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Internal Corporate Governance Mechanisms, Regulatory Framework And Financial Performance Of Cross-Listed Companies At East African Community Region

Titus Mutambu Mweta, Dr. Ambrose Jagongo And Dr. Festus Mithi
[1] *Phd Candidate, Department Of Accounting And Finance, School Of Business, Economics And Tourism, Kenyatta University*
[2] *Senior Lecturer, Department Of Accounting And Finance, School Of Business, Economics And Tourism, Kenyatta University*
[3] *Lecturer, Department Of Accounting And Finance, School Of Business, Economics And Tourism, Kenyatta University*

Abstract
Purpose of the Study: *This study investigated the influence of the regulatory compliance index on the internal corporate governance mechanisms and financial performance interactions. It was based on the ideas of agency, stewardship, stakeholders, and resource dependence theory.*
Statement of the Problem: *Despite EAC region partners investing heavily to improve market infrastructure and promote securities integration, the companies cross-listed in these markets have recorded significant decline in financial performance with dwindling liquidity and profitability evidenced by the increasing number of profit warnings issued, closed operations, securities markets suspensions, mergers & acquisitions, demergers and portfolio restructuring & reorganizations.*
Methodology: *This study was grounded in the positivistic research philosophy. Explanatory non-experimental research design was used. A total of 9 companies cross-listed were picked to form the sample size through purposive sampling. This study employed secondary panel data extracted from the audited consolidated annual reports from 2013 to 2022. Diagnostic tests were performed to validate adherence to the principles of the classical linear regression model. Data was analyzed with descriptive and inferential statistics. The Whisman and McClelland (2005) moderation procedure was employed to investigate the effect of the regulatory framework.*
Results: *The Feasible Generalised Least Squares panel multiple regression analysis yielded significant evidence of a direct connection between independent directors, executive directors' remuneration, executive director's shareholding, and both ROA and Tobin Q. The findings of this study documented that the regulatory framework plays a crucial role in influencing the correlation between executive directors' compensation, executive director's shareholding, and ROA. Nevertheless, the regulatory compliance index does not have a statistically significant effect on independent directors, and ROA correlations.*
Recommendations: *This study proposes as follows for policy; the capital market authorities, central banks, and insurance regulatory authorities should work together to develop, improve and administer the regulations and guidelines on board independence to bolster the significance of board autonomy, boost transparency, enhance decision-making, and protect shareholders' assets.*
Keywords: *Corporate governance, regulatory frameworks, financial performance, cross-listed, moderator variable, east African community region*

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I. Introduction

Economic integration has grown tremendously over the world with countries forming trading blocs to spearhead their growth and development (Irving, 2005). The East African Community is a collaboration of six independent nations including Tanzania, Uganda, Kenya, Rwanda, Burundi, and South Sudan (CFA Institute Research Foundation, 2022). It stands at a critical turning point, and it has a mandate to promote the company’s growth, regulate, supervise, and open avenues for trading within the region (East African Community Report, 2016). The EAC capital markets have made commendable improvements over the years. This transformation has contributed to relatively high growth and increasing financial performance although not as expected. Increasing investor training, automation of trading, and regulations has stimulated interest in investment in the markets (East African Community Report, 2016).

The worldwide wave of privatization, increased reforms in the retirement authority, the increase in personal savings, increased takeovers, deregulations, and integration of capital markets, and evolving public company’s operating environment has become more complicated for investors, owners, board members,

