Cognitive Diversity and Performance of Deposit Money Banks in Nigeria

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Abstract
Cognitive diversity has become an important corporate governance issue because boards and management teams increasingly operate in complex and uncertain business environments that require varied knowledge, experience, skills, perspectives, and problem-solving approaches. This study examines the relationship between cognitive diversity and performance of deposit money banks in Nigeria. The study adopts a conceptual and review-based approach, drawing on contemporary empirical studies on board diversity, expertise, educational background, professional experience and financial performance in Nigeria and other emerging markets. The literature indicates that cognitive diversity can improve decision quality, monitoring effectiveness, innovation, risk assessment and strategic responsiveness by reducing groupthink and broadening the range of alternatives considered by decision makers. However, excessive diversity without effective communication, inclusion and leadership may increase conflict and slow decision processes. Recent Nigerian studies provide mixed but increasingly supportive evidence that board expertise, age, gender and other diversity dimensions can influence financial performance. The paper therefore argues that the performance benefits of cognitive diversity depend not simply on having heterogeneous directors but on effectively integrating their knowledge and expertise into strategic decision-making. The study recommends competence-based board appointments, continuous professional development, inclusive leadership and stronger governance mechanisms for deposit money banks operating in Nigeria.

Keywords: *Cognitive diversity, board diversity, bank performance, deposit money banks, corporate governance, Nigeria*

Introduction

The banking sector occupies a strategic position in the Nigerian economy because banks perform important intermediation functions by mobilizing savings, allocating credit, facilitating payments and supporting investment and economic activity. The performance and stability of commercial banks therefore have implications beyond individual institutions and extend to the wider financial system. Recent developments in Nigeria's banking sector have further increased the importance of sound governance, adequate capitalization, risk management and effective decision-making. The Central Bank of Nigeria (CBN) has emphasized corporate governance and financial-system stability as important components of its reform agenda, while the World Bank's recent assessment of the Nigerian economy shows that banking-sector conditions remain closely connected to monetary, liquidity and capital developments (Central Bank of Nigeria [CBN], 2023; World Bank, 2025).

Within this environment, the quality of individuals responsible for strategic decisions becomes important. Commercial banks make decisions concerning credit allocation, investment, liquidity, risk management, digital transformation, customer service, compliance and expansion. These decisions are often characterized by uncertainty and competing alternatives. A board or management team composed of individuals with similar educational backgrounds, professional experiences and ways of interpreting problems may experience cognitive conformity. Conversely, a cognitively diverse group may possess a wider range of knowledge and perspectives from which to analyze complex problems.

Cognitive diversity refers broadly to differences among individuals in their knowledge, information-processing styles, educational backgrounds, professional experiences, skills, perspectives and approaches to solving problems. Unlike demographic diversity, which focuses primarily on observable characteristics such as gender and age, cognitive diversity concerns differences in how individuals understand information, evaluate alternatives and make decisions. Aifuwa et al. (2020) provide particularly relevant Nigerian evidence by examining educational level diversity, educational background diversity and professional membership diversity among board members. Their findings suggest that cognitive diversity does not have a uniformly positive or negative effect; rather, its effect depends on the particular dimension of diversity and the performance measure employed. The relevance of cognitive diversity is especially pronounced in banking because banking decisions involve significant information asymmetry and risk. Directors and senior managers must interpret financial information, assess borrowers, understand regulatory requirements, evaluate technological developments and respond to changes in the macroeconomic environment. Consequently, boards containing individuals with diverse expertise in finance, accounting, economics, law, technology, risk management and other relevant fields may be better positioned to evaluate strategic alternatives.

Recent empirical evidence supports this argument. Ibrahim et al. (2024) examined listed deposit money banks in Nigeria and reported that age diversity and expertise diversity significantly influenced financial performance, although the effect of gender diversity was negative in their model. Similarly, Danso et al. (2024), using firms from Ghana, Kenya and Nigeria, found that board expertise diversity was positively associated with return on assets.

