Revista Ciências Administrativas
e-ISSN:2318-0722 Journal of Administrative Sciences
Universidade de Fortaleza

Impact of Managerial Capability on the Financial Performance of Brazilian Companies

Impacto da Capacidade Gerencial no Desempenho Financeiro das Cias Brasileiras

Impacto de la Capacidad Gerencial en el Desempeño Financiero de las Compañías Brasileñas

10.5020/2318-0722.2025.31.e16519

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Abstract

This study aims to analyze the effect of managerial capability (MC) on the financial performance of 306 publicly traded Brazilian companies from 2010 to 2022. The estimation of MC is conducted in two stages. First, data envelopment analysis is applied to obtain each firm's efficiency within its sector over a given period. Next, a Tobit model is used to identify the portion of total efficiency not explained by firm-specific characteristics. The research hypothesis is then tested using a panel data regression with fixed effects and robust estimates. The results show that managerial capability has a positive and statistically significant effect on return on assets and return on equity but does not directly influence firms' market value when measured by Tobin's *Q*. Overall, the findings suggest that the skills developed by managers tend to increase firms' wealth and are therefore relevant to corporate decision-making.

Keywords: managerial capacity; financial performance; brazilian companies.

Resumo

Esta pesquisa tem como objetivo analisar o efeito da capacidade gerencial (CG) no desempenho financeiro de 306 empresas brasileiras de capital aberto, no período 2010 a 2022. A estimação da CG ocorre em duas etapas. Na primeira, aplica-se a análise envoltória de dados para obter a eficiência da empresa dentro dos setores, em um determinado período. Posteriormente, aplica-se o modelo Tobit, com o objetivo de verificar a parcela da eficiência total não explicada por características específicas da empresa. Na sequência, a hipótese de pesquisa foi testada por meio de uma regressão com dados em painel, com efeitos fixos e estimativas robustas. Os resultados confirmaram que a capacidade gerencial tem impacto positivo e estatisticamente significativo no retorno sobre ativos e no retorno sobre o patrimônio líquido, mas não influencia diretamente o valor de mercado das companhias, quando mensurado pelo Q de Tobin. Portanto, sugere-se que as habilidades desenvolvidas pelos gestores tendem a aumentar a riqueza para as empresas, sendo relevantes nas decisões corporativas.

Palavras-chave: *capacidade gerencial; desempenho financeiro; empresas brasileiras.*

Resumen

Esta investigación tiene como objetivo analizar el efecto de la Capacidad Gerencial (CG) en el desempeño financiero de 306 empresas brasileñas de capital abierto, en el período de 2010 a 2022. La estimación de la CG se realiza en dos etapas. En la primera, se aplica el método de Análisis Envolvente de Datos (DEA) para obtener la eficiencia de la empresa dentro de los sectores, en un período determinado. Posteriormente, se utiliza el modelo Tobit con el objetivo de verificar la porción de la eficiencia total no explicada por características específicas de la empresa. A continuación, la hipótesis de investigación fue probada mediante una regresión con datos de panel, con efectos fijos y robustos. Los resultados confirmaron que la capacidad gerencial tiene un impacto positivo y estadísticamente significativo en el retorno sobre activos y en el retorno sobre el patrimonio neto, pero no influye directamente en el valor de mercado de las compañías, cuando este es medido a través del Q de Tobin. Por lo tanto, se sugiere que las habilidades desarrolladas por los gestores tienden a aumentar la riqueza de las empresas, siendo relevantes en las decisiones corporativas.

Palabras clave*: capacidad gerencial, desempeño financiero, empresas brasileñas.*

Executive managers behave differently in the same situation because of their underlying capabilities (skills) (Cui et al., 2019). Talented executives are those who successfully employ corporate resources with efficiency (Demerjian et al., 2012). They are also better able to distinguish between prudent and imprudent policies compared with less capable managers, which makes them more inclined to adopt corporate policies that enhance firm performance (Chatjuthamard et al., 2016).

The consistency of business operations, the improvement of earnings quality, and the achievement of high firm value reflect strong managerial capabilities, which rely on the adoption of effective monitoring structures (Ng et al., 2015; Ting et al., 2021). High-ability managers are recognized for their focus on innovation and productivity gains, whereas low-ability managers tend to make ineffective decisions (Ting et al., 2021).

Moreover, strong managerial capability encourages a comprehensive analysis of the business environment to identify threats, opportunities, and competitive advantages (Bellner, 2014). Firms with strong management capabilities consistently generate operating cash flows, attract financial resources, and become less vulnerable to financial constraints during periods of crisis (Andreou et al., 2017b).

Previous studies have examined the relationship between managerial characteristics, such as ability, age, gender, education, nationality, financial position, and career experiences, as well as corporate performance. These studies consistently show significant associations between these characteristics and firm performance (Chuah & Foong, 2019; Lee et al., 2018; Ting et al., 2021; Suherman et al., 2023).

However, some authors (Andreou et al., 2016; Sun, 2016, 2017; Wang et al., 2021; Park & Byun, 2021) note that managerial capability itself has received limited attention as a key determinant of firm performance. According to Phan (2021), the limited understanding of how managerial ability shapes firm outcomes stems partly from its latent nature, which makes it difficult to measure directly.