shareholders, and other stakeholders increasing their expectations and analysis of company's performance (Becht, Bolton & Rosell, 2002). Financial performance is a critical element for every business and highly considered in financial management that has triggered serious attention from researchers, the community, and the managers of companies. Poor financial performances due to internal corruption and financial irregularities in private and public corporations across the world have largely contributed to corporate failures such as (CMC Motors, 2011; Mumias Sugar, 2015; Volkswagen, 2015; Uchumi Supermarket, 2016; Dick Smith, 2016; Sports Direct, 2016; Carillion, 2018 and Wirecard, 2020 and others). The global business environment has dramatically changed due to the financial challenges experienced globally from 2007-2009 with global companies pursuing emerging markets to expand and grow their businesses. The failure of Banco Espirito Santo Portugal-based commercial bank in 2014 due to financial irregularities and precarious financial situation, Wirecard in Germany in 2020 which was declared insolvent due to rampant accounting malpractices, Dick Smith in Australia whose share value reduced by 80% in 2016, closure and withdrawal of companies such as Target's, DIY US based company and Walmart another American retail giant was largely attributed to the unfriendly business environment, cultural differences, poor marketing strategy, poor timings, and high taxation which exposed weaknesses in corporate boards decision making which largely contributed to the companies downfall (Seale, 2020).

Decreased financial performance, declining profits, and liquidity problems were resulting to corporate failures in companies within the East African Community such as the Euro Bank in 2003, Daima Bank in 2005, Kiwira and Meremeta mining company, Richmond Development Company (RDC), Dowans Electricity Company (DEC), EPA in Tanzania, and Trust Bank Uganda in 1999 which was largely attributed to inadequate control systems and poor corporate governance, internal trading among the directors and shareholders (Cheserek 2007 & Fulgence, 2014). According to Capital Market Authority (CMA) Report (2018), at least eight firms such as Uchumi Supermarkets, Athi River Mining, and Mumias Sugar Company share prices significantly dropped below the par value risking investors' wealth. The decline in performance was largely attributed to liquidity and corporate governance challenges. In 2019, Kenol Kobil was suspended from trading at NSE due to insider trading allegations. According to the corporate governance report (2019) released by CMA, 13% of listed cross-listed companies such as Uchumi supermarket, National Bank, Transcentury, and Kenya Airways recorded significant corporate governance issues related to fraud, lack of board supervision, non-disclosures, and lack of transparency. The success of a firm doesn't solely depend on its efficiency, innovation, and quality of management. The consistency in poor financial performances trend reported more stable nations, emerging markets, and upcoming countries largely contributed to the adoption and reforms in corporate governance mechanisms to avert company failures and safeguard shareholders' interests (Tadesse, 2004). Adoption of effective corporate governance mechanisms, increased wave of regulations, increased costs and complexity of monitoring and managing businesses largely contribute to increasing owner's wealth by managers and prevent and control similar problems in the future (Tadesse, 2004).

Statement Of The Problem

Despite EAC region partners investing heavily to improve market infrastructure and promote securities integration, the companies cross-listed in these markets have recorded significant decline in financial performance with dwindling liquidity and profitability evidenced by the increasing number of profit warnings issued, closed operations, securities markets suspensions, mergers & acquisitions, and restructuring (CMA & CMSA, 2022). Average ROA has consistently been declining from 2013-2022 (CMA & CMSA, 2022). Some studies relating to independent directors and financial performance support a direct relationship between the variables (Arora & Soni, 2023; Mihail and Micu, 2021) while other studies support indirect association (Mishra, 2023; Onong, Nasih, Anshori & Harymawan, 2022). Studies such as (Rehman et al., 2021; Soni & Singh, 2020) support directors' remuneration and financial performance positive interactions while others such as (Sharmin et al., 2020 and Md Zain, 2019) reported inverse relationship between the variables. Some studies such as (Saidu & Gidado, 2018; Sani, 2020) reported an inverse association between executive director's shareholdings and financial performance while (Ogabo, Ogar & Nuipoko, 2021) reported a direct association between the two variables. Typically, most studies on corporate governance mechanisms and the effect of regulatory frameworks were conducted in developed and emerging markets. Within developing markets, namely in East African nations, most of the research primarily examined direct association of internal CG mechanisms and financial performance, neglecting the exploration of moderator variable effect on the connectedness between financial performance and corporate governance. To improve the efficacy and efficiency of CG procedures, this study used a holistic methodology by looking at how regulatory frameworks affect the interactions between CG frameworks and financial performance. Specific criteria or stand-alone factors were utilized to assess financial performance. This research acknowledges the significance of considering several indicators of financial performance due to their distinct responses to corporate governance procedures. Financial performance was evaluated by utilizing the financial metric of ROA and Tobin's Q which indicates the market value. Prior studies tend to concentrate on a single sector or a specific area of the market. This research focused on firms that are cross listed in the EAC region. This study investigated

the effect of internal corporate governance mechanisms and regulatory framework on the financial performance of companies listed in the East African Community Region.