The Nigerian banking literature, however, does not provide a consistent conclusion. Okoyeuzu et al. (2021), using a system-GMM approach and data from Nigerian deposit money banks, found that gender diversity significantly predicted bank performance. Musa et al. (2024) likewise reported a significant positive relationship between board gender diversity and the financial performance of listed deposit money banks. On the other hand, Aernan et al. (2023) found that gender diversity had a positive but statistically insignificant relationship with performance, while ethnic diversity and board size were negatively related to performance in their study of Nigerian deposit money banks. More recent evidence continues to show that the relationship between diversity and performance is context-dependent. Dada et al. (2025), for example, found that female representation, PhD-level representation and foreign directors did not have statistically significant effects on ROA and ROE among selected Nigerian listed firms. In contrast, Okonye and Nnodim (2025) reported strong positive associations between board expertise diversity and both ROE and ROA in Nigerian deposit money banks. These contrasting findings indicate that diversity alone may not guarantee superior performance; rather, the type of diversity, quality of interaction, board structure, organisational context and leadership processes may determine whether diversity becomes an organisational resource.

The issue is therefore particularly relevant to deposit money banks operating in Nigeria. Deposit money banks play vital role in the economy of Nigeria by serving individuals, businesses, government institutions and other organisations. Banks operating in the country must respond to local economic conditions while simultaneously complying with regulatory and competitive requirements as well as best practices. The ability of their boards and management teams to combine different forms of knowledge and expertise may therefore affect their capacity to make sound strategic decisions. Despite increasing research on board diversity and bank performance in Nigeria, relatively limited attention has been devoted specifically to the relationship between cognitive diversity and the performance of deposit money banks in Nigeria. Much of the existing Nigerian literature focuses on non-bank organisations, often concentrates on demographic diversity, especially gender diversity, rather than cognitive diversity itself, and varies in its conclusions. This creates a contextual and conceptual gap that justifies further investigation.

Statement of the Problem

The Nigerian banking industry operates in an environment characterised by technological disruption, regulatory changes, macroeconomic instability, increased competition, credit risk and changing customer expectations. These conditions require effective strategic decisions from boards and senior management. Poor decisions concerning lending, investment, risk management or corporate strategy may adversely affect profitability and long-term sustainability.

One possible factor influencing the quality of such decisions is the cognitive composition of decision-making groups. Homogeneous groups may possess similar assumptions and approaches, potentially increasing the risk of groupthink. A cognitively diverse board, by contrast, can introduce alternative interpretations and challenge prevailing assumptions. Nevertheless, cognitive diversity may also generate disagreement, communication difficulties and slower decision-making when differences are poorly managed. Yagi et al. (2024) demonstrate this important tension by showing that cognitive diversity can negatively affect organisational outcomes under certain conditions but that authentic leadership can play a positive role in managing such effects. The empirical evidence from Nigeria is also inconclusive. Aifuwa et al. (2020) found mixed relationships between cognitive diversity dimensions and firm performance. Ibrahim et al. (2024) found positive effects for expertise and age diversity, while Dada et al. (2025) found largely insignificant effects for several dimensions of board diversity. These contradictions suggest that the relationship cannot be adequately understood by treating all forms of diversity as equivalent. The problem is compounded by the limited availability of evidence focusing specifically on cognitive diversity. Consequently, it remains necessary to examine whether differences in educational qualifications, professional expertise, industry experience and other cognitive characteristics contribute to improved performance of deposit money banks in Nigeria.

Objectives of the Study

The major objective of this study is to examine the relationship between cognitive diversity and the performance of deposit money banks in Nigeria.

The specific objectives are to:

1. examine relationship between educational diversity and performance of deposit money banks in Nigeria;

2. determine the relationship between professional expertise diversity and the performance of deposit money banks in Nigeria;
3. examine the relationship between professional experience diversity and the performance of deposit money banks in Nigeria;
4. assess how cognitive diversity influences the quality of strategic decision-making in deposit money banks in Nigeria; and
5. identify the conditions under which cognitive diversity can contribute to improved performance of deposit money banks in Nigeria.

Literature Review

Concept of Cognitive Diversity

Cognitive diversity refers to differences in the ways members of a group acquire, interpret, process and apply information. It may arise from differences in educational qualifications, professional training, occupational experience, technical knowledge, industry exposure and problem-solving approaches. In corporate governance, cognitive diversity is particularly relevant because directors are expected to provide advice, monitor management and participate in strategic decision-making. A board containing directors with different forms of expertise can potentially examine an issue from several perspectives before reaching a decision. Aifuwa et al. (2020) conceptualised board cognitive diversity using dimensions including educational level, educational background and professional membership. Their study is important because it demonstrates that cognitive diversity is multidimensional and that its effects may differ according to the particular cognitive attribute being examined. Professional expertise is another important component. Directors with accounting and finance expertise may improve financial oversight, while directors with legal expertise may strengthen regulatory compliance. Directors with technology or digital expertise may help banks respond to fintech competition and cybersecurity challenges. Usman et al. (2024) found that board financial expertise and independence were positively and significantly associated with audit quality in Nigerian listed firms, reinforcing the importance of expertise in governance outcomes.
Cognitive diversity should therefore not be understood simply as the presence of people who are different. Its value lies in whether those differences contribute useful knowledge and whether organisational processes enable members to express and integrate their perspectives.

Dimensions of Cognitive Diversity

Educational Diversity

Educational diversity refers to differences in academic qualifications and fields of study among board or management members. Individuals trained in accounting, economics, law, engineering, information technology and management may approach banking problems differently. Such differences can broaden the information available to decision makers.
Aifuwa et al. (2020) found that educational-level diversity and professional membership diversity could have positive effects on market performance, although other measures of cognitive diversity produced different results. This finding suggests that educational diversity may be beneficial where qualifications translate into relevant knowledge and decision-making capacity.

Professional Expertise Diversity

Professional expertise diversity involves the presence of individuals with different occupational and technical competencies. In banking, relevant expertise can include accounting, finance, economics, risk management, law, information technology, marketing and corporate management. Evidence from sub-Saharan Africa is particularly supportive of this dimension. Danso et al. (2024) examined firms in Ghana, Kenya and Nigeria and found that diversity of professional expertise was positively associated with ROA. The authors argue that boards can enhance financial performance by incorporating an appropriate mix of professional expertise.

Similarly, Ibrahim et al. (2024) found that expertise diversity significantly influenced the financial performance of listed Nigerian deposit money banks. More recently, Okonye and Nnodim (2025) reported strong positive relationships between board expertise diversity and both ROA and ROE among Nigerian deposit money banks.

Experience Diversity

Experience diversity reflects differences in the length, type and sectoral nature of members'professional experience. Experienced directors may provide institutional knowledge, whereas directors with newer or different experiences may introduce alternative approaches.

Experience diversity can be particularly valuable in banking because banks must simultaneously manage traditional banking functions and emerging areas such as digital banking, cybersecurity and financial technology. However, experience diversity must be accompanied by effective communication and integration to prevent disagreement from undermining decision-making.

Age Diversity as a Related Cognitive Dimension

Although age is demographic in nature, it can have cognitive implications because people from different generations may possess different experiences, technological familiarity and approaches to risk and innovation. Ibrahim et al. (2024) found a significant positive influence of age diversity on the financial performance of Nigerian listed deposit money banks. Aziekwe and Okegbe (2024) similarly found a positive and significant relationship between age diversity and financial performance among listed Nigerian consumer goods firms.

Concept Of Bank Performance

Bank performance refers to the extent to which a bank achieves its financial, operational and strategic objectives. It can be assessed using profitability, efficiency, liquidity, asset quality, growth and market-based indicators. Common financial measures include return on assets (ROA), return on equity (ROE), earnings per share (EPS) and, where appropriate, Tobin's Q. ROA measures the ability of a bank to generate profit from its assets, while ROE measures the return generated on shareholders'equity. The use of ROA and ROE is common in Nigerian banking research. Okoyeuzu et al. (2021), Onyekwere and Babangida (2021), Musa et al. (2024), and Okonye and Nnodim (2025) all used financial performance measures such as ROA and/or ROE when examining board characteristics and diversity. Bank performance should, however, not be understood only in terms of profitability. The quality of earnings, risk management, compliance and sustainability are also important. Essien and Akpan (2024), for example, examined board diversity in relation to earnings quality among Nigerian deposit money banks and considered age diversity, experience diversity and financial expertise as relevant governance characteristics.

Theoretical Framework

Agency Theory

Agency Theory, formally developed by Michael C. Jensen and William H. Meckling in 1976 (Jensen&Meckling, 1976) explains the relationship between principals, particularly shareholders, and agents, particularly managers. Because managers may pursue objectives that differ from those of shareholders, governance mechanisms are necessary to monitor managerial behaviour and reduce agency costs. Cognitive diversity can strengthen the monitoring function of the board because directors with different expertise may ask different questions, challenge management assumptions and identify risks that a homogeneous board might overlook. The presence of financial, accounting, legal and risk-management expertise can therefore improve the board's ability to scrutinise managerial decisions. Recent Nigerian research continues to use agency theory to explain the relationship between board characteristics and bank performance. Musa et al. (2022) found that board diversity was significantly associated with ROA among Nigerian deposit money banks, while Okonye and Nnodim (2025) similarly employed agency and resource-dependence perspectives in examining board diversity and bank performance.

Agency theory therefore provides a strong basis for arguing that cognitive diversity can improve bank performance by strengthening monitoring and reducing information asymmetry.

Resource Dependence Theory

Resource Dependence Theory, propounded by Jeffrey Pfeffer and Gerald R. Salancik in 1978 (Pfeffer&Salancik, 1978) views the board as a provider of valuable resources, including knowledge, expertise, information, networks and legitimacy. From this perspective, a cognitively diverse board can provide access to a broader range of resources.

A bank whose board includes experts in finance, law, economics, information technology, risk management and marketing may have access to more diverse knowledge than a board dominated by a single professional background. This can improve the bank's capacity to respond to environmental changes. Danso et al. (2024) provide strong support for this perspective. Their study indicates that professional expertise diversity can enhance financial performance in sub-Saharan Africa, although firm size and age may influence the strength of the relationship.

Upper Echelons Theory

The Upper Echelons perspective developed by Donald C. Hambrick and Phyllis A. Mason in 1984 (Hambrick&Mason, 1984) argues that organisational outcomes are partly reflections of the characteristics of senior decision makers. Managers and directors interpret organisational environments through the knowledge, experience and cognitive frameworks they possess.

This perspective is particularly relevant to cognitive diversity because differences in directors' education, experience and professional expertise influence the information they notice and the alternatives they consider. A cognitively diverse board should therefore generate a broader range of interpretations of strategic problems. The theory also helps explain why diversity may produce mixed performance effects. Diversity does not automatically improve performance; rather, its value depends on whether different perspectives are effectively integrated into organisational decision-making. Yagi et al. (2024) demonstrate this complexity by showing that cognitive diversity can have negative organisational consequences under certain conditions but that authentic leadership can help manage those effects.

For the present discourse, the resource dependence and upper echelons perspectives are particularly relevant because the focus is on cognitive attributes such as education, expertise and experience. Agency theory also provides a strong explanation for why diverse expertise may improve oversight and performance in commercial banks.

Empirical Review

Aifuwa et al. (2020) investigated board cognitive diversity and firm performance in Nigeria using listed consumer goods firms. Cognitive diversity was examined through educational level, educational background and professional membership. The findings were mixed. Educational-level diversity and professional membership diversity positively and significantly influenced market performance, while educational background diversity had a negative significant effect on market performance. The study found no significant evidence that the examined cognitive-diversity measures influenced financial performance. This study is highly relevant because it demonstrates that cognitive diversity should not be treated as a single homogeneous variable.

Okoyeuzu et al. (2021) examined board independence and gender diversity among 15 Nigerian deposit money banks using system-GMM estimation. The study found that gender diversity significantly predicted bank performance. Although gender diversity is not identical to cognitive diversity, the study demonstrates that differences among directors can influence governance and performance outcomes in Nigerian banks. Onyekwere and Babangida (2021) examined 12 selected commercial banks in Nigeria using panel data. Their study focused on board gender diversity and board independence and used ROA and ROE as measures of financial performance. The study contributes to the Nigerian evidence base by demonstrating that the relationship between board composition and financial performance requires empirical investigation rather than assumption. Benvolio and Ironkwe (2022) investigated board composition and firm performance among quoted commercial banks in Nigeria using data from 2011 to 2021. Their work emphasises that bank performance is strongly connected to governance quality because banks depend heavily on customer confidence and effective stewardship.

Musa et al. (2022) examined board diversity and financial performance among Nigerian deposit money banks and found that board diversity had a considerable influence on ROA, although its relationship with ROE was less pronounced. This finding supports the argument that the effect of diversity can vary according to the particular performance measure employed.

Aernan et al. (2023) investigated board characteristics and financial performance among 12 listed Nigerian deposit money banks over 2011–2020. Their results indicated that board size and ethnic diversity had significant negative effects on performance, while gender diversity had a positive but statistically insignificant effect. This finding is important because it illustrates that not all forms of diversity necessarily generate financial benefits.

Oyidih (2023) examined gender diversity among Nigerian listed deposit money banks and reported a significant positive effect of gender diversity on financial performance. The study demonstrates the continuing relevance of board diversity to bank performance discussions in Nigeria. Ibrahim et al. (2024) examined board diversity among all 14 listed Nigerian deposit money banks. Their study found that age diversity and expertise diversity significantly and positively influenced financial performance, whereas gender diversity had a negative relationship. The finding provides particularly strong support for the present study because expertise diversity represents an important component of cognitive diversity.

Essien and Akpan (2024) examined board diversity and earnings quality among Nigerian listed deposit money banks using data from 2014–2023. They considered age diversity, experience diversity and financial expertise. Their focus on earnings quality is important because performance should not be evaluated solely by reported profitability; the quality and reliability of earnings are also important indicators of effective governance.

Usman et al. (2024) examined board characteristics and audit quality among Nigerian listed consumer goods firms. They found that board independence and financial expertise positively and significantly affected audit quality. Although the study did not focus directly on banks, its finding supports the argument that professional expertise can strengthen governance-related outcomes. Aziekwe and Okegbe (2024) investigated nationality, gender and age diversity among Nigerian listed consumer goods firms. Their findings indicated that age diversity had a positive and significant effect on cash-flow return on investment, while gender and nationality diversity did not have significant effects. This reinforces the view that different dimensions of diversity can produce different outcomes. Danso et al. (2024) examined board expertise diversity among firms in Ghana, Kenya and Nigeria. The study found that diversified professional expertise significantly improved ROA, although the relationship was not significant when Tobin's Q was used. Firm size negatively moderated the relationship between expertise diversity and performance. These findings demonstrate that the effectiveness of cognitive diversity can depend on organisational context. Yagi et al. (2024) examined cognitive diversity and authentic leadership. Their study highlights an important qualification to the diversity-performance argument: cognitive diversity can produce negative effects when differences are not effectively managed. Authentic leadership can help organisations transform differences in perspectives into constructive outcomes. Dada et al. (2025) examined board diversity and financial performance among Nigerian listed firms using female directors, PhD-qualified directors and foreign directors as diversity measures. The study reported largely insignificant effects on ROA and ROE. This finding suggests that simply increasing the numerical diversity of a board does not necessarily produce improved financial performance.

Obalemo (2025) examined board composition and financial performance of Nigerian deposit money banks and found that board diversity had a significant association with financial performance. The study recommended increasing diversity of experience and expertise on boards. Chamo et al. (2025) examined board diversity and financial instrument risk disclosure among Nigerian deposit money banks. Their work demonstrates that board diversity has implications not only for profitability but also for transparency and risk-related reporting.

Okonye and Nnodim (2025) examined gender diversity, board composition and board expertise among Nigerian deposit money banks using ROA and ROE. Their results showed that board expertise diversity had strong positive associations with both performance measures, while board composition had negative relationships with ROA and ROE. The finding provides direct contemporary support for examining cognitive and expertise diversity in the Nigerian banking sector. The empirical evidence therefore reveals three broad conclusions. First, diversity can improve organisational outcomes when it contributes relevant knowledge and expertise. Second, the effect of diversity is not uniform across gender, age, nationality, education and professional expertise. Third, leadership, organisational size, communication and governance processes may determine whether diversity becomes a resource or a source of conflict.

Methodology

This study adopted a qualitative, conceptual, and desk-based research design focused on secondary data analysis and critical literature synthesis. No primary data were collected because the objective is theoretical exposition and evidence-based review rather than original empirical testing.

Data Sources:

Classical theories propounded in 1976, 1978 and 1984 respectively.

Peer-reviewed journal articles and empirical studies published 2020–2025.

