When Diversity Meets Experience: Unpacking the Tension between Board Diversity and CEO Experience in East African Listed Firms

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Abstract

Corporate governance is essential for the achievement of a company's objectives as a way of mitigating agency problems. This study explored the influence of board diversity on the financial performance of East African listed companies and the moderating role of CEO Experience. Our study utilized secondary data from the East African stock exchange markets: the Nairobi Stock Exchange, the Dar es Salaam Stock Exchange, the Uganda Stock Exchange, and the Rwanda Stock Exchange. Our sample included 36 listed nonfinancial companies in East Africa, making a total of 325 observations. We employed fixed-effects regression analysis to investigate the relationship. Our primary finding shows that board diversity positively and significantly influences the financial performance of East Africa-listed companies. Additional analysis reveals that a CEO with prior experience weakens the influence of diversity on financial performance. Our findings are robust to alternative measures of diversity. More female directors improve the influence of diversity on financial performance. However, it should not exceed 30 percent of the board members. This study contributes theoretically to corporate governance literature and informs policymakers on the crucial role of diversity on the board in East Africa.

Keywords: *Corporate Governance, Diversity, CEO Experience, Performance, Agency Theory, Critical Mass Theory, East Africa*

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1.0 INTRODUCTION

Today, the sustainability concept has gained popularity and is more concerned with corporate social and environmental impacts (Hahn et al., 2015). However, the primary goal of any company remains shareholder wealth maximization because sustainability practices are centered on similar goals (Brønn & Vidaver-Cohen, 2009). Agency theory explains the conflict between shareholders and management concerning shareholder wealth maximization and stipulates the significance of corporate governance. The board of directors has been crucial for monitoring and advising management and securing shareholders' interests (Lückerath-Rovers, 2013; Ntim, 2015). Prior studies have documented improved financial and non-financial performance due to corporate governance (Gull et al., 2023; Harjoto & Jo, 2011). However, it is essential to understand the influence of corporate board diversity on financial performance and shareholders' wealth maximization.

Corporate board diversity can be referred to as the presence of directors with different attributes on the board (Ntim, 2015). Diversity in attributes can be about gender, expertise, nationality, etc. Diversity is significant on the board as it brings differences vital for decision-making related to an entity's achievement (Baranchuk & Dybvig, 2009; Lückerath-Rovers, 2013). Diversity has been associated with different corporate matters such as financial performance (Farag & Mallin, 2017), financial fraud (Cumming et al., 2015), earning management (Gull et al., 2018), audit quality (He et al., 2021), corporate social responsibilities (Beji et al., 2021; Harjoto et al., 2015), sustainability reporting quality (Al-Shaer & Zaman, 2016), and CSR decoupling (Eliwa et al., 2023). Therefore, it is important to understand diversity and its influence in the East African corporate environment.

Female directors are considered to be important resources on the board because of their significant advisory and monitoring role over management to secure shareholders' interests (Bear et al., 2010; Cumming et al., 2015). However, evidence shows less diversity in the corporate boards of East African listed companies due to the perceived role in African societies. A smaller number of females are seen in management and boards of African companies (Toerien et al., 2023). This situation has also contributed to scant studies concerning gender diversity in East Africa.

Utilizing data from East African stock exchange markets, this study investigates the influence of corporate board diversity on the financial performance of East African listed companies. We studied the mechanisms of this relationship by considering the CEO's prior experience. Our findings show that gender diversity

is significant and positively associated with the financial performance of East African listed entities. These findings align with the assumption posited in agency theory on the importance of corporate governance (Farag & Mallin, 2017). The CEO's prior experience weakens the influence of board diversity on the financial performance of East African listed companies.

This study contributes practically to the importance of board diversity, having female directors on the board of East African listed firms to enhance financial performance. Women are considered more concerned with a reasonable risk appetite compared to men. Therefore, they bring different opinions and independence to the board. However, a CEO with previous CEO experience before the current office will likely weaken this relationship. Our finding contributes to the corporate governance and diversity pieces of literature, signifying the importance of diversity in supervisory roles that lead to different opinions, which are important for financial performance. Lastly, our study findings contribute theoretically to agency theory on diversity's significant advising and monitoring role, reducing agency costs.

The rest of this paper is structured as follows: Chapter Two covers literature review, followed by Chapter Three, which covers research methodology; Chapter Four covers empirical results and analysis; Chapter Five discusses the results; and Chapter Six covers the conclusion and areas for future studies.

2.0 LITERATURE REVIEW

2.1 Corporate Governance in East Africa

East Africa's corporate governance practice is still growing (Fulgence et al., 2024). Stock exchanges provide guidelines on corporate governance for listed companies. However, compliance is still low despite having the guidelines. Lifting the requirements, especially relating to corporate governance, might threaten listing. Companies are given incentives such as reduced corporate tax rates upon listing to encourage companies to list in the stock exchange market. We observed several companies having fewer directors on the board, no independent non-executive directors on the board, and some with no board committees disclosed in their annual reports. This is influenced by ownership concentration and CEO power, which reduce corporate transparency in East Africa (Fulgence et al., 2023; Waweru, 2014).

Therefore, corporate governance practices are best based on companies' motives regarding the appropriate number of directors, the presence of independent directors, board committees, and board meetings. However, the stock exchange regulatory authorities mandate some important matters on corporate governance

since the listed companies accumulate capital from the public (Waweru & Prot, 2018). With public interest representation, corporate governance is important for shareholder interest protection. Many entities with international relationships or shareholders follow the best global corporate governance standards (Mensah & Boachie, 2023).

2.2 Theoretical Perspectives

This study is grounded on three theories: Agency theory, Critical mass theory, and Upper echelons theory. Agency theory argues for the significance of corporate governance in mitigating agency (Jensen & Meckling, 1976). Corporate board significance improves with diversity, which brings different attributes such as experience, exposure, risk appetite, and others that contribute to the significance of the corporate board (Hillman et al., 2000). However, critical mass theory argues that these diversity impacts are likely to be observed only when a certain threshold has been attained (Oliver et al., 1985). This concept has been widely adopted in EU countries where large companies' boards are required to contain a threshold of 40 percent women (Eliwa et al., 2023; Lefley & Janeček, 2024). We adopted the upper echelons theory to explain the role of CEO experience in our study. This school of thought proposes that the top management team and the CEO will likely shape a company's strategic choices (Hambrick & Mason, 1984). Since CEO's strategic choices vary with the season (Hambrick & Fukutomi, 1991), CEOs with prior experience are likely to ignore the contribution of board diversity and weaken its influence on financial performance.

2.3 Corporate Board Diversity

As per agency theory arguments, corporate governance is an important approach to mitigating the agency problem (Haque et al., 2024). The presence of a board of directors that provides direction, monitors, and advises the management is a proven mitigation approach to conflict of interest between shareholders and management (Graham et al., 2013). There are several studies on corporate governance with a significant focus on board attributes such as composition, diversity, and independence, which are crucial for a board to discharge its duties effectively (Baranchuk & Dybvig, 2009). There has not been significant emphasis on diversity, especially in Africa, where women are marginalized and are not considered as powerful as men (Naidoo et al., 2024). In Africa, shareholders are still biased and know less about the advantages of gender diversity on the board. Therefore, they do not prefer female directors (Mothapo et al., 2024).

Board diversity refers to the presence of directors with different attributes such as gender, nationality, age, educational background, etc. (Van der Walt & Ingley, 2003). This mix is essential for a board as it brings different opinions, risk appetite, and concerns to the board, which is crucial for advising and monitoring the duties of the board (Atif et al., 2021). Board diversity, like the presence of women, who are considered risk-averse compared to men, young directors who are eager and may be more risk-taking and exposed to technology, and directors with experience in managing companies or participating in other boards, might also bring several advantages. This diversity becomes crucial and brings an outcome with a certain threshold (Oliver et al., 1985).

Depending on the company's sector, the appropriate mix of expertise, such as financial knowledge, legal knowledge, and engineering, has also been associated with board effectiveness in discharging its duties (Danso et al., 2024). For instance, an audit committee is advised to have at least one member with financial knowledge to discharge its duties well. Manufacturing companies, for instance, might need engineers and people with knowledge of the company's manufacturing line for board effectiveness. Therefore, an appropriate mix of directors on the board uplifts its potential. We therefore investigated the influence of board diversity on listed companies' financial performance in the East African stock markets. We further strengthened our study by investigating the moderating role of CEO experience in the relationship between board gender diversity and financial performance.

2.4 Gender Diversity and Financial Performance

Gender diversity tests various decisions due to attributes associated with women, such as being risk-averse, having societal concerns, etc. (Haque et al., 2024). Several studies have proven the importance of gender diversity on boards, and different countries have introduced different policies concerning board gender diversity (Adams & Ferreira, 2009). Norway, being ahead, has introduced a requirement for 40 percent of female directors on the boards of publicly accountable entities (Rose, 2007). Other countries are still using voluntary encouragement approaches for female directors' appointments. From an African perspective, Viviers et al. (2017) argued that voluntary and public pressure might encourage gender diversity on the board compared to mandatory requirements for female directors.