Research Objectives

i. To establish the association between independent directors and financial performance of the publicly cross-listed companies at the East African Community Region.
ii. To establish the association between executive director's remuneration and financial performance of the publicly cross-listed companies at the East African Community Region
iii. To determine the association between executive director's shareholding and financial performance of the publicly cross-listed companies at the East African Community Region.
iv. To assess the regulatory framework moderation effect on the association between internal corporate governance mechanisms and the financial performance of the publicly cross-listed companies in East African Community Region.

Research Hypothesis

i. ***H₀₁:*** Independent directors do not have a significant association on financial performance of the publicly cross-listed companies at the East African Community Region.
ii. ***H₀₂:*** Executive director's remuneration does not have a significant association on financial performance of the publicly cross-listed companies at East African Community Region.
iii. ***H₀₃:*** Executive director's shareholding does not have a significant association on financial performance of the publicly cross-listed companies at East African Community Region.
iv. ***H₀₄:*** Regulatory framework does not significantly moderate the association between internal corporate governance mechanisms and financial performance of the publicly cross-listed companies in the East African Community Region.

Theoretical Review

Agency Theory

"Agency theory" was originally proposed independently and concurrently by (Stephen Ross & Barry Mitnick, 1973). This theory is embedded in the agency association and management of self-interest, where shareholders assign management to perform their work (Alchian & Demsetz, 1972; Eisenhardt, 1989). The assumptions of this theory can be traced in the arguments of (Adams & Smith, 1976) that you can't expect directors or managers to be more careful & caring about other people's money as would if it belongs to them. Conflict due to divergence of ownership and control is experienced when management fail to maximize shareholder's returns due to an increase in expenses that are not incurred when the owners and managers are the same (Berle & Means, 1976). This theory was employed in this study to support and provide a foundation for the analysis of financial performance. Agency theory assumptions suggest that effective CG procedures can harmonize executives and corporate board members' interest with those of shareholders. This alignment promotes operational efficiency and optimal allocation of resources within the firm, ultimately leading to improved financial performance and increased returns for shareholders. This hypothesis also advocates for the correlation between independent directors and financial performance.

Stakeholder Theory

Freeman (1989) developed stakeholder theory which claims that in the world of today, managers are said to have an association that is implied with shareholders and other outside parties or stakeholders. Managers' provision of information is more useful to many users within and without the organization including shareholders and other stakeholders because through full disclosure stakeholders have continuous access to information that is critical that the firm might control (Hill & Jones, 1992). It serves as the primary factor influencing corporate policies, encompassing both corporate governance procedures and financial performance. This theory also explains the function of independent directors and auditors in ensuring that the board is independent, increases transparency, and independent auditing that instills confidence among stakeholders.

Resource Dependence Theory

Pfeffer (1972) founded this theory. Pfeffer argued that corporate boards do enable companies to gain resources and minimize dependence by explaining how the reduction of environmental interference to minimize uncertainties in organizations is done. Pfeffer (1972) used this theory to investigate the performance of company boards by majorly focusing on the size of the boards and composition and structure of ownership as the key indicators of ability in ensuring critical resources are provided. Kor and Misangyi (2008) confirmed that resource dependency theory helps to comprehend how entities boards affect financial performance through the efficient allocation of available resources. The resource-dependence approach highlights the importance of recruiting

independent directors to strengthen and safeguard the company from unexpected influence, thereby reducing anomalies and the risk of resource co-option. This, in turn, enhances the organization's capacity to enhance its recognition, status, and fundraising capabilities.