Since day-to-day operational decisions, such as risk-taking, resource allocation, investment, and diversification in response to macroeconomic changes, are deeply shaped by managers' capabilities, experience, and perceptions, there remains room to advance research on managerial capability. Prior studies, across different contexts and firm types, point to the relevance of this inquiry (Anggraini & Sholihin, 2023). Thus, the central research question is: What is the effect of managerial capability on the financial performance of Brazilian companies?

The aim of this study is to analyze the effect of managerial capability on the financial performance of publicly traded Brazilian companies from 2010 to 2022.

This research is justified, first, by the unstable environment surrounding Brazilian companies (Kogut & Merji, 2022), in which CEOs play a fundamental role in corporate decision-making. Amorim et al. (2021) note that, beginning in the second quarter of 2014, Brazil entered its deepest and most prolonged economic recession, known as the Brazilian Economic Crisis. Mistaken economic policies implemented by the government and a sharp decline in commodity prices were key triggers of this event (Amorim et al., 2021).

In this context, Tran and Vo (2020) highlight that human capital plays an essential role in achieving sustainable performance, especially in emerging markets. Wang et al. (2021) further emphasize that in a challenging business environment, managerial capability becomes crucial for ensuring that corporate objectives are achieved.

Regarding methodology, the estimation of managerial capability occurs in two stages. In the first stage, data envelopment analysis (DEA) is applied to measure firm efficiency within each sector over a given period. In the second stage, a Tobit model is used to assess, through its residuals, the portion of total efficiency not explained by firm-specific characteristics, thereby capturing managers' efficiency traits. The research hypothesis (H1: Managerial capability is significantly and positively associated with better firm performance) is then tested using a fixed-effects, robust panel regression.

The managerial capability measure developed by Demerjian et al. (2012) captures managers' efficiency in transforming corporate resources into revenue relative to their industry peers. According to Demerjian et al. (2012) and Bhutta et al. (2021), this measure has outperformed other indicators used in prior research and is considered more reliable. It is a comprehensive yet simple model based on firms' financial statements.

The results confirm that managerial capability has a positive and statistically significant impact on return on assets and return on equity but does not directly affect firms' market value when measured by Tobin's *Q*. Therefore, the findings suggest that the skills developed by managers tend to increase firm wealth and are indispensable to corporate decision-making.

These findings are expected to provide practical guidance for managers by highlighting the managerial capabilities that most strongly influence financial performance. This may enable firms to identify and develop the managerial skills and competencies most relevant for achieving superior financial outcomes. Additionally, the results may encourage firms to invest in developing their management teams through training programs, targeted recruitment, and the implementation of effective management practices.

Finally, the study's findings may offer valuable insights to investors, shareholders, and other stakeholders interested in firm financial performance. These insights may help them make more informed decisions regarding investments, strategic partnerships, and other engagements with companies, taking managerial capability into account as a relevant factor.

Literature Review

Existing economic and management literature frequently recognizes the important role managers play in firm performance (Cui et al., 2019; García-Sánchez & Martínez-Ferrero, 2018; Phan, 2021; Ting et al., 2021; Wang et al., 2021). This is attributed to the responsibility of executive managers for administering corporate resources, overseeing business operations, and making decisions involving investment, finance, and strategic planning (Cui et al., 2019; Ting et al., 2021). In other words, a firm's efficiency in using its resources is directly tied to the capability of its top management team (Wang et al., 2021). These perspectives underscore the critical importance of managers as influential agents in determining firms' performance and success.

This view is also supported by Hambrick and Mason (1984), who argue that firm performance is partly shaped by the different characteristics of managers. These authors pioneered the upper echelons theory (UET), which posits that top managers structure decision situations according to their personal worldviews (Finkelstein & Hambrick, 1990). UET reflects a behavioral information-processing model in which executives act based on their personalized interpretations, shaped by their experiences, values, and personalities, of the strategic situations they face (Hambrick, 2007). Thus, the specific characteristics of decision-makers can directly shape their strategic choices and, consequently, firm outcomes.

Additionally, several recent behavioral studies document the importance of managerial ability for decision-making, emphasizing that more capable managers tend to be better informed about their businesses (Atawnah et al., 2024). This leads to better judgments and estimates of product demand, improved understanding of technology and industry trends, and more efficient management of employees (Demerjian et al., 2012). Furthermore, such managers may accumulate reputational capital (Palvia et al., 2015), help firms reduce the negative impact of earnings management practices on future performance (Huang & Sun, 2017), inspire stakeholder trust (Fernando et al., 2020), and provide positive signals to investors regarding firm quality (Andreou et al., 2017b). These findings further reinforce the importance of managerial skills for achieving positive outcomes and building a strong corporate reputation.

Bhutta et al. (2021) add that research on managerial ability sheds light on multiple aspects of corporate decision-making that contribute to value creation. Along these lines, Park et al. (2016) confirm that managers with higher managerial capability enhance firm value by mitigating the negative effects of tax avoidance through the efficient use of resources in activities such as sales, investment, and financing. The rationale is that when top management is capable of efficiently using available resources, waste can be minimized and firm value ultimately created (Wang et al., 2021).

However, few studies examine the direct impact of managerial capability on firm performance, particularly in emerging economies. For instance, Demerjian et al. (2013) investigate the relationship between managerial ability and earnings quality in U.S. firms and find that firms led by more capable managers exhibit higher earnings quality. Superior performance associated with capable managers is also observed in the Indonesian market (Anom, 2018). More recently, Chuah and Foong (2019) re-examined managerial capability in the Malaysian context and confirmed that higher overall capability increases firm value. In the Brazilian context, evidence suggests that greater managerial ability is associated with increased earnings management practices (Fagundes et al., 2024; Lunardi et al., 2022). Nonetheless, the findings indicate that knowledge of local markets and the freedom to implement managerial policies are key drivers of value creation.

Firms with greater managerial capability are thus expected to better align their resources with the environment in which they operate, resulting in higher internal profitability (Andreou et al., 2017b). In a challenging business environment, managerial capability plays a crucial role in ensuring that corporate objectives are achieved. Fan et al. (2011) argue that managers with stronger managerial capability possess a deeper understanding of their firms' operating environments, enabling them to make better investment decisions and improve firm performance. Accordingly, the following hypothesis is proposed:

H1: Managerial capability is significantly and positively associated with improved firm performance

In lign with such arguments, Ting et al. (2021) describe managerial capability as essential for establishing, advancing, and achieving corporate success. Because such managers take innovative initiatives and actions to employ firm resources for long-term financial sustainability, their competencies and personality traits support the optimal use of these resources (Bhutta et al., 2021). In this regard, Park and Byun (2021) emphasize that in a constantly changing market environment and within globalized competition, managerial characteristics can be a decisive factor in determining firm value and performance.

However, quantifying managerial capability remains challenging. For this reason, the present study adopts the measure developed by Demerjian et al. (2012), which captures managers' efficiency, relative to their industry peers, in transforming corporate resources into revenue. This measure has outperformed other indicators used in prior research and is considered more reliable because it is a more comprehensive and straightforward model based on firms' financial statements (Bhutta et al., 2021; Demerjian et al., 2012).

To measure firm performance, profitability is a commonly used financial indicator because it reflects a firm's ability to efficiently use its capital and human resources to generate a return on investment (Phan, 2021). Moreover, profitability allows the assessment of a firm's potential earnings and growth capacity, given that the ultimate objective is to maximize shareholder wealth.

Methodology

This study adopts a quantitative approach using secondary data. Quantitative research aims to generate structured generalizations from data, enabling an understanding of how the variables under investigation influence one another (Anshori & Iswati, 2009). Therefore, to examine the impact of managerial capability on the financial performance of Brazilian publicly traded firms from 2010 to 2022, data were collected from the Economática® database and from the website of the Brazilian stock exchange (Brasil, Bolsa, Balcão – B3).

The decision to begin the analysis in 2010 was motivated by the mandatory adoption of the International Financial Reporting Standards (IFRS) for publicly traded companies in Brazil. This regulatory shift marked a milestone in corporate accounting, promoting greater comparability and transparency of financial information in subsequent periods (Jarske et al., 2021). In addition, the study period encompasses significant economic and political events, including the economic recession (Oreiro, 2017), crises and political instability (Barbosa, 2015), and the socioeconomic effects of the global crisis triggered by the COVID-19 pandemic, which deeply affected organizations (Castro et al., 2020).

Regarding the sample composition, the following exclusion criteria were applied: i) financial and insurance firms, due to their distinct regulatory environment, which affects their structure and leads to levels of financial leverage that differ substantially from other sectors; ii) firms with negative shareholders' equity and/or negative net revenue, as these distort profitability metrics linked to equity and compromise analyses based on market price relative to book value (market-to-book); iii) observations with missing data, as they prevent the calculation of the required variables.

Table 1 details the number of firms excluded in each stage.

Table 1

Sample composition

Criteria	No. of firms (ROA)	No. of firms (ROE)	No. of Firms (Tobin's *Q*)
All companies with common shares listed on B3 (2010–2022)	391	391	391
(–) Financial institutions and insurers	(38)	(38)	(38)
(–) Firms with negative equity and/or negative net revenue	(26)	(26)	(26)
(–) Missing data preventing variable measurement	(21)	(24)	(49)
Total firms	**306**	**303**	**278**
Total observations	**3,978**	**3,939**	**3,614**

The total number of firms initially included was distributed across subsectors (Table 2). Subsectors follow B3's classification, which provides more specific categorizations of firms' activities. In total, 38 sector categories were included.

Table 2

Sample composition by sector

Sectors	
Agriculture	Hotels and Restaurants
Water and Sanitation	Wood and Paper
Processed Foods	Machinery and Equipment
Automobiles and Motorcycles	Transportation Equipment
Beverages	Pharmaceuticals and Other Products
Trade	Media
Trade – Transportation Equipment	Mining
Food Trade and Distribution	Oil, Gas, and Biofuels
Drug Trade and Distribution	Personal Care and Cleaning Products
Computers and Equipment	Software and Services
Civil Construction	Chemicals
Construction and Engineering	Miscellaneous Services
Miscellaneous	Medical-Hospital Services, Analysis, and Diagnostics
Packaging	Steel and Metallurgy
Electric Power	Textiles, Apparel, and Footwear
Equipment	Telecommunications
Real Estate Development	Transportation
Gas	Household Utilities
Diversified Holdings	Travel and Leisure

The intrinsic characteristics of the sector in which a firm operates may influence the analysis due to regulatory conditions, the nature of its activities, market pressures, and the degree of maturity of its sustainability practices (Araújo et al., 2022).

Econometric model

The research hypothesis was tested using a panel data regression model, specified in Equation 1:

$$DesemFin_{it} = \beta 0_{it} + \beta_1 CG_{it-1} + \beta_2 SIZE_{it-1} + \beta_3 FC_{it-1} + \beta_4 LEV_{it-1} + \beta_5 CRESC_{it-1} + \beta_6 INVEST_{it-1} + \varepsilon_{it} \quad \text{(Equation 1)}$$

In this model, the dependent variable is financial performance (DesemFin), measured using return on assets (ROA), return on equity (ROE), and firm value (Tobin's Q). The variable of interest is the managerial capability score (CG). The control variables are firm size (SIZE), cash flow (FC), leverage (LEV), growth (CRESC), and investments (INVEST). Finally, $\varepsilon_{i,t}$ represents the estimation error term.

Table 3 provides a detailed description of how the variables in Equation 1 were defined and operationalized, along with the references supporting these choices.

To isolate aggregate trends embedded in the variables, year fixed effects were included for CG, SIZE, FC, CRESC, and LEV. Accordingly, the explanatory variables were lagged by one year relative to the dependent variable in the regression analyses (Chiou & Shu, 2019). It is also important to note that the panel used in the study is unbalanced due to firm exclusion criteria and the efficiency calculation, which does not allow missing or negative values, as these prevent the estimation of the model. Nevertheless, the removal of missing data has been adopted in several studies (Heubeck & Meckl, 2022; Hoang, 2022) and does not compromise the estimation of managerial efficiency.

Definition and measurement of variables

Table 3 presents the measurement of the three sets of variables used to empirically test the econometric model in Equation 1: i) dependent variables; ii) the independent variable, managerial capability; and iii) the main control variables related to firm characteristics.

Table 3

Research variables

Type	Variables	Acronym	Definition	Expected sign	References
Dependente	Return on assets	ROA	Operating income divided by total assets	N/A	Andreou et al. (2017b); Bhutta et al. (2021)
	Return on equity	ROE	Net income divided by shareholders' equity	N/A	Andreou et al. (2017b); Bhutta et al. (2021)
	Tobin's Q	QT	*q* = (VMON + VMPN + DIVT)/ AT VMON and VMPN = market value of common and preferred shares; DIVT = book value of total debt (current liabilities − current assets + inventories + long-term liabilities); AT = book value of total assets	N/A	Andreou et al. (2017b); Wang et al. (2021); Chuah e Foong (2019); Bhutta et al. (2021)
Independente	Managerial capability	MC	Residual efficiency measure from the Tobit regression proposed by Demerjian et al. (2012), which regresses firm efficiency scores on industry- and firm-specific variables (see Equation 3)	+	Demerjian et al. (2012) ; Andreou et al. (2017b); Bhutta et al. (2021)
Controle	Firm size	SIZE	Natural logarithm of total assets	+	Bhutta et al. (2021); Andreou et al. (2016)
	Cash flow	CF	Natural logarithm of operating cash flow divided by total assets	+	Andreou et al. (2017b); Bhutta et al. (2021); Tsai et al. (2021)
	Leverage	LEV	Total liabilities divided by total assets	–	Bhutta et al. (2021)
	Growth	CRESC	Change in total assets from the beginning to the end of the year, deflated by beginning-of-year total assets	+	Andreou et al. (2017b); Bhutta et al. (2021)
	Investiments	INVEST	Capital expenditures (CAPX) divided by total assets	+	Park e Byun (2021); Bhutta et al. (2021)

In this study, financial performance, which is the dependent variable, is measured using three different profitability proxies: return on assets (ROA), return on equity (ROE), and market value (Tobin's *Q*). According to Demerjian et al. (2012), Andreou et al. (2017a), and Phan (2021), ROA represents a performance metric that may be positively influenced by a CEO's high managerial capability. The same applies to ROE, as noted by Andreou et al. (2017b) and Bhutta et al. (2021). Regarding corporate market value (Tobin's *Q*), Wang et al. (2021) state that this measure reflects the top management team's ability to respond to extreme events, improve resource utilization, and implement effective strategies.

The measurement of the variable of interest (managerial capability) follows the method proposed by Demerjian et al. (2012), which captures a manager's ability to generate greater revenue using the same, or even fewer, resources than their industry peers. However, a minor adjustment was made to the original model by removing the input "net operating leases." This change is justified by Technical Pronouncement CPC 06 (R2), which establishes that this type of lease must be recognized on the lessee's balance sheet in the same manner as financial leases. As a result, these leases are no longer treated as rental expenses, except in the following situations: short-term leases (up to 12 months with no purchase option) and low-value leases. In these specific cases, the amount is recognized as a period expense.

The aforementioned authors use DEA to model firm efficiency, following a two-stage procedure to quantify managerial capability. The first stage estimates firm efficiency scores, defined as the ratio of outputs to inputs, using the following optimization problem:

$$Max\ \theta = (\ .\ (\omega_1 CPV_{it} + \omega_2 DesOper_{it} + \omega_3 Imo_{it} + \omega_4 P\&D_{it} + \omega_5\ Goodwill_{it} + \omega_6 OuAI_{it})^{-1}$$

(Equation 2)

Here, the firm's revenue (Sales), the output, is conditioned on the following inputs: cost of goods sold (CPV) at the beginning of the period; selling, general, and administrative expenses (DesOper) at the beginning of the period; property, plant, and equipment (Imo) at the end of the period; R&D expenses (P&D); acquired goodwill; and other intangible assets (OuAI). All these inputs contribute to revenue generation and are influenced by managerial capability, as each input is subject to managerial decision-making.

As theorized by Demerjian et al. (2012), firm efficiency scores are affected by both firm-specific characteristics and managerial capability. Thus, the second stage seeks to remove the effect of key firm characteristics that may either enhance or constrain managerial ability. To accomplish this, the DEA efficiency scores are regressed on the following variables: firm size, measured by the natural logarithm of total assets (LnAT); market share (MarketShare), calculated as firm i's sales revenue as a percentage of total industry sales in year t; free cash flow (FCL), represented by a dummy variable equal to 1 when free cash flow is positive and 0 otherwise; firm age (LnIda), measured as the natural logarithm of the number of years since incorporation; business segment concentration (ConcNeg), obtained from the ratio of sales from individual business segments to total sales, summed across all segments in year t; and the foreign currency indicator (AME), a dummy equal to 1 when firms report exchange rate adjustments and 0 otherwise. Accordingly, Demerjian et al. (2012) estimate the following Tobit regression model by sector:

This equation is estimated controlling for sector and year fixed effects. The residual from this regression represents the managerial capability measure. Essentially, this residual captures the portion of total efficiency not explained by firm-specific characteristics and can therefore be attributed to managerial skill (Andreou et al., 2017b; Bhutta et al., 2021; Jiraporn et al., 2016). Another channel through which capable managers enhance operational performance is by maintaining and allocating cash reserves wisely, particularly when firms face greater growth opportunities and diversified investments (Siao & Chou, 2013).

Regarding the control variables, this research primarily draws on the arguments presented by Andreou et al. (2017b) and Bhutta et al. (2021). Firm size (SIZE) signals the company's quality and market power, as larger firms tend to have easier access to credit and more favorable financing conditions, enabling them to undertake more investments. Cash flow is an essential channel of corporate financing that directly influences investment decisions, particularly in markets characterized by imperfections in access to external funding (Yi, 2023). Thus, managers of firms with greater cash availability are expected to make more effective decisions regarding positive-NPV projects (Demerjian et al., 2012).

Leverage (LEV) is the book value of debt divided by the book value of total assets and may represent potential investment distortions or financing constraints in cases of excessive indebtedness. According to Bhutta et al. (2021), higher default risk and fixed financial obligations lead highly leveraged firms to underperform. Consequently, managers of highly leveraged firms tend to seek stronger operational performance to ensure the fulfillment of financial commitments. The need to generate sufficient cash flow to cover debt payments may encourage more efficient management, improving productivity and firm performance (Arhinful & Radmehr, 2023).

Additionally, the asset growth rate (CRESC) is included in the analysis because capable and reputable managers are presumed to use available resources more effectively in challenging environments, achieving sustainable growth and higher internal profitability (Andreou et al., 2017a). This is particularly important when growth opportunities exist, as it may facilitate continued investment, especially for firms facing difficulties in obtaining external financing (Andreou et al., 2017a; Bhutta et al., 2021).

Finally, the investment variable (INVEST) is included based on the expectation that capable executives will undertake investments that maximize a firm's net present value, positively affecting growth, sustainability, future performance, and firm value (Park & Byun, 2021).

Analysis and Discussion of Results

This section presents and discusses the findings obtained in the study through descriptive statistics and regression analyses. The goal is to test the proposed hypothesis and assess the effect of managerial capability on the financial performance of Brazilian firms. Financial performance was measured using three distinct metrics: ROA, ROE, and Tobin's *Q*.

Descriptive analysis of the variables

Table 4 shows that leverage (LEV) exhibits the highest mean (57.88) and the third-highest standard deviation (19.83) among all variables. In contrast, cash flow (FC) displays the lowest mean (–2.36) and a standard deviation

of 0.83. These results indicate that, on average, firms tend to finance their activities primarily with third-party capital and that cash availability is limited. These patterns contrast with the findings of Bhutta et al. (2021), who reported an average cash flow of 0.05 and an average leverage level of 0.69 for firms listed on the Pakistan Stock Exchange. They also diverge from Andreou et al. (2017a), whose sample exhibited mean leverage and cash flow values of 0.26 and 0.21, respectively.

Table 4

Descriptive analysis of the variables

Variables	No. of observations	Minimum	Maximum	Mean	Median	Standard deviation
ROA	2,565	–123,96	107,67	3,49	3,74	9,81
ROE	2,502	–286,33	231,55	6,91	9,33	32,11
Tobin's *Q*	2,208	–0,40	7,93	1,05	0,83	0,80
MC	2,565	–0,66	0,72	0,00	–0,02	0,23
SIZE	2,565	9,56	20,71	15,06	15,07	1,76
CF	2,321	–7,37	0,17	–2,36	–2,24	0,83
LEV	2,565	5,01	184,73	57,88	58,60	19,83
CRESC	2,565	–0,76	13.539,11	8,24	0,02	290,24
INVEST	2,565	–2,85	0,73	0,05	0,04	0,10

Note: ROA – return on assets; ROE – return on equity; Tobin's Q – firm value; MC – managerial capability; SIZE – firm size; CF – cash flow; LEV – leverage; CRESC – growth; INVEST – investments.

ROE and firm growth (CRESC) exhibit the highest standard deviations, 32.11 and 290.24, respectively, which indicates a wide dispersion of values and a large distance between the mean and median (6.91 and 8.24). This pattern typically reflects the heterogeneity of the firms analyzed. These results differ substantially from Bhutta et al. (2021), who reported a negative ROE (–0.0531) and a growth rate of 0.75. In Andreou et al. (2017a), the mean values of ROE and CRESC were 0.190 and 0.128, respectively, both positive but far lower than those found in the Brazilian context.

Econometric results

This study uses panel data, which contain time-invariant characteristics. Consequently, firms are more likely to exhibit unobserved heterogeneity. The appropriate panel model was determined using the Chow and Hausman tests. According to Magalhães and Andrade (2009), the Chow test assesses whether part or all regression parameters differ between two sets of observations, based on rejection or non-rejection of the null hypothesis. The test yielded Prob > F = 0.0000, indicating that the fixed-effects model is more suitable. The Hausman test produced the same result (Prob > F = 0.0000), confirming that the fixed-effects model is preferable.

Moreover, the Wooldridge and Wald tests indicated the presence of autocorrelation and heteroscedasticity, respectively. To address these issues, Driscoll and Kraay (1998) robust standard errors were applied to the fixed-effects model, as these are robust to heteroscedasticity and temporal and spatial correlation (Missio, 2012). Table 5 presents the fixed-effects panel regression results with robust standard errors, using ROA, ROE, and Tobin's *Q* as dependent variables.

Table 5

Fixed-effects panel regression results (2010–2022)

Variables	Fixed-effects panel – robust		
DesemFin	**Dependent – ROA**	**Dependent – ROE**	**Dependent – Tobin's *Q***
β_0	13.297	5.0432	**2.8846***
	(0.081)	(0.858)	(0.056)
MC	**3.4437****	**12.0946****	0.0983
	(0.038)	(0.034)	(0.554)
SIZE	0.8408	**3.8454***	–0.0874
	(0.196)	(0.087)	(0.351)
CF	**4.0437*****	**10.2850*****	**0.1494*****
	(0.000)	(0.000)	(0.000)
LEV	**–0.1978*****	**–0.5041*****	**–0.0028***
	(0.000)	(0.002)	(0.067)
CRESC	**–0.0002****	–0.0001	**0.1097*****
	(0.010)	(0.669)	(0.002)
INVEST	–8.4155	3.6673	0.6604
	(0.286)	(0.859)	(0.130)
Sector FE	Yes	Yes	Yes
Observations	*2,321*	*2,273*	*2,003*
R^2	*0.2285*	*0.1097*	*0.0575*

$$DesemFin_{it} = \beta 0_{it} + \beta 1 CG_{it-1} + \beta 2 SIZE_{it-1} + \beta 3 FC_{it-1} + \beta 4 LEV_{it-1} + \beta 5 CRESC_{it-1} + \beta 6 INVEST_{it-1} + \beta 6 Setor + \varepsilon_{it}$$

Note: i) DesemFin – financial performance; ROA – return on assets; ROE – return on equity; Tobin's Q – firm value; CG – managerial capability; SIZE – firm size; FC – cash flow; LEV – leverage; CRESC – growth; INVEST – investments; Sector FE – sector fixed effects. ii) *, **, *** denote statistical significance at 10%, 5%, and 1%, respectively.

Based on the results reported in Table 5, MC exerts a positive and statistically significant effect at the 5% level on ROA and ROE. However, this influence does not extend to firm market value (Tobin's *Q*). The coefficients estimated for CG were 3.4437 for ROA and 12.0946 for ROE. These findings support the hypothesis that higher managerial capability enhances a firm's financial performance, particularly in accounting-based indicators, consistent with prior studies (Andreou et al., 2017a; Bhutta et al., 2021; Chuah & Foong, 2019; Lee et al., 2018; Yung & Chen, 2018). These studies demonstrated that strong managerial capability improves core performance outcomes, mainly through better access to and more efficient management of the firm's available resources.

However, the results do not indicate that managerial capability influences firm market value, represented by Tobin's *Q*. Because this indicator reflects how the market values the firm, it is possible that investors do not immediately or clearly incorporate managerial capability into stock pricing. Firm value may be shaped by external shocks and macroeconomic conditions, which can dilute the effect of managerial capability. This suggests that although managerial capability improves accounting-based performance measures (ROA and ROE), its influence on market value may be overshadowed by external factors, as argued by Bhutta et al. (2021). These findings diverge from those of Atawnah et al. (2024), who identified a positive association between managerial capability and firm value, reporting that a one–standard deviation increase in managerial capability was associated with a 5.7% increase in firm value relative to the sample mean.

Regarding the control variables, firms' ability to generate higher CFs increases ROA by 404.37%, ROE by 1028.50%, and Tobin's *Q* by 14.94%. This result is consistent with Siao and Chou (2013), who argue that capable managers contribute to greater operational performance by maintaining and allocating cash reserves wisely. Moreover, Tsai et al. (2021) found that firms led by highly skilled CEOs can relax financial constraints and increase the value of their cash holdings. Thus, firms with more cash are better equipped to seize opportunities during periods of restricted external financing, which can ultimately raise firm value.

Leverage (LEV), on the other hand, reduces ROA by 19.78%. A similar negative effect emerges for ROE and Tobin's *Q*, which decline by 50.41% and 0.28%, respectively. This pattern aligns with Bhutta et al. (2021), who also documented a negative influence of leverage on firm performance. According to Park and Byun (2021), leverage negatively affects firm value because rising interest expenses — classified as current costs — undermine future performance and increase financial risk.

A positive relationship was also observed between Tobin's *Q* and firm growth (CRESC), consistent with the findings of Bhutta et al. (2021). In the present study, growth led to an increase of 10.97% in firm value, a result comparable to that observed among Pakistani firms. However, contrary to the same authors, growth exhibited a negative relationship with ROA, indicating that increases in firm growth reduce ROA by 0.02%. As expected, growth did not affect ROE. According to Andreou et al. (2017a), more capable managers make better use of available resources even under challenging conditions and therefore tend to achieve higher profitability.

Another noteworthy result concerns investment (INVEST), which showed no predictive power for ROA, contradicting the results reported by Bhutta et al. (2021). Those authors found that capital expenditures were associated with losses in Pakistan. Firms with high investment intensity should be examined carefully, as they incur expenditures upfront and may not necessarily realize returns later. The absence of statistical significance also extends to the relationships between investments and ROE as well as Tobin's *Q*. In these two cases, the results found here resemble those reported by Bhutta et al. (2021) for Pakistani firms. Still, Park and Byun (2021) argue that capable executives tend to adopt investment strategies that maximize firm value, positively affecting growth, sustainability, future performance, and firm value.

Regarding firm size (SIZE), the results indicate that it increases ROE by 384.54% among Brazilian firms — similar, though smaller in magnitude, to the effect reported by Bhutta et al. (2021). For these authors, larger firms benefit from easier and more favorable financing conditions, which facilitate greater investment. However, SIZE did not show statistical significance for ROA or Tobin's *Q*, as expected. Thus, firm size did not influence asset profitability or market value.

Taken together, the findings indicate that the study hypothesis (H1: Managerial capability is significantly and positively associated with firm performance) is only partially supported. MC directly influences ROA and ROE at the 5% significance level; however, the same does not hold for Tobin's *Q*. This contradicts the assertion by Wang et al. (2021) that Tobin's *Q* reflects the senior management team's ability to enhance resource utilization and implement strategies that lead to improved financial performance. Nonetheless, the findings for ROA and ROE support the perspective of Phan (2021) and Bhutta et al. (2021), who found that these performance measures are influenced by CEO MC.

Discussion of results

The findings of this study on the relationship between managerial capability and the financial performance of Brazilian firms reveal both convergences and divergences relative to other economic and cultural contexts discussed in the literature. In developed markets such as the United States and Western Europe, there is consistent evidence that managerial capability positively affects both accounting indicators (ROA and ROE) and market-based measures (Tobin's *Q*), as demonstrated by Demerjian et al. (2012) and Andreou et al. (2017). In Brazil, however, the results indicate that managerial capability enhances firm profitability but does not exert a significant influence on market pricing. This phenomenon may be explained by structural factors such as lower informational transparency, economic volatility, and the limited efficiency of capital markets in rapidly absorbing and reflecting managerial competencies in firm valuation.

When examining emerging economies, the scenario becomes more heterogeneous. In countries such as Malaysia and Indonesia, studies by Chuah and Foong (2019) and Anom (2018) found that MC affects both accounting performance and market perception. In contrast, Bhutta et al. (2021), in their analysis of Pakistan, identified a pattern similar to that observed in Brazil, where managerial capability improves operational outcomes but has limited implications for market value. This behavior suggests that, in emerging economies, institutional factors — such as greater state intervention and challenges in accessing external financing — may reduce the extent to which markets fully incorporate managerial ability into firm pricing.

Beyond economic factors, cultural variations also influence how managerial capability is perceived and valued. In collectivist economies such as China and South Korea, concentrated ownership structures and close ties between firms and government often exert a stronger influence on firm performance than individual managerial competence (Wang et al., 2021). By contrast, developed markets — where individualistic and meritocratic cultures prevail — place greater pressure on managers to demonstrate efficiency in resource allocation and value creation for shareholders (Phan, 2021). These cultural differences may help explain why, in some countries, the impact of managerial capability is more clearly reflected in firms' financial indicators.

These differences highlight the importance of considering economic and institutional contexts when interpreting the effect of managerial capability on financial performance. From a theoretical perspective, the findings support upper echelons theory (Hambrick & Mason, 1984), showing that managerial efficiency directly influences firm profitability.

From a practical standpoint, the results underscore the need to strengthen transparency mechanisms in Brazil so that the market more effectively recognizes the value of managerial capability in firm valuation. They also provide evidence for managers and investors to consider not only traditional performance metrics but also the strategic role of leadership in long-term value creation. These insights are particularly relevant for firms seeking to enhance their management practices, as well as for policymakers aiming to improve the efficiency and competitiveness of the Brazilian capital market.

Final Considerations

Research posits that corporate executives exert significant influence over a firm's strategic decisions (Hambrick & Mason, 1984). In line with this view, international studies suggest that the managerial capability of the CEO represents the most valuable skill in shaping firm performance (Bhutta et al., 2021; Kor & Mesko, 2013; Rajgopal et al., 2006). From this perspective, this study examined the effect of MC on the financial performance of Brazilian companies between 2010 and 2022.

The results obtained from testing the hypothesis (H1: Managerial capability is significantly and positively associated with better firm performance) show that CEO MC affects the profitability of Brazilian firms, specifically regarding ROA and ROE. However, this effect does not extend to market value (Tobin's *Q*). These findings indicate that managers are highly efficient in generating profits from a firm's assets and shareholders' equity. Thus, the evidence supports the notion that managerial skills create wealth for firms and are indispensable in corporate decision-making.

Nevertheless, when examining the market-based indicator (Tobin's *Q*), the results do not support the inference that it is influenced by managerial capability, even though Tobin's *Q* is theoretically designed to capture a firm's growth opportunities by comparing market value to the replacement cost of capital. The absence of statistical significance may be associated with the difficulty of precisely measuring asset replacement value; consequently, the results may not fully reflect this relationship, indicating the need for further investigation using alternative metrics.

Additional findings include: i) capital investments made by Brazilian firms did not lead to higher financial performance; ii) firm growth was relevant in determining market value, although the opposite occurred with ROA; iii) leverage reduced firm profitability, likely due to high long-term financing costs, an ongoing challenge in Brazil; iv) cash flow improved financial results, likely by enabling firms to undertake value-maximizing investments; and v) firm size contributed positively only to ROE, consistent with the idea that shareholders view firms with stronger asset structures more favorably, as total assets signal operational solidity.

The findings suggest that firms should invest in enhancing managerial skills through training, mentoring, and recruitment processes that prioritize strategic competencies. Moreover, the results indicate that more capable managers allocate resources more efficiently, boosting profitability even during adverse conditions. This underscores the importance of monitoring mechanisms that promote qualified decision-making. Accordingly, this study contributes to business management by highlighting the concrete impact of managerial skills on financial performance and offering practical insights for executives, boards, and investors interested in long-term value creation.

This study also contributes to the literature by examining the relationship between managerial capability and financial performance in the Brazilian context, an emerging market with unique economic and institutional challenges. It advances the research by adapting the methodology proposed by Demerjian et al. (2012) to measure managerial efficiency, demonstrating that these capabilities improve accounting indicators (ROA and ROE) but do not directly influence market value (Tobin's *Q)*, thereby challenging assumptions about market pricing. Additionally, the results reinforce Upper Echelons Theory by showing that managerial skills shape firm performance and highlight implications for recruitment practices and leadership development. Together, these contributions offer a solid foundation for future research and provide insights for firms and policymakers seeking to optimize organizational performance in a dynamic and challenging business environment. It is important to note that these results are dynamic and may evolve over time, reinforcing the need for continued research in this evolving field.

Some limitations should be acknowledged. First, the study focuses exclusively on the performance of Brazilian firms, which restricts the number of available observations and the period analyzed (2010–2022), as it was necessary to consider the post-adoption period of International Financial Reporting Standards. In addition, no empirical analysis was conducted specifically on the impact of managerial capability on corporate performance. Second, the proxy used to measure managerial capability may present limitations arising from possible measurement errors in the accounting variables employed, such as inputs and outputs, in the estimation of firm efficiency. Furthermore, Tobin's *Q*, used as a proxy for firm value, may not accurately reflect the replacement cost of assets as originally proposed by James Tobin (1969), since its estimation is based on the book value of debt rather than market value. Future studies could explore alternative metrics for measuring managerial capability, incorporating CEO characteristics such as age, education, and industry experience. Another relevant avenue would be to examine how managerial capability influences firms' investment strategies, particularly regarding capital allocation, innovation, and R&D. Evaluating the impact of macroeconomic conditions, especially during economic crises, on executives' ability to generate value and enhance resilience in emerging markets also represents an important field for further investigation. Finally, it would be essential to analyze how factors such as firm growth, leverage, and cash flow interact with managerial skills in maximizing organizational outcomes.

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How to cite:

Araújo, R. A. M., Silva, A. R., Duarte, J. M. S., & Lucena, W. G. L. (2025). Impact of managerial capability on the financial performance of Brazilian companies. *Revista Ciências Administrativas, 31*, 1-15. http://doi.org/10.5020/2318-0722.2025.31.e16519

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Submitted on: *05/06/2024*
Approved on: *05/27/2025*