Carter et al. (2010) found no significant association between gender diversity on the board and the financial performance of the United States' major corporations. Magoma et al. (2024) reported that gender diversity is negative but insignificant in East African listed bank financial performance. In their event study, Mothapo

et al. (2024) studied gender diversity in South Africa and reported that the market responds negatively to appointing female directors due to shareholders' bias against women. Toerien et al. (2023) argued that the presence of female directors is positively and significantly associated with Environmental, Social, and Governance (ESG) performance. However, the results showed less support for critical mass theory. García-Sánchez et al. (2023) argued that the high proportion of females on the board is associated with more investment in environmental innovation.

Githaiga (2024) found that board diversity strengthens the negative relationship between sustainability reports and earnings management, outlining the significant role of board gender diversity in mitigating earnings management. (Mohy-ud-Din, 2023) found that the presence of women on the board positively influences the company's investment in local corporate social responsibility activities. Carter et al. (2003) found that the presence of females on the board was significantly positively associated with firm value. Githaiga (2023) reported a significant negative relationship between female directors and earnings management, emphasizing that the presence of female directors reduces the earnings management problem. Further analysis showed that institutional ownership strengthens the negative relationship.

Assenga et al. (2018) found a positive relationship between board gender diversity and the financial performance of Tanzania-listed companies. Their results show the significant contribution of female directors in achieving corporate objectives. Lückerath-Rovers (2013) found that firms with female directors perform well compared to those without female directors on the board. Taljaard et al. (2015) found that an increased number of female directors on the board is associated with share price performance. Farag and Mallin (2017) argued that the presence of female directors is positively related to financial performance through females' ability to reduce exposure to economic crises. From the literature review arguments, we therefore hypothesize that;

> *H1: Board gender diversity positively influences the financial performance of East African-listed companies*

2.5 Moderating Role of CEO Experience

Although the board plays a crucial role in achieving a company's objectives, the top management team, especially the CEO, influences the company's financial performance (Hamori & Koyuncu, 2015). According to upper echelons theory, CEO attributes can significantly influence a company's strategic choices (Hambrick & Mason, 1984), affecting financial performance. Previous studies have investigated several CEO attributes, such as CEO Tenure (Ali & Zhang,

2015; Chen et al., 2019), CEO Experience (Cumming et al., 2024; Hamori & Koyuncu, 2015), CEO Age (H. W. Huang et al., 2012; Mukherjee & Sen, 2022), and other social-psychological attributes concerning different strategic choices.

CEO experience is a broad term, which might be prior working experience as CEO (Hamori & Koyuncu, 2015), financial experience (Ying & He, 2020), green experience (Huang & Wei, 2023; Li et al., 2024), or foreign experience (Ashraf et al., 2024). CEOs with prior experience are preferred over insider executives when a company is looking for succession (Hildebrand et al., 2020). This is due to the fact that prior experience is considered to be an asset and likely to improve company performance, especially the one having problems (Cumming et al., 2024). However, other studies have reported that CEO with prior experience might hurt the company's financial performance (Hamori & Koyuncu, 2015).

Hazzaa et al. (2024) reported that CEO experience influences the financial success of private banks in Iraq. Ying & He (2020) argue that a CEO with prior financial experience significantly improves merger and acquisition performance. Kor & Tan (2023) found that a CEO's firm-specific experience, combined with versatile managerial experiences, helps the company grab new growth opportunities. Cumming et al. (2024) argued that a CEO's prior experience improves the bank's financial performance of underperforming banks post CEO succession.

Rezaee et al. (2021) found that CEO experience, measured as CEO hired from inside, is negatively associated with financial restatement. Hildebrand et al. (2020) found that a CEO's prior experience does not always predict success; sometimes, potential might suffice for experience, depending on the company's strategy. Hamori & Koyuncu (2015) argued that CEO experience is negatively related to financial performance, especially for those who come straight from a previous CEO position. Therefore, CEOs with prior experience will likely reference their prior experience and ignore the new insights. However, no CEO job is the same (Hildebrand et al., 2020); this situation will likely influence them to ignore the contribution of board gender diversity to financial performance. Therefore, we hypothesize that;

H2: CEO experience negatively moderates the influence of Board gender diversity on the financial performance of East African-listed companies

3.0 RESEARCH METHODOLOGY

This study uses a quantitative research design to investigate the significance of diversity on the corporate boards of East African-listed companies. Board diversity brings different perspectives to the board that are associated positively

with the company's objectives. Our study investigates the significance of board diversity in the corporate financial performance of East African listed companies and how the CEO's prior experience moderates this relationship.

3.1 Data and Sample

This study population involves listed companies in East African stock exchanges, namely the Nairobi Stock Exchange (NSE), Dar es Salaam Stock Exchange (DSE), Uganda Stock Exchange (USE), and Rwanda Stock Exchange (RSE). This study uses unbalanced panel data from 2014 to 2023, utilizing data from 36 non-financial companies. We excluded financial companies because of their unique and regulated environment.

Table 1. Sample Industrial Distribution

Category	Year										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Agricultural	2	2	2	2	2	2	3	3	3	3	24
Energy	3	3	3	3	3	3	3	3	3	3	30
Healthcare	0	0	0	1	1	1	1	1	1	1	7
Manufacturing	14	14	15	16	16	16	17	17	17	17	159
Marketing & Media	4	4	4	4	4	4	4	4	4	4	40
Real Estate	1	1	2	2	2	2	2	2	2	2	18
Telecommunication	1	1	2	2	2	2	2	3	3	3	21
Trading	2	2	2	2	3	3	3	3	3	3	26
Total	27	27	30	32	33	33	35	36	36	36	325

3.2 Variables Description

Following the previous study on board diversity, our independent variable, Gender diversity, was measured as the proportion of female directors on the board to the total number of directors on the board (Boulouta, 2013; de Cabo et al., 2012; Liu, 2018).

Following Diantimala & Amril (2018), Javed et al. (2020), and Saeidi et al. (2015), Financial performance, our dependent variable, is measured by Return on Assets (ROA), computed as the ratio of net profit to total assets.

Our moderating variable, CEO experience, was defined as prior experience as a CEO before occupying the current CEO position (Kor & Tan, 2023). Drawing from previous studies on CEO experience Cumming et al. (2024) and Sang et al. (2024), we measured CEO experience as a binary variable equal to one if the CEO had prior experience and zero otherwise.

We controlled for other variables likely to influence financial performance during the analysis. We, therefore, controlled for Corporate governance variables, which include Board Size measured as the natural logarithm of board members during the financial period (Kharabsheh et al., 2022), CEO duality measured as a binary variable equal to 1 when the CEO is also a chairman of the board, and zero otherwise (Gull et al., 2023), CEO tenure measured as the natural logarithm of the number of years that CEO has been serving in the office since their first appointment to the company (Dikolli et al., 2014; Hussain et al., 2024), Board independence measured as the proportion of the independent board members to total number of board members (Chen, 2011; Dah & Jizi, 2018), and Board Meetings measured as the natural logarithm of the number of board meetings conducted during the reporting period (Assenga et al., 2018; Githaiga, 2023). We further controlled for firm attributes such as firm size measured as the natural logarithm of total assets (Nadeem et al., 2017; Shi et al., 2020), firm leverage measured as the ratio between total debts to total assets (Boulouta, 2013; Ghaleb et al., 2021), Auditors measured as a binary variable equal to 1 if the company's financial statements are audited by one of the Big 4 auditing firms and zero otherwise (Waweru & Prot, 2018), and Ownership Concentration measured as the percentage of firm shareholding by the first highest owner (Edwards & Weichenrieder, 2009).

3.3 Model Specification

Our primary model used in this research is a fixed-effect regression model on the panel data. We employed a fixed-effect model because it controls for unobserved, time-invariant firm heterogeneity, addressing endogeneity concerns (Wooldridge, 2010). Two fixed-effect models were tested. The first model tested the influence of board diversity on the firm's financial performance. In contrast, the second model tested the moderating role of CEO experience on the influence of board diversity and the firm's financial performance. The models are specified as follows:

$$FP_{it} = \alpha + \beta_1 Div + \beta_2 Conrol + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

$$FP_{it} = \alpha + \beta_1 BDiv + \beta_2 BCEOExp + \beta_3 Div * CEOExp + \beta_4 Conrol + \gamma_j + \delta_t + \varepsilon \ldots\ldots \quad (2)$$

Where:

FP_{it} is the financial performance of a firm *i* in year *t*.
α is the intercept.
β are the coefficients of the independent and control variables.
γ_j and δ_t are the firms and year fixed effects, respectively.
ε is the error term.

4.0 EMPIRICAL RESULTS AND ANALYSIS

4.1 Descriptive statistics

Table 2 presents our study's descriptive statistics for independent, dependent, and control variables. Concerning our variable of interest, ROA had a mean value of 0.0895, which shows that, on average, the company's ROA is 8.95 percent, a low return. The results also show the maximum ROA of 69.26 percent for all the companies in our sample. This shows that the best-performing company returns over 50 percent of its assets. Board diversity, focusing on the presence of female directors, shows that, on average, the board has 18.49 female directors. Results show that some boards have no female directors, while the highest female director presence was 80 percent.

The results regarding CEO experience show that the majority of CEOs have not worked in a CEO capacity before. On average, only 26.77 percent of the CEOs in our sample had experience in the CEO position. Further interesting results regarding the board of directors are the rates of independent directors, with a mean value of 32.97 percent. However, despite the significance of the independent directors on the board, several listed companies do not have independent directors. Additionally, descriptive statistics show that on average, listed companies in our sample are financed by debt 51.14 percent, and the majority of them, 76.31 percent, are audited by Big Four audit firms.

Table 2. Descriptive Statistics Results

Variable	N	Mean	SD	Min	Max
ROA	325	0.0895	0.1435	-0.2520	0.6926
Gender Diversity	325	0.1849	0.1454	0.0000	0.8000
CEO Experience	325	0.2677	0.4434	0.0000	1.0000
CEO Tenure	325	1.2726	0.9447	0.0000	3.5553
CEO Duality	325	0.0092	0.0958	0.0000	1.0000
Board Independence	325	0.3297	0.2717	0.0000	1.0000
Board Size	325	2.0861	0.2827	1.3863	2.7726
Board Meetings	325	1.6403	0.4508	0.6931	3.7377
Leverage	325	0.5114	0.3227	0.0060	2.1299
Firm Size	325	10.6656	2.2221	5.3375	15.3594
Ownership Concentration	325	0.4904	0.1914	0.1104	0.8500
Auditor	325	0.7631	0.4259	0.0000	1.0000

Table 3 presents the results for the pair-wise correlation matrix and variance inflation factors. The correlation results were reasonable, with all correlations between variables below 0.5. The highest correlation in our results was 0.4500, which is the correlation between board meetings and the auditor. The Variance Inflation Factor (VIF) was also reasonable, as no independent variable had a VIF above 2; the average VIF was 1.31 below the threshold (Kennedy, 1998). This

VIF shows our model's suitability for the relationship, as it is free of multicollinearity.

4.2 Regression Results

This study employed fixed-effect regression analysis to test the relationship between gender diversity and financial performance. Our results in Table 4 show a positive and significant relationship between gender diversity and financial performance, measured as ROA. Model 1 shows that gender diversity on the board positively and significantly influences financial performance with a coefficient of 0.133 at a 10% significance level. Model 2 includes an additional variable, CEO Experience, which is also employed as a moderator. Our result shows that gender diversity on the board is positively and significantly associated with financial performance, with an improved coefficient of 0.161 at a 5% significance level.

Model 2 further shows that CEO experience positively and significantly influences financial performance, with a coefficient of 0.084 at a 1% significance level. Model 3 shows the results for CEO experience moderation on the influence of board gender diversity on the financial performance of East African listed companies. Our result shows that the presence of a CEO with prior CEO experience has a negative and significant effect on the influence of board gender diversity and financial performance, with a negative coefficient of -0.225, significant at a 5% significance level.

Table 3. Pair-wise Correlation Matrix

	ROA	Gender Diversity	CEO Experience	CEO Tenure	CEO Duality	Board Independence	Board Size	Board Meetings	Leverage	Firm Size	Ownership Concentration	Auditor	VIF
ROA	1												
Gender Diversity	0.05	1											1.35
CEO Experience	0.1540***	0.1372**	1										1.23
CEO Tenure	-0.1117**	-0.2713***	-0.2302***	1									1.27
CEO Duality	0.2100***	-0.1230**	-0.0584	0.0331	1								1.07
Board Independence	-0.0942*	0.2063***	-0.1652***	-0.1893***	-0.1173**	1							1.32
Board Size	-0.0215	0.2990***	0.2242***	-0.2329***	-0.1214**	0.1556***	1						1.36
Board Meetings	-0.3423***	0.1645***	-0.1148**	-0.2110***	-0.0545	0.4131***	0.2767***	1					1.66
Leverage	-0.3970***	0.0227	-0.0746	0.0625	-0.0739	0.1163**	-0.0506	0.1667***	1				1.2
Firm Size	0.2443***	-0.0371	0.1067*	-0.2050***	0.0758	0.0898	0.2377***	0.1329**	0.0838	1			1.23
Ownership Concentration	0.1781***	0.1975***	-0.0465	-0.0109	0.1311**	-0.0621	-0.0683	-0.0604	-0.1732***	0.1125**	1		1.22
Auditor	0.3254***	-0.1692***	0.1898***	-0.0703	0.0538	-0.1695***	-0.0714	-0.4500***	-0.2881***	0.0938*	-0.0866	1	1.51

*** p<0.01, ** p<0.05, * p<0.10

Our results show that control variables such as CEO duality and Board Independence positively influence the financial performance of listed companies in East Africa. However, surprisingly, firm size and auditors negatively influence financial performance, which is against standard assumptions. Other control variables like CEO tenure, board meetings, and firm leverage have negatively and significantly influenced the financial performance of East Africa. Ownership concentration shows a negative coefficient but no significant effect throughout all three models. Firm size and having been audited by Big 4 auditing firms are usually expected to contribute positively to financial performance, but the results differed.

Table 4. Regression Results

Variables	Model 1 ROA	Model 1 ROA	Model 3 ROA
Gender Diversity	0.133*	0.161**	0.156**
	(-1.935)	(-2.334)	(-2.326)
CEO Experience		0.041**	0.084***
		(-2.505)	(-3.361)
Gender Diversity*CEO Experience			-0.225**
			(-2.387)
CEO Tenure	-0.007	-0.009	-0.017**
	(-0.925)	(-1.204)	(-2.560)
CEO Duality	0.137**	0.140**	0.156***
	(-2.452)	(-2.53)	(-3.223)
Board Independence	0.054*	0.065**	0.023
	(-1.891)	(-2.245)	(-0.919)
Board Size	-0.076	-0.084*	-0.094**
	(-1.590)	(-1.783)	(-2.262)
Board Meetings	-0.045**	-0.046**	-0.041**
	(-2.045)	(-2.137)	(-2.150)
Leverage	-0.203***	-0.216***	-0.187***
	(-5.213)	(-5.549)	(-5.487)
Firm Size	-0.067***	-0.069***	-0.02
	(-2.921)	(-3.064)	(-0.977)
Ownership Concentration	-0.174	-0.144	-0.103
	(-1.073)	(-0.893)	(-0.726)
Auditor	-0.064**	-0.071**	-0.069***
	(-2.148)	(-2.381)	(-2.662)
Constant	1.234***	1.264***	0.738***
	(-4.781)	(-4.936)	(-3.143)
Year FE	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
N	325	325	322
Adjusted R^2	0.022	0.04	0.055
R^2	0.158	0.176	0.194

t-statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Our first hypothesis stated that board gender diversity positively influences the financial performance of listed entities in East Africa. Throughout Models 1 to 3 in Table 4, gender diversity shows a positive and significant relationship with financial performance, consistent with our predictions in the first hypothesis. Our second hypothesis predicted that a CEO with prior experience would negatively moderate the positive relationship between board gender diversity and financial performance. Model 3 in Table 4 shows that the CEO's experience weakens the positive relationship between board gender diversity and financial performance. This finding is consistent and supports our second hypothesis. Our results support all our hypotheses as stipulated in this study.

4.3 Additional Analysis

We performed further analysis to test the influence of the increased number of female directors on the board to the tune of the EU requirement, 40 percent women. We found that the number of female directors on the board increases the association with financial performance. This supports the argument that female directors bring different opinions and are likely to monitor and advise in line with shareholder interests due to their risk-averse behavior (Haque et al., 2024). Table 5 Model 1 shows that when more than ten percent of board members are female, there is a positive and significant relationship with financial performance at 1 percent. Model 2 in Table 5 shows that if female directors on the board are more than 20 percent, there is a positive and significant relationship with financial performance at 1 percent.

However, Model 3 in Table 5 shows that when a female director on the board accounts for more than 30 percent, there is a positive but insignificant relationship with financial performance. Model 4 in Table 5 shows that when female directors on the board account for more than 40 percent, there is a negative and insignificant relationship with financial performance. Therefore, our additional analysis supports our main finding that board gender diversity positively influences financial performance, but does not support critical mass theory on diversity. This is since when board gender diversity exceeds 30 percent, the relationship becomes insignificant and negative.

Table 5. Regression Results: Diversity Critical Mass

Variables	Model 1 ROA	Model 1 ROA	Model 3 ROA	Model 3 ROA
Gender Diversity>10%	0.063***			
	(-3.768)			
Gender Diversity>20%		0.045***		
		(-2.713)		
Gender Diversity>30%			0.004	
			(-0.232)	
Gender Diversity>40%				-0.0003
				(-0.014)
CEO Experience	0.038**	0.039**	0.035**	0.035**
	(-2.358)	(-2.393)	(-2.147)	(-2.117)
CEO Tenure	-0.011	-0.011	-0.01	-0.01
	(-1.450)	(-1.432)	(-1.229)	(-1.288)
CEO Duality	0.144***	0.136**	0.130**	0.129**
	(-2.638)	(-2.466)	(-2.327)	(-2.323)
Board Independence	0.066**	0.061**	0.076***	0.076***
	(-2.354)	(-2.131)	(-2.642)	(-2.631)
Board Size	-0.096**	-0.068	-0.051	-0.05
	(-2.091)	(-1.508)	(-1.122)	(-1.105)
Board Meetings	-0.032	-0.046**	-0.039*	-0.038*
	(-1.530)	(-2.148)	(-1.771)	(-1.756)
Leverage	-0.215***	-0.204***	-0.201***	-0.200***
	(-5.664)	(-5.332)	(-5.137)	(-5.165)
Firm Size	-0.062***	-0.069***	-0.069***	-0.069***
	(-2.792)	(-3.048)	(-3.031)	(-3.021)
Ownership Concentration	-0.165	-0.118	-0.121	-0.115
	(-1.036)	(-0.738)	(-0.736)	(-0.707)
Auditor	-0.067**	-0.072**	-0.074**	-0.074**
	(-2.308)	(-2.445)	(-2.468)	(-2.462)
Constant	1.185***	1.217***	1.195***	1.185***
	(-4.741)	(-4.808)	(-4.597)	(-4.613)
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
N	325	325	325	325
Adjusted R^2	0.069	0.046	0.021	0.021
R^2	0.201	0.182	0.16	0.16

t-statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Robustness Test

We performed further analysis to test the reliability of our results by changing the board gender diversity measure since our primary analysis measures board gender diversity by the proportion of female directors to total board members. We followed previous studies, Kabir et al. (2023), Nadeem et al. (2020), and Pandey et al. (2023), and employed the BLAU diversity index to measure board gender diversity, which factors in the proportion of males and females. The BLAU index is calculated as follows;

$$BLAU\ Index = 1 - \sum_{i=1}^{2} P_i^2$$

Where i = (1, 2) gender categories (i.e., male and female) and P_i is the proportion of each gender (male and female) on the board.

Table 6 shows the results of board gender diversity measured by using the BLAU index influence on financial performance. Our results are consistent with the regression results when we measured diversity as a proportion of female directors to the total number of directors on the board. Models 1 and 2 confirm that the presence of female directors on the board positively and significantly influences financial performance at a 5% significance level. Model 3, which includes interaction, shows an improved positive coefficient, which is significant at the 1% significance level. Model 3 confirms the negative moderating role of CEO experience on the relationship between board gender diversity and financial performance, which is significant at 5%. These results are consistent with our baseline analysis in Table 4, which employed the proportion of female directors on the board to measure board gender diversity. We tested this model for multicollinearity[2]; the results show the highest VIF of 1.66, while the average VIF was 1.32. Therefore, our results are robust when comparing alternative measures of board gender analysis.

[2] We thank the anonymous reviewers for highlighting this matter to improve the robustness analysis.

Table 6. Regression Results: Alternative Diversity Measure

Variables	Model 1 ROA	Model 1 ROA	Model 3 ROA
BLAU	0.096**	0.113**	0.165***
	(-2.21)	(-2.589)	(-3.398)
CEO Experience		0.041**	0.102***
		(-2.527)	(-3.366)
BLAU*CEO Experience			-0.161**
			(-2.366)
CEO Tenure	-0.007	-0.009	-0.01
	(-0.933)	(-1.219)	(-1.266)
CEO Duality	0.139**	0.142**	0.145***
	(-2.492)	(-2.572)	(-2.651)
Board Independence	0.053*	0.064**	0.058**
	(-1.851)	(-2.213)	(-2.043)
Board Size	-0.082*	-0.091*	-0.102**
	(-1.719)	(-1.914)	(-2.150)
Board Meetings	-0.045**	-0.046**	-0.041*
	(-2.052)	(-2.133)	(-1.897)
Leverage	-0.204***	-0.217***	-0.216***
	(-5.263)	(-5.598)	(-5.613)
Firm Size	-0.066***	-0.068***	-0.056**
	(-2.887)	(-3.026)	(-2.446)
Ownership Concentration	-0.181	-0.151	-0.123
	(-1.117)	(-0.938)	(-0.767)
Auditor	-0.063**	-0.069**	-0.070**
	(-2.109)	(-2.340)	(-2.377)
Constant	1.236***	1.264***	1.120***
	(-4.806)	(-4.955)	(-4.306)
Year FE	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
N	325	325	325
Adjusted R^2	0.026	0.044	0.06
R^2	0.161	0.18	0.196

t-statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

5.0 DISCUSSION

Our results support the significance of board diversity. The presence of female directors is significant to the financial performance of listed companies in East Africa. These findings align with Assenga et al. (2018), who found that gender diversity on the board positively influences the financial performance of companies listed at DSE. Our findings also align with Toerien et al. (2023), who found that gender diversity influences ESG disclosure of South African-listed entities. Our results agree with Farag & Mallin (2017), who found that the presence of female directors improves financial performance by reducing bank vulnerability to the financial crisis. Our findings also agree with those of Carter et al. (2003), who found a significant relationship between board diversity and firm value.

Our findings align with those of Lückerath-Rovers (2013), who found that boards with female directors perform better than boards without female directors. We also support the conclusions from Taljaard et al. (2015), who argued that gender diversity on the board is associated with improved share price performance. Our results also disagree with Magoma et al. (2024), who reported that gender diversity is negatively associated with the financial performance of East African listed banks. We are also against Carter et al. (2010), who found no significant relationship between gender diversity and financial performance in United States corporations. Our findings disagree with those of Mothapo et al. (2024), who reported that the appointment of female directors is negatively associated with market reaction to their appointment. Our results support the agency theory argument on corporate governance significance, especially when accompanied by gender diversity.

CEO experience, our moderating variable, shows a positive relationship with financial performance, aligning with Hazzaa et al. (2024) and Saidu (2019). When a company seeks succession, they prefer a CEO with prior experience due to the advantages embedded in prior experience as a proxy role that predicts future performance (Hildebrand et al., 2020). However, our results show that the interaction between gender diversity and experience weakens financial performance. These findings suggest that a CEO's experience does not always hold water (Hamori & Koyuncu, 2015). This might be because an experienced CEO might rely more on their prior experience and ignore board inputs. Our findings support the upper echelons theory argument on the attributes of the top management team, its influence on corporate strategic choices, and how they impact firm performance.

Our results support agency theory on the crucial role of corporate governance in mitigating the conflict of interest between shareholders and management (Jensen & Meckling, 1976). However, our study adds to the concept of corporate governance by emphasizing the crucial role of board diversity. Results show that board diversity positively influences a company's financial performance. Therefore, for better board performance, shareholders and the nomination committee should embrace board gender diversity. Our results do not support the critical mass theory (Kanter, 1977). We found that board gender diversity influences financial performance in East African listed companies, as it should not exceed 30 percent of the board composition. This can be related to female risk-averse behaviour (Haque et al., 2024). However, sometimes companies need to make risky decisions to achieve high profitability.

We emphasize the appropriate mix on the board to bring diversity, but not too many female directors. EU countries require 40% female representation on large corporate boards (Lefley & Janeček, 2024; Rose, 2007). However, this does not hold in East Africa. These findings are important for policymakers in the East African stock exchange market to formulate policies on gender diversity. Shareholders, who in most cases appoint directors, should consider the board diversity aspect to achieve the company's objectives of shareholders' wealth maximization. This is very important due to African investors' perception of female directors. For instance, Mothapo et al. (2024) found that appointing female directors negatively influences the market value of listed companies in South Africa.

6.0 CONCLUSION

This research explores the relationship between board diversity and the financial performance of East African listed companies. The study involved 36 nonfinancial companies from the East African Stock Exchange. Our results show that the presence of female directors positively and significantly influences financial performance. This finding outlines the importance of gender diversity on the board, especially from an African perspective, where women are still marginalized. These findings also support the argument of risk-averse attributes attached to women because the additional analysis results do not support the critical mass theory (Kanter, 1977; Oliver et al., 1985). We encourage board gender diversity, but it should be taken at the appropriate rate, mostly not more than 30 percent. However, it should be noted that the CEO's prior experience weakens the influence of board gender diversity on the financial performance of East African listed companies. This is because a CEO with previous experience in the office may rely too much on expertise when making decisions and ignore diverse board inputs. This is an essential insight for companies, suggesting that board diversity would work better with a less experienced CEO.

Our study makes several contributions. First, we contribute to corporate governance literature, especially board gender diversity. Companies are less likely to milk the board’s gender diversity advantages if working with a CEO with prior experience. Second, we contribute theoretically to agency theory, emphasizing corporate governance to reduce the conflict of interest through a diversified board in East African listed entities; critical mass on the number of female directors in the East African context, but also upper echelons theory, top management team attributes through CEO experience. Third, we inform shareholders on the crucial role of board gender diversity, its contribution to financial performance, and when it works best. Lastly, we inform policymakers

on the importance of diversity and the significance of policies emphasizing diversity to improve the financial performance of listed entities in East Africa.

Our study was limited by the few companies listed on the East African Stock Exchange markets. Several companies are listed, but their annual reports are not publicly available. We argue that stock exchange markets in East Africa should have strong regulations concerning annual report publications for listed companies. Regardless of the challenges, we managed to cover more than 50% of the listed companies in East Africa. Future studies can investigate the board diversity and sustainability performance of East African listed firms and the impact of ownership concentration on board diversity and the performance of listed companies in East Africa.

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