extent to which public power is exercised for private gains. It involves petty and grand forms of corruption and the "capture" of state power for private gain.

(g) **Share Capital –** this is the amount of/ part of a company's capital that it raises through issuance of shares to the members of the public. It is the fund a company raises in exchange for issuing ownership interest.

(h) **Financial development**- this is measured by the ratio of broad money supply (M2) to gross domestic product (GDP) M2/GDP.

Note: The interest rate utilized is real interest rate, total kilometer of roads involves paved and unpaved, while the total kilometer of rail is rail lines enroute.

Sources of Data

The study obtained data from 15 publicly quoted firms representing various sectors of the economy from 2020 to 2024. Data for government effectiveness, regulatory quality, political stability, control of corruption, rule of law and voice and accountability were obtained from World Governance Indicators database. Data for interest rate, exchange rate and financial development, were sourced from the Central Bank of Nigeria Statistical Bulletin. Data on infrastructural quality (total kilometer of rail lines, and total kilometer of roads) were sourced from World Bank Transport and Urban Development database. While data on crime rate and Share Capital were sourced from National Bureau of Statistics and Nigeria Stock Exchange Factbook, respectively.

Panel Regression Analysis

The study used the panel data regression analysis. Panel data is an important method of longitudinal data analysis because it allows for a number of regression analyses in both spatial (units) and temporal (time) dimensions (Pesaran, Shin and Smith, 2000). The spatial aspect refers to a number of cross-sectional units of observation, like countries, states, firms (as used in this study), commodities, and so on while the temporal aspect refers to regular episodic observations of a set of variables in the cross-section over a particular period of time (2020 – 2024).

The advantages of using panel data notwithstanding, there are some estimation and inference problems. Since panel data involve cross-section and time series dimensions, the problems that are associated with cross-sectional and time series data such as the issues of heteroscedasticity and autocorrelation respectively, are encountered. Other possible problems usually faced when dealing with panel data is the issue of cross-correlation in individual units at the same point in time**.**

The Hausman (1978) specification test was used to test if the fixed or random effect model should be used. The question is whether there is significant correlation between the unobserved unit of observing specific random effects and the regressors. If no such correlation exists, then the Random Effects Model (REM) may be more appropriate. But when such a correlation exists, the Fixed Effects Model (FEM) would be more suitable because the REM model would be inconsistently estimated. Following the Hausman chi square test result and assumptions the Random effect model was therefore chosen.

The Random Effect Model (REM) also known as the Error Components Model (ECM) is an alternative to FEM. The individual intercept is expressed as a deviation from this constant mean

value. One major merit of the REM over the FEM is that it is economical (parsimonious) in degrees of freedom. This is because one does not have to estimate N cross-sectional intercepts but just only the mean value of the intercept and its variance. The REM is suitable in cases where the (random) intercept of each cross-sectional unit is uncorrelated with the regressors.

Data Analysis and Discussion of Findings

In analyzing the relationship between investment, business environment and governance, we utilized descriptive statistics, correlation matrix and panel data regression

Table 1: Descriptive statistics for the variables (2020 – 2024)

Variable	Observation	Mean	Median	Standard Deviation	Minimum	Maximum
SHC	300	1917871.	659496.5	3063570.	14300.00	12906999
CR	300	2785.452	2467.000	1357.025	1200.000	5657.000
ER	300	139.6392	148.8802	16.59135	110.5678	157.4994
FD	300	17.74053	14.90000	6.357535	12.34000	30.88000
GE	300	-0.269726	-0.269266	0.126268	-0.600316	-0.100147
PS	300	-0.500715	-0.487421	0.178078	-0.976234	-0.120151
IR	300	6.085000	5.900000	18.15583	-42.30000	23.90000
RL	300	-0.288407	-0.293338	0.107273	-0.500503	-0.107275
RQ	300	-0.185434	-0.180622	0.034760	-0.280070	-0.110070
CC	300	-0.250217	-0.249332	0.087487	-0.378053	-0.101117
EG	300	2917.150	2740.000	526.4817	2300.000	4000.000
TKR	300	193458.8	193930.8	1507.499	183868.3	193986.0
TKRL	300	3418.048	3516.380	217.6359	2588.000	3528.000
VA	300	-0.316410	-0.277227	0.151863	-0.531124	-0.100103

Source: Authors' Computation

Table 1 reports summary statistics for the variables used in the study. A critical examination of the descriptive statistics reveals that, average share capital for the sample was 1,917,871; this figure suggests that Nigerians responded appropriately to calls for share subscription by quoted firms. The disparity in share capital of select quoted firms ranged from 12,906,999 (maximum value) for some companies with high subscription rate to 14,300 for others companies with low subscription rate. A quick review of the business environment and governance variables shows that, crime rate (CR) has a mean value of 2,785,452, signifying an increase in the rate of crime, and a low level of investment by selected firms. The figure could increase to 5,657,000 (maximum value) or decrease to 1,200,000 if measures are taken to address the issues that have contributed to increase in the crime in the country.

Total Kilometer of Roads (TKRL) had a mean value of 193,444.8km with the expectation of an increase to 193,986.0 km (maximum value) or a decrease to 183,868.3 km depending on efforts or

policies initiated and implemented to improve or better the state of roads. This result indicates that road infrastructure improved, and provided the needed support to firms and organizations in the process of service delivery. Total electricity generation (EG) has a mean value of 2,916.960 megawatts, a value that was bound to improve to 4000 megawatts (maximum value) or decrease to 2,300 megawatts (minimum value) if concerted efforts are not made or sustained, this result suggests that the improvements in electricity generation impacted positively on investment (share capital) of the organizations.

Result for total kilometer of rail-line (TKRL), showed an average value of 3,417.664 km with the value expected to increase to 3,528.000 km (maximum value) or decrease to 2,588.000 km (minimum value), if efforts are not made to improve on/sustain the successes, this result suggests that the selected firms received an improvement in rail infrastructural support, which further enhance investment. It also suggests that, firms/companies that needs rail infrastructure in the process of service delivery witnessed an improved availability of the service.

Exchange rate (ER) has a mean value of 139.6638 indicating the average value of the nation's currency in relation to major currencies, the table indicates that, the value could depreciate further to 157.4994 (maximum value) or appreciate to 110.5678 (minimum value) depending on the exchange rate policy adopted. This result indicates that, firms and organizations that had needs for foreign currencies obtained it at a fair and moderate rate.

Financial development (FD) has a mean value of 17.71% suggesting that, the growth of the sector within the period was low; it also indicates that, the companies/ organizations studied received less financial support from the financial system in their investment drives. This also suggests that, the selected companies/firms experienced difficulty in accessing financial assistance given the low rate of development in the financial systems.

Interest rate (IR) displayed a mean value of 6.09, with the rate expected to rise to 23.9 (maximum value) and not decreasing substantially due to the negative minimum value of 42.30000, the increase in interest rate suggests that, the rate of Interest in Nigeria rose substantially within this period with no anticipation for a decrease indicating a rise in the cost of capital which could deter/ slow down investment by the firms or organizations selected.

Government effectiveness (GE) has a negative mean value of -0.270098 indicating a non-improvement in the quality of public and civil service; this suggests a non-improvement in the quality of policy formulation and implementation, it also indicates that the selected firms or

organization witness challenges in the process of investment, given the non-improvement in the quality of policies needed to support investment growth.

Political stability and absence of violence has a negative mean value -0.500732; which indicates that, efforts to calm different forms of tension/disturbances did not yield much result. It also indicates that, the disruption of government activities or possibly an over throw was likely, and the stable environment needed for investment growth by the companies or organizations was threatened thus suggesting a low rate of investment.

The mean value for rule of law (RL) was -0.288282 indicating that, the level of confidence by the companies/firms on the ability of the judicial system to secure property rights and enforce contracts did not improve; this lack of confidence suggests that, the companies were cautious of entering into certain levels of contract, or acquiring certain categories of capital, especially those that needs greater involvement of the legal system to secure.

Control of corruption (CC) has a negative mean value of-0.250023, indicating a non-improvement in efforts to control or curtail corruption in institutions, it also suggests that, the anti-corruption policies put in were either not effective or that the institutions saddled with the responsibility of tackling the problem was weak, indicating that, the rate at which state powers were used for private gains was still wide spread, and the firms or companies might have encountered challenges in difficulties in investment growth due to this. Finally voice and accountability (VA) showed a negative average value of -0.316024 indicating a non-improvement in the level of citizen's participation in governance, civil liberties; transparency, accountability and human rights. This suggests that, the fundamental civil liberties and political rights needed for conducive business climate were unavailable to the companies or firms to ensure investment growth and expansion.

A Look through the standard deviation (SD) which measures the level of variation from the mean reveals that, share capital was the most volatile variable with the SD of 3,142.672, followed by crime rate and total kilometer of roads with S.Ds of 1,349.585 and 1,548.894 respectively, the least volatile i.e. most stable variable is rule of law (RL) with standard deviation of 0.034890, followed by control of corruption (CC) 0.087030, Government effectiveness 0.126397, voice and accountability 0.152037 and political stability with S.D of 0.178719.

Table 2: Panel Regression Results: Fixed Effect Model and Random Effect Model

Dependent variable Investment (Share Capital)		
Independent Variables	**Fixed Effect**	**Random Effect**
Constants	-1601417 (-0.425113)	-1605019 (-0.434656)
Crime rate CR)	-5.196969 (-0.118247)	-5.169685 (-0.123413)
Control of Corruption (CC)	311622.4(0.694717)	311594.8(0.728832)
Political Stability (PS)	-869014.8* (-1.677242)	-870389.4* (-1.762547)
Total Electricity Gen (EG)	482.6643** (2.463839)	483.1949** (2.587903)
Government Effect (GE)	-190634.2 (-0.671741)	-190713.7 (-0.705085)
Rule of Law (RL)	1463393.**(2.144809)	1465417** (2.253449)
Total Km of roads (TKR)	21.61404(1.079807)	21.66117(1.135419)
Total Km of Rail line (TKRL)	-426.6852* (-1.779920)	-427.0489* (-1.869087)
Exchange Rate (ER)	-1063.359 (0.8580)	-1075.853 (-0.190161)
Interest Rate (IR)	-5247.468 (-1.637115)	-5252.687*(-l.719369)
Voice and Acct (VA)	1530981.* (1.748952)	1533135*(1.837583)
Regulatory Quality (RQ)	3032921 (1.597135)	3039282*0.679230)
Financial Dev (FD)	29238.47(1.639427)	29282.75*0.722693)
No of Observations	278	278
Adjusted R^2	0.984380	0.027115
F. statistics	608.3838	1.593861
Prob.(F.statistics)	0.000000	0.086630
D-Watson Statistics	1.732649	1.655264
Hausman X^2 Test		0.000001

Note: *Signifies significant at 10%, ** Signifies significant at 5%, and * signifies significant at 1%. Number in parenthesis are the t-statistics or t-values of the variables.

The result of the Fixed and Random Effects models for the samples of observations from 2020 to 2024 is displayed in Table 2. Results from the table as presented reveals that both models showed similar and very close results.

Total electricity generation (EG) with the coefficient of 482.663 displayed a positive and significant relationship with investment at *5%* in both the fixed and random effect models. The coefficient of voice and accountability (VA) is also positively related with investment at 10% in both models. While the coefficient of regulatory quality displayed a positive and significant relationship with investment at 10% in the random effect model, it showed a positive but insignificant relationship in

the fixed effect model. Interest rate showed a negative and insignificant relationship in the fixed effect model and a negative and significant relationship at 10% in the random effects model.

The coefficient of Political stability was negative but significantly related with investment at 10% in both the fixed and random effect models, while financial development displayed a positive and significant relationship with investment at 10% in the random effect model, and a positive but insignificant relationship in the fixed effect model. Total kilometer of rail showed a negative but significant relationship at 10% with the dependent variable in both the fixed and random effect models.

While the result for crime rate, control of corruption, government effectiveness and exchange rate displayed a negative and insignificant relationship in both the fixed and random effect models. The R^2 is satisfactory and ranged from 0.02712 to 0.9844, indicating that, about 98% of the variations in the share capital (investment) of the companies examined, was accounted for by the explanatory variables. The F. statistics and D-Watson statistics also showed significant values. The value of D-W statistics ranged from 1.65 to 1.73 indicating that, the regression equation is fairly free from the problem of autocorrelation; hence the result can be relied upon to make meaningful inference on the influence of the explanatory variables on the dependent variable. The Hausman's Chi-square statistics shows that, the result of the random effect model is appropriate given the non-significance of the chi-square probability necessitating the acceptance of the Null hypothesis (assumption) that, there is no significant correlation between the random intercept of each cross section and their regressors. The implication of the random effect model is that, all companies have a common mean value for their intercept. In other words, the effects of socio-political and economic condition prevailing in Nigeria affect all fifteen companies.

Discussion on Findings

The result in table 2 showed a mixed outcome; with some conforming to *apriori* expectations and others not conforming. The result for political stability (PS) displayed a negative relationship with investment. This result indicates that, the reduction in violent demonstrations, internal conflict, ethnic violence, terrorist threats, and reduction in distractions or disturbances in governance did not lead to an increase in share capital or investment by the companies studied. This implies that, efforts made to improve environmental stability and minimize the use of threat/ violence in change of government did not yield positive result.

The coefficient of control of corruption (CC) displayed a positive and insignificant relationship with investment. This result suggests that, anti-corruption policy, anti- corruption and transparency,

and a reduction in corruption and irregular payment, impacted positively on share capital and investment by the companies examined. It also suggests that, activities of the companies felt the positive impact of governments' effort to reduce the negative impacts of corruption and corrupt individuals on them.

Coefficient of government effectiveness (GE) showed a negative and insignificant relationship with share capital, this result was not consistent with a priori expectation. This result suggests that an improvement in quality of bureaucracy, integrity in civil service, quality of public administration and financial management did not contribute or impact positively on the share capital of the companies examined; this implies that, the quality of civil service, policy formulation and implementation, and the commitment of government to such policies were inefficient.

The coefficient of Regulatory quality (RQ) showed a positive and significant relationship with investment. This result suggests that, an improvement in efforts to remove trade barriers, ease of starting business, investment freedom and a reduction in trade barriers, had positive and significant impact on share capital or investment by the companies examined. It also indicates that, the government formulated and implemented sound and market friendly policies that permitted and supported the companies' development.

The coefficient of rule of law (RL) displayed a positive and significant relationship with investment. The result suggests that, an improvement in the level of fairness in judicial process, enforceability of contract, degree of enforcement of court orders, private property protection, judicial independence and protection of intellectual property, impacted positively on share capital and investment by the companies examined. It also indicates an improvement in the level of confidence in the legal system in relation to quality of contract and enforcement by the companies examined.

The coefficient of voice and accountability (VA) displayed a positive and significant relationship with investment. It indicated that an improvement in accountability by public officials, human rights, freedom of association, political rights and press freedom, impacted positively on share capital and investment by the companies or organizations. It also indicates that, the level of civil, human and political rights improved significantly thereby conferring greater investment confidence on the firms.

The coefficient of financial development (FD) showed a positive relationship with investment. It indicates that, the companies and organizations studied received greater financial assistance from the financial sector, given the indicates that, the companies leveraged on the improvement in

electricity supply to expand investment. The coefficient of total kilometer of roads (TKR) displayed a positive and insignificant relationship with share capital. The result indicates that, improvement in road infrastructure impacted positively on share capital and investment by the companies examined. It also indicates that, the level of wastages and costs resulting from the bad state of roads reduced considerably.

The coefficient of crime rate (CR) showed a negative and insignificant relationship with share capital. This indicates that, insecurity (crime rate) impacted negatively on share capital and investment by the companies examined. It also indicates that the companies witnessed various degrees of challenges as a result of the upsurge in crime or insecurity. The coefficient of total kilometer of rail line (TKRL) displayed a Negative but significant relationship with investment. It indicates that, efforts to improve rail infrastructure did not yield the needed result, and this impacted negatively on share capital and investment by the companies examined, because rail infrastructure contributes greatly to investment growth and support. It also suggests that no significant improvement was recorded in service provision by the sector.

From the hypothesis (Null hypothesis), business environment and governance was predicted not to have any significant influence on investment. But from the result in table 2 the coefficient of business environment and governance proxied by financial development, electricity generation, voice and accountability, regulatory quality and total kilometer of roads had positive and significant relationship with investment this result suggests that, an improvement in governance and environment promotes investment. This finding supports the investment theory of uncertainty which highlighted policy-uncertainty as a determinant of investment. When a policy reform is introduced, it is very unlikely that investors would see it as hundred per cent sustainable. Reasons adduced includes; the expectation that the political-economic configuration that supported the earlier policies may resurface. There is also the fear that unexpected consequences may lead to a reversal, rational behavior calls for withholding investment until much of the uncertainties regarding the eventual success of the reform is eliminated. Based on this discussion, we accept the alternative hypothesis that, business environment and governance have significant influence on investment.

Conclusion and Recommendations

A remarkable attribute of Nigerian firms is the believe that environmental and governance challenges are hardly surmountable. The reason why they align and rely so much on the structures in course of investment decision making, and delay investment when the needed supports are lacking, or perhaps derail when the structures and supports change spontaneously. This scenario

supports the postulations of the investment theory of uncertainty. This suggests that the theoretical underpinning of the observed correlations is still relevant.

The empirical result suggests that some of the insights in the investment theories of uncertainty are applicable in Nigeria. This is true despite the institutional and environmental differences that exist between countries. The empirical result from this study supports the investment theory of uncertainty.

Based on the findings of this study the following recommendations were made:

- Nigerian firms should focus on developing internal strategies that would enable them transform the positive relationships between governance, environment and investment into surmounting spontaneous challenges that may arise.
- Firms should rely less on governance and institutions to improve their business fortunes, because it could compound their challenges should policies and programs change adversely.
- The finding shows that government effectiveness did not have influence on investment, which may be attributed to inefficiency. Therefore, the authorities concerned should strive to improve on the quality of policy formulation and implementation in Nigeria.
- Though there is a positive impact of governance and environment on investment, they did not translate to greater growth in investment; firms should take advantage of this positive influence to put in place modalities that would ensure increase in investment.
- Nigerian authorities should leverage on this period of positive influence to develop policies that would ensure increase in investment, and harness its benefits for inclusive growth.

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