Analytical Approach: Content analysis and thematic synthesis were used to identify recurring themes: dimensions of cognitive diversity and the effect on performance as well as contextual moderators (sector, environment). Sources were critically evaluated for relevance, methodology and generalizability.

Discussion Of Findings

The review identifies several gaps in the existing literature and highlights the conditions under which cognitive diversity may influence bank performance.

First, many Nigerian studies focus on board diversity generally rather than cognitive diversity specifically. Gender, age, nationality and board size are frequently examined, while education, professional expertise and experience receive less attention.

Second, existing studies report mixed findings. While Ibrahim et al. (2024), Danso et al. (2024) and Okonye and Nnodim (2025) provide evidence supporting expertise diversity, Dada et al. (2025) and Aifuwa et al. (2020) show that the effect of different diversity dimensions may be insignificant or even negative. Third, there is insufficient integration of cognitive diversity, decision-making and bank performance. Many studies examine diversity and performance statistically without adequately explaining the organisational processes through which diverse knowledge affects strategic decisions. The present study therefore addresses these gaps by focusing on cognitive diversity and the performance of deposit money banks within the Nigerian banking context.

Conclusion

Cognitive diversity is increasingly important to the effectiveness of Nigerian deposit money bank boards and management teams because banking decisions require the integration of financial, economic, legal, technological, risk-management and strategic knowledge. The literature reviewed in this study indicates that cognitive diversity can broaden the range of information considered by decision makers, reduce excessive conformity, improve monitoring and enhance the quality of strategic decisions. The empirical evidence, however, does not support a simplistic assumption that diversity automatically improves performance. Aifuwa et al. (2020) found mixed relationships between different cognitive-diversity measures and firm performance, while Ibrahim et al. (2024), Danso et al. (2024) and Okonye and Nnodim (2025) provide stronger evidence that expertise diversity can improve financial performance. Conversely, Dada et al. (2025) found that several board-diversity measures did not significantly influence financial performance. The implication is that the value of cognitive diversity depends on how diversity is constituted and managed. A board may contain individuals with different qualifications and experiences but fail to benefit from them if members cannot communicate effectively, if certain voices are ignored, or if leadership discourages constructive disagreement. Yagi et al. (2024) reinforce this point by showing that leadership can influence whether cognitive diversity becomes beneficial or detrimental. For deposit money banks in Nigeria, cognitive diversity should therefore be regarded as a strategic governance resource rather than merely a compliance requirement. Stakeholders of deposit money banks in Nigeria (including investors, shareholders, regulators and boards) should deliberately seek balanced combinations of accounting, finance, economics, law, information technology, risk management and other relevant expertise when appointing directors and managers. The CBN's emphasis on effective corporate governance provides an important regulatory foundation for this approach.

The research concludes that an appropriately managed level of cognitive diversity is likely to contribute positively to the performance of deposit money banks in Nigeria through improved monitoring, broader strategic analysis, better risk assessment and more informed decision-making. Nevertheless, the benefits are conditional on effective leadership, communication, inclusion and governance structures.

Recommendations

Competence-based board appointments: the regulators and shareholders of deposit money banks should place greater emphasis on educational qualifications, professional expertise and relevant industry experience when selecting board members. Broader professional representation: boards and management should include appropriate combinations of accounting, finance, economics, law, information technology, risk management and other strategically relevant expertise. Continuous professional development: directors and managers should receive regular training on emerging banking risks, digital transformation, financial regulation, cybersecurity and strategic management. Inclusive leadership: bank chairpersons and chief executives should create an environment where directors and managers can express alternative views without fear of marginalisation or victimization. Effective management of disagreement: banks should establish mechanisms for converting cognitive differences into constructive debate rather than allowing diversity to generate destructive conflict. Strengthening governance monitoring: regulators and bank boards should ensure that diversity contributes meaningfully to oversight rather than being treated merely as a numerical or symbolic requirement. Localised empirical monitoring: the regulators and shareholders of deposit money banks operating in Nigeria should periodically evaluate whether the composition of their boards and management teams contributes to profitability, risk management, customer service and strategic performance.

More research: scholars, consultants and researchers should do more empirical studies using primary and secondary data to examine the specific relationship between educational diversity, professional expertise diversity, experience diversity and measures such as ROA, ROE, earnings quality and risk-adjusted performance among deposit money banks in Nigeria.

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