Stewardship Theory

Davis, Schoorman, and Donaldson (1997) started and defined it as one in which a steward maximizes and protects the wealth of shareholders through the performance of firms because when shareholder's wealth increases the utility functions of stewards are maximized. Management and executive directors are stewards working to safeguard shareholders investments and increase profitability. It assumes that stewards are satisfied when an organization is successful (Donaldson & Davis, 1991). This theory also underpins executive director's remuneration which is linked to financial performance because if the board of directors and managers perform their responsibilities as required by shareholders to protect their wealth and increase profitability, their payment or remuneration in the form of salaries, fees, bonuses, and allowances for the services provided is expected to increase as a reward for a good performance.

Empirical Review

Independent Directors and Financial Performance

In a study conducted by Mishra (2023), the aim was to analyze independent directors and financial performance interactions in all publicly traded companies in India from 2003 to 2019. The findings indicated an indirect connection of the proportion of autonomous directors and financial performance. This study failed to recognize the influence of moderating variables. This study investigated how the regulatory environment affects interactions of independent directors and financial performance, with a specific focus on the interaction effect. This study was undertaken in growing markets, and its findings cannot be replicated in growing nations. This study research was undertaken in developing nations within the East African Community (EAC) region.

Arora & Soni (2023) conducted a study utilizing dynamic longitudinal data spanning from 2013 to 2019 to analyze the effect of board independence on the financial performance of 442 companies in India. The report shows that companies with a bigger percentage of autonomous directors, particularly those over 50%, see a substantial influence on their financial performance. The previous study was undertaken in emerging markets, while the present study was conducted in underdeveloped countries, enabling the findings to be extrapolated. The study originally focused on a particular segment of the market, but the revised analysis will include all public entities on several stock exchanges within the East African Community (EAC) region. The analysis did not account for the impact of a moderating variable on the correlation between board independence and financial performance. This study investigated the impact of the legislative framework on the correlation between CG systems, namely the autonomy of corporates oversight body, and the financial performance of corporations listed on several stock exchanges.

The study conducted by Onong, Nasih, Anshori, and Harymawan (2022) investigated the how independent directors and commissioners influence financial performance of public entities on the Indonesia Stock Exchange from 2010 to 2017. The study utilized the ordinary least squares model. The study revealed that companies suffer from a detrimental effect on their performance when they have independent commissioners and directors that had political affiliations. The study was done in emerging markets, specifically in EAC countries, to apply the findings. This study employed a distinct sample size to examine a particular market segment, while the present study examined all enterprises operating in the EAC region that are cross listed.

Executive Director's Remuneration and Financial Performance

Rehman et al. (2021) undertook research on executive remuneration and corporates performance based on 860 quoted non-monetary firms in China from 2004 to 2018. The study reported a direct association between executive remuneration and profitability. This research was undertaken in a developed country; this research was undertaken in developing countries. The parameters comprised of non-monetary firms, however this research focused on both financial and non-monetary companies. This research was undertaken in one segment of the market, this research was carried out in all sectors of the securities exchange.

Soni and Singh (2020) undertook a study to understand the interaction between directors' remuneration and performance both in short and long run period based on 30 quoted companies in India from 2002 to 2019 reported a tremendous increase in director's remuneration for the period with a significant change in remuneration composition with fixed components increasing for the last five years and variable components declining. The results also indicated that there exist short-term interactions between remuneration to directors and a firm's performance. This research was undertaken in emerging economies, this research was carried out in developing countries. This study considered several parameters (sample) which are subject to sampling errors, however the current study considered all cross-listed firms. This study investigated short-term associations between the variables. This research enriched empirical literature by analyzing the long-term interactions between a director's

compensation and performance. The study addressed one segment of the market; this research focused on different segments within the EAC region.

A study on director incentives using director's remuneration as a proxy was conducted by (Sharmin et al., 2020) using a generalized method of moments focusing on 140 listed textile companies in the Dhaka Stock Exchange from 2011 to 2017 reported an inverse interaction between executive remuneration and companies' performance. It was based on a single segment of the market; this research focused on different segments within the EAC region. This research was undertaken in developