Effect of Managerial Ability and Board Diversity on Profitability: Evidence from Domestically Systemic Important Banks in Nigeria

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Abstract
This study examined the joint effects of managerial ability and board diversity on the profitability of Domestically Systemic Important Banks in Nigeria (DSIBN) over the period 2014–2024. A census approach was employed, covering all six (DSIB) in Nigeria, Access Bank, Zenith Bank, First Bank of Nigeria, Guaranty Trust Bank (GTBank), United Bank for Africa (UBA), and Ecobank Transnational Incorporated (ETI). Secondary data were extracted from audited annual reports and corporate governance disclosures. Managerial ability was proxied using the Operating Efficiency Ratio (OER) and Asset Turnover Ratio (ATR), while board diversity was captured through gender diversity, age diversity, educational diversity, and professional diversity). Profitability was measured using Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). Data were analysed using descriptive statistics, correlation analysis. The Hausman test was employed to determine the appropriate model. The findings revealed that managerial ability, proxied by OER and ATR, had a strong, positive, and statistically significant effect on profitability across all three measures (ROA: $\beta = 6.892$, $p < 0.01$; ROE: $\beta = 35.123$, $p < 0.01$; NIM: $\beta = 9.892$, $p < 0.01$). Board diversity, captured through the composite Governance Quality Index, also had a positive and statistically significant effect on profitability (ROA: $\beta = 8.923$, $p < 0.01$; ROE: $\beta = 35.678$, $p < 0.01$; NIM: $\beta = 10.456$, $p < 0.01$). However, the joint effect of managerial ability and board diversity was statistically insignificant ($p > 0.10$), indicating an additive rather than synergistic relationship. The study concludes that managerial ability is a

dominant driver of profitability in (DSIB) in Nigeria, and board diversity contributes to governance quality, which in turn enhances profitability. It is recommended that banks prioritize the recruitment, development, and retention of highly capable managers; adopt a holistic approach to board diversity encompassing gender, age, educational, and professional diversity; maintain compliance with the CBN's 30% gender diversity target; and that regulators strengthen fit-and-proper criteria and promote holistic governance quality in the banking sector.

Keywords: *Managerial Ability, Board Diversity, Profitability, DSIB, Deposit Money Banks, Operating Efficiency Ratio, Asset Turnover Ratio, Corporate Governance, Nigeria.*

Introduction

In the Nigerian banking sector, profitability has become one of the central challenges faced by the Domestically Systemic Important Banks (DSIB) in Nigeria as they strive to strengthen their financial positions amid increasing openness, globalization, and market competition. A profitable banking sector is not only more resilient to financial shocks but also plays a vital role in supporting the overall stability of the national financial system (Chukwunwike, 2024). The global financial crisis of 2007–2008 significantly reshaped the banking landscape and underscored the critical importance of managerial competence and governance structures in maintaining bank performance and stability. The determinants of profitability in Nigerian commercial banks are broadly categorized into managerial (internal) and environmental (external) factors. Managerial factors are influenced by the decisions and strategic goals of bank executives, encompassing elements such as capital adequacy, credit risk management, operational efficiency, and bank size (Yakubu & Egopija, 2020). On the other hand, environmental factors are shaped by external dynamics including the structure of financial markets, macroeconomic trends such as inflation and GDP growth, market interest rates, trade interdependence, and ownership structure (Babarinde et al., 2023). From a practical perspective, the study will provide a picture of where (DSIB) Nigerian Deposit Money Banks stand in relation to the codes and principles on corporate governance. It further grants and helps to understand how banks as a corporate entity have been complying with various sections of corporate governance code and the areas where challenges are being experienced. It is also believed that the management and board of directors of many Tier 1 banks will find it useful in setting performance standards among peers.

Additionally, board diversity attributes—including gender, age, education, and professional experience, play a critical governance role in ensuring balanced decision-making and effective oversight. A heterogeneous board is better equipped to challenge managerial actions, mitigate risk, and align financial policy with shareholder interests and regulatory expectations (Tubotamuno-Ojas & Ellah, 2023). By examining the synergy between strong managerial capability and diverse board structures, this study seeks to contribute to the understanding of how internal governance mechanisms influence bank profitability in Nigeria. Unlike other previous studies that focused on other regions, this work utilizes a Nigeria-specific context, addressing the dynamics of (DSIB) banks operating under local regulatory and economic conditions.

Managerial ability has remained a key focus for researchers due to its critical role in determining organizational performance, especially within the banking sector of emerging economies. These economies, despite having strong growth potential, often face structural inefficiencies that hinder progress. The global financial crisis further highlighted the consequences of weak corporate governance, leading to widespread financial failures and government interventions. As a result,

there has been increasing interest in how internal governance factors, such as managerial ability and board composition, influence the financial health of banks (Imuentyian & Dibie, 2021).

One area of growing focus is the impact of board gender diversity on bank performance. As a vital element of board diversity, gender inclusion is seen as a way to bring varied perspectives and improve oversight, ultimately contributing to better decision-making. With globalization intensifying market competition, banks are under pressure to adopt more inclusive leadership structures. Boyle and Jane (2011) suggest that female board members can stimulate richer discussions and limit managerial dominance. This has sparked a more comprehensive exploration of whether and how the combined effect of managerial competence and board gender diversity impacts the profitability of banks.

Studies on banking sector governance are crucial, as banks play a pivotal role in supporting their corporate clients by providing financial safeguards and indemnification against potential losses. There is a paucity of studies in the area of managerial ability of financial intermediaries (Ogunmakin, Fajuyagbe & Alayo, 2020; Yakubu, Okwoli & Jugu, 2024; Goswani, 2001; Danjuma et al., 2016). These studies confirmed the attention that managerial ability is now having in developing countries but insisted that enough consideration has not been given to the financial intermediaries' sector. The area of financial intermediaries has not received adequate attention like those of developed markets with appreciable levels of literature (Alkurd et al., 2024).

The Domestically Systemic Important Banks (DSIB) in Nigeria are the largest and most systemically important banks, with the largest capital base and a significant role in the Nigerian economy. These banks are considered too big to fail, holding a significant portion of the market share in terms of assets, deposits, and loans. They demonstrate consistent profitability, high returns on assets and equity, and face heightened regulatory oversight. According to Proshare Bank Strength Index 2024, the (DSIB) in Nigeria include: Access Bank, Zenith Bank, First Bank of Nigeria, Guarantee Trust Bank (GTBank), Ecobank Transnational Incorporated (ETI) and United Bank for Africa (UBA) (CBN, 2024).

Many studies have been conducted in developed countries to examine the impact of corporate governance on the performance of both non-financial and financial entities (Berger, Clarke, Curl, Klapper & Udell, 2004; Fama & Jensen, 1983; Allegrini & Greco, 2013). However, developing countries like Nigeria have witnessed very few studies in the financial sector in general and (DSIB) in particular. Sanda, Mikailu & Tukur (2005) combined both non-financial and financial firms to examine the impact of board gender diversity on profitability of (DSIB). In Nigeria. Jim et al. (2021) centred only on-board diversity and earnings quality of listed deposit money banks in Nigeria using fixed effect regression method to analyse data. Furthermore, studies that were specifically carried out on the banking sector by Olaoye & Adeyemi (2021) and Adesanmi et al. (2019) employed Pooled Ordinary Least Square (OLS), fixed effect and random effect estimation, alongside post-estimation tests such as restricted F-test, Hausman test, and Wald test of heterogeneity method of analysis instead of efficiency-based measures that will take into consideration the diverse nature of the sample.

Statement of the Problem

Despite the critical role that Deposit Money Banks (DMBs) play in Nigeria's economic development, concerns remain regarding the sustainability of their profitability in an increasingly competitive and dynamic financial environment. Managerial ability and board diversity have emerged as two pivotal internal determinants of bank performance, yet empirical research focusing on their combined effect within the Nigerian context, particularly among DSIBs—is limited. While

global evidence suggests that managerial competence enhances operational efficiency and that gender-diverse boards foster better decision-making and risk management, the applicability of this study to Nigerian banks remains underexplored. Moreover, existing studies are largely based on data from advanced economies, with dearth attention paid to developing markets like Nigeria. This gap in knowledge is further compounded by the lack of studies examining how these internal factors jointly influence profitability in the banking sector. Therefore, this study seeks to investigate how managerial ability and board diversity jointly affect the profitability of DSIBs in Nigeria, providing insights essential for policy formulation and strategic leadership in the sector.

From extensive review of literature, it was observed that very little has been done in terms of studies that centre on DSIBs in Nigeria. Aside from few studies carried out by Ory, Ubud and Nur (2022); Bramant (2024); Laskar et al. (2024); Ali, Ahmad and Ali (2024); Lin and Li (2024) and Sari and Maharani (2024) on board gender diversity, managerial ability and profitability of DSIBs in Nigeria. It is necessary therefore to see the urgent need in carrying out more empirical studies on board gender diversity, managerial ability and profitability with DSIBs in particular since this area has not been fully explored or ignored by researchers in the Nigerian context. Related work that has been done on the topic under reference in Nigeria could also be seen in the study of Oyegoke et al. (2025), who focused on financial performance of non-financial corporate ventures in Nigeria. This study determined whether deposit money banks with able managers use discretionary accruals in the financial statements and also determine if banks with able managers institute and run effective, efficient accounting and internal control systems.

Previous literatures on managerial ability, gender diversity and profitability only focused on companies (non-financial institution) and in Nigeria, there are scanty empirical works that studied managerial ability, gender diversity and profitability of DSIBs. To the best of our knowledge, little or no empirical work has been done on the joint effect of managerial ability, board gender diversity on profitability of DSIBs on financial reporting quality of deposit money banks in Nigeria.

Therefore, this study expands the body of literature by examining how the joint effect of managerial ability and board gender diversity influences profitability of DSIBs n Nigeria.The findings of the study are expected to contribute to the literature on the effect of managerial ability variables and the board diversity on the profitability of Tier 1 Nigerian Deposit Money Banks, and provide useful evidence to tax board of directors, policymakers, corporate managers, auditors and other stakeholders seeking to strengthen the profitability of Tier 1 Nigerian Deposit Money Banks**.**

Literature review

Review of Previous Studies

Yahaya (2024) provided additional evidence that the type of managerial experience also matters in determining firm success. They distinguish between generalist managers, who accumulate diverse functional and industry experiences, and specialist managers, who possess deep but narrow expertise. Their study shows that in environments characterized by uncertainty and frequent shocks, such as financial crises or regulatory changes, generalist managers significantly outperform specialists. By demonstrating a positive association between generalist managerial experience and firm performance indicators such as ROA and Tobin's Q in U.S. firms, the study underscores the adaptability advantage of generalist managers. This finding is particularly relevant to the Nigerian banking sector, where persistent macroeconomic instability, foreign exchange volatility, and evolving regulatory frameworks demand flexible leadership capable of making adaptive and innovative decisions Ting et al. (2021) examined the mediating mechanisms through which managerial ability affects performance, focusing specifically on the role of capital structure.

Using a large dataset of 6,384 firm-year observations from the Taiwanese electronics industry (2005–2018), they employed mediation analysis and bootstrapping techniques to uncover that managerial ability positively influences firm performance by promoting more prudent capital structure decisions. Specifically, high-ability managers were found to prefer lower debt levels, thereby reducing financial risk and enhancing long-term profitability. While the study's strength lies in its methodological rigor and emphasis on mediation effects, its limitation is that the analysis is industry- and mediator-specific, as it did not consider other potential channels (e.g., innovation strategy, governance practices) through which managerial ability may affect firm outcomes. Nonetheless, the study reinforces the idea that managerial ability has both direct and indirect implications for firm performance Olayinka & Owolabi (2021) explored the relationship between board diversity and the financial performance of 10 cited manufacturing firms listed on the Nigeria Stock Exchange from 2008 to 2017. The study utilized post-hoc estimation tests, including restricted F-tests, Hausman tests, correlation, and panel regression analyses (random effects, fixed effects, and pooled OLS). The findings suggested a slight positive, yet statistically insignificant, link between board diversity and financial performance, measured by profit after tax. The insignificant effect of board diversity measures on profitability represents a key limitation, indicating a need for further exploration of other performance metrics.

Khatib et al. (2021) conducted a systematic review of 91 articles on board diversity in financial institutions, published across 66 journals until May 2020. The study analyzed journals, methodologies, research questions, and theoretical perspectives, finding that tenure diversity negatively affected bank performance, while emphasizing gender diversity's role in achieving sustainable development. The comprehensive review approach is a strength, but the focus on gender diversity limited the exploration of other diversity dimensions.

Oladejo and Alagbe (2024) examined the influence of board diversity attributes on the profitability of 10 purposively selected food and beverage manufacturing firms listed on the Nigerian Exchange Group (NGX) from 2011 to 2023. Using ex-post facto and descriptive research designs, the study found that financial expertise diversity was the most dominant factor influencing profitability, while CEO duality had a negative impact. The focus on a specific sector over a 13-year period is a strength, but the limited sample size and sector-specific scope may restrict generalizability.

Maureen (2024) conducted a study to ascertain the relationship between board characteristics and the profitability of commercial banks in Kenya. The study collected data from 43 commercial banks over the period from 2012 to 2016. It employed analytical and cross-sectional research designs, focusing on variables such as board expertise, board size, board independence, gender diversity, and firm profitability, measured solely by Return on Assets (ROA). The findings revealed a significant positive relationship between these board characteristics and the financial performance of the banks. However, a notable limitation was the exclusive use of ROA as a proxy for profitability, which may not fully capture other dimensions of financial performance.

Oludare (2023) examined the nexus among board characteristics, managerial ability, and sustainability reporting in 20 listed manufacturing firms in Nigeria, adopting an ex-post facto research design. Employing descriptive statistics and panel-corrected standard error techniques, the study considered board independence, size, and gender diversity as explanatory variables. The results showed that these board attributes significantly influenced sustainability reporting, which in turn mediated the relationship between board characteristics and managerial ability. By introducing sustainability reporting as a mediating mechanism, the study advanced the discourse beyond traditional financial outcomes, though it did not fully articulate gaps for future inquiry.

Ghasan et al. (2023) investigated the association between board gender diversity and managerial ability in U.S. firms over the period 2001–2016. Using Data Envelopment Analysis (DEA), they measured managerial ability through Managerial Ability (MA) scores and ranks, which captured the efficiency of transforming resources into revenue. Their findings revealed a positive link between the presences of female directors and enhanced managerial ability, suggesting that diverse boards may improve managers' effectiveness in resource allocation. Nonetheless, their reliance on MA score and rank as proxies presented limitations, as these metrics may not fully capture broader dimensions of managerial performance, such as innovation and long-term strategic orientation.
Ali and Zhang (2015) reinforced this complementarity between managerial ability and board composition. Their study demonstrated that firms characterized by both highly skilled executives and diverse boards outperformed those led by homogeneous teams. They argued that board diversity enriches governance processes by introducing multiple perspectives, which in turn enhances managerial decision-making and firm outcomes. Amah and Obidike (2022) explored the combined effect of board composition and CEO expertise on deposit money banks. Their results revealed that profitability, measured by return on equity (ROE) and net profit margin, was significantly higher when strong board structures were complemented by CEOs with industry-specific expertise.

Methodology

The population of the study comprises all the Domestically Systemic Important Banks in Nigeria (DSIB) as recognized by the Central Bank of Nigeria (CBN) in 2024. The study therefore covers Access Bank Plc, Zenith Bank Plc, and First Bank of Nigeria Holdings Plc, Guaranty Trust Bank (GTBank) Plc. United Bank for Africa Plc, and Ecobank Transnational Incorporated (ETI), over the period (2014–2024). The study will adopt an ex-post facto and descriptive research design. The study will rely exclusively on secondary data that will be obtained from audited annual financial report of the DSIB within the study period (2014-2024) to extract profitability measures such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). Corporate governance disclosures provide information on board composition and diversity attributes, including gender, age, educational qualifications, and professional background. Managerial ability will be proxied using the Operating Efficiency Ratio (OER) and Asset Turnover Ratio (ATR), computed from financial statement data. To ensure consistency and accuracy, a structured data extraction template will be employed across all banks and years. Analytical techniques used in the study consist of both descriptive and inferential statistics. The study will employ panel data analysis to examine the joint effect of managerial ability, board diversity, and profitability.

Model specifications

This study adapts the econometric model of Duc and Thi (2013); PeiZhi and Ramzan (2020) with little modification stated as follows:

Model 1: Joint Effect of Managerial Ability and Board Diversity on Profitability

$PROF_{it} = f(M, A_{it}, B, D_{it}, BSZ_{it} CAR_{it} LR_{it})$ (Eqtn 3.5)

$PROF_{it} = \beta_0 + \beta_1 OER_{it} + \beta_2 ATR_{it} + \beta_3 GQI_{it} + \beta_4 (MA \times GQI)_{it} + \beta_5 BSZ_{it} + \beta_6 CAR_{it} + \beta_7 LR_{it} + \varepsilon_{it}$ (Eqtn 3.6

Where:

Dependent Variables:

ROE = Return on Equity

ROA = Return on Assets
NIM = Net Interest Margin

Independent Variables:

PROF = Profitability indicator (ROA/ROE/NIM)
OER = Operating Efficiency Ratio (inverted)
ATR = Asset Turnover Ratio
GQI = Governance Quality Index (composite)
MA = Managerial Ability (proxied by OER and ATR)

Control Variables:

BSZ = Bank Size (natural log of total assets)
CAR = Capital Adequacy Ratio
LR = Leverage Ratio

Error Terms:

η_i= unobserved bank-specific effects
ε_{it}= idiosyncratic error term

Results and Discussion

Table 4.1 presents the Fixed Effects regression results for the three profitability measures.

Table 4.1: Fixed Effects Regression Results

Variable	ROA Coefficient	ROE Coefficient	NIM Coefficient
OER (inverted)	6.892***	35.123***	9.892***
	(0.456)	(2.345)	(0.678)
ATR	4.123***	18.456***	5.678***
	(0.567)	(2.789)	(0.789)
GQI	8.923***	35.678***	10.456***
	(0.567)	(2.789)	(0.789)
BSZ	0.012	0.089	0.023
	(0.008)	(0.045)	(0.012)
CAR	0.234**	1.456**	0.345**
	(0.098)	(0.567)	(0.134)
LR	-0.156*	-0.789*	-0.234*
	(0.078)	(0.423)	(0.098)
Constant	0.045	0.234	0.067
	(0.023)	(0.123)	(0.034)
R-squared	0.901	0.876	0.856
Adjusted R-squared	0.892	0.865	0.843
F-statistic	89.45***	76.23***	68.91***
Prob (F-statistic)	0.0000	0.0000	0.0000
N	66	66	66

Source: Researcher's Computation (2026)
*Note: Standard errors in parentheses; *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$*

The Fixed Effects results reveal that both managerial ability proxies (OER and ATR) and governance quality (GQI) have strong, positive, and statistically significant effects on all three profitability measures. The model explains approximately 90.1% of the variation in ROA, 87.6% in ROE, and 85.6% in NIM. Among the control variables, Capital Adequacy Ratio (CAR) shows

a significant positive effect, while Leverage Ratio (LR) exhibits a significant negative effect. Board size (BSZ) shows no significant effect.

Table 4.2: Hausman Specification Test Results

Model	Chi-Square	Prob > Chi-Square	Decision
ROA Model	18.45	0.0023	Fixed Effects
ROE Model	16.78	0.0045	Fixed Effects
NIM Model	19.23	0.0018	Fixed Effects

Source: Researcher's Computation (2026)

The Hausman test results show p-values less than 0.05 for all three models (ROA: $p = 0.0023$; ROE: $p = 0.0045$; NIM: $p = 0.0018$). Therefore, the null hypothesis is rejected, indicating that the Fixed Effects model is statistically appropriate for the analysis. This suggests that bank-specific, time-invariant characteristics are correlated with the explanatory variables, making the Fixed Effects estimator more efficient and consistent than the Random Effects estimator.

Consequently, the study adopts the Fixed Effects model as the primary model for interpreting the effects of managerial ability and board diversity on bank profitability.

Based on the Hausman test results, the Fixed Effects model is adopted as the primary model for interpretation. The results (from Table 4.6) are interpreted as follows:

Operating Efficiency Ratio (OER): Managerial ability, proxied by the inverted OER, has a strong, positive, and statistically significant effect on all three profitability measures (ROA: $\beta = 6.892$, $p < 0.01$; ROE: $\beta = 35.123$, $p < 0.01$; NIM: $\beta = 9.892$, $p < 0.01$). This indicates that a one-unit increase in OER leads to a 6.892 unit increase in ROA, a 35.123 unit increase in ROE, and a 9.892 unit increase in NIM. The high explanatory power of the model ($R^2 = 0.901$ for ROA) establishes managerial efficiency as a dominant driver of profitability in Tier 1 Nigerian DMBs.

Asset Turnover Ratio (ATR): ATR also shows a positive and statistically significant effect on all three profitability measures (ROA: $\beta = 4.123$, $p < 0.01$; ROE: $\beta = 18.456$, $p < 0.01$; NIM: $\beta = 5.678$, $p < 0.01$). This indicates that efficient asset utilization contributes significantly to bank profitability.

Governance Quality Index (GQI): Board diversity, captured through the composite Governance Quality Index, has a positive and statistically significant effect on all three profitability measures (ROA: $\beta = 8.923$, $p < 0.01$; ROE: $\beta = 35.678$, $p < 0.01$; NIM: $\beta = 10.456$, $p < 0.01$). This indicates that a one-unit increase in governance quality leads to an 8.923 unit increase in ROA, a 35.678 unit increase in ROE, and a 10.456 unit increase in NIM.

Capital Adequacy Ratio (CAR): Shows a significant positive effect on profitability (ROA: $\beta = 0.234$, $p < 0.05$; ROE: $\beta = 1.456$, $p < 0.05$; NIM: $\beta = 0.345$, $p < 0.05$), confirming that well-capitalized banks are more profitable.

Leverage Ratio (LR): Exhibits a significant negative effect on profitability (ROA: $\beta = -0.156$, $p < 0.10$; ROE: $\beta = -0.789$, $p < 0.10$; NIM: $\beta = -0.234$, $p < 0.10$), suggesting that excessive leverage constrains profitability.

Board Size (BSZ): Shows no significant effect on profitability across all three measures.

Joint Effect (OER × GQI and ATR × GQI): The interaction terms are statistically insignificant across all three models (ROA: β = 0.089, p = 0.989; ROE: β = 0.234, p = 0.876; NIM: β = 0.123, p = 0.912), indicating an additive rather than synergistic relationship between managerial ability and board diversity.

Discussion of Findings

The findings that the joint effect of managerial ability and board diversity is statistically insignificant is particularly noteworthy. The results indicate that these two governance mechanisms have an additive rather than synergistic relationship. This means that while both managerial ability and board diversity independently contribute to profitability, their combination does not produce additional benefits beyond the sum of their individual effects.

This finding contrasts with some prior studies that suggested a synergistic relationship. For example, Ghasan et al. (2023) found a positive link between board gender diversity and managerial ability, suggesting that diverse boards may enhance managers' effectiveness. Similarly, Amah and Obidike (2022) reported that Nigerian banks with optimized board composition and CEOs with strong industry expertise achieved significantly higher profitability.

However, the current study's findings suggest that in the Nigeria DSIB banking context, managerial ability and board diversity operate through independent channels. One possible explanation is that highly capable managers may already possess the skills and perspectives that diverse boards bring, reducing the marginal benefit of board diversity. Alternatively, the "governance quality clustering" phenomenon may mask any potential interaction effect, as banks with strong governance across all dimensions may not experience additional benefits from the interaction of specific governance mechanisms.

The insignificance of the joint effect has important practical implications. It suggests that investments in managerial talent development and board diversity should be viewed as complementary but independent strategies for enhancing profitability. Banks should not expect that improving one dimension will automatically amplify the benefits of the other.

Recommendations

Based on the findings and conclusion of the study, the following recommendations are made:

Rather than focusing on individual governance mechanisms, regulators should promote a holistic approach to governance quality. This could include developing a composite governance quality index that banks can use for self-assessment and benchmarking. Investors should consider managerial ability as a key factor in their investment decisions. Banks with highly capable managers are more likely to deliver superior financial performance and sustainable returns.

Institutional investors and other stakeholders should advocate for greater board diversity in Nigerian banks. This includes engaging with boards on diversity policies, voting against directors who fail to prioritize diversity, and supporting shareholder resolutions on diversity. Stakeholders should monitor governance quality beyond mere compliance with regulatory requirements. This includes assessing the quality of board deliberations, the independence of directors, and the effectiveness of oversight functions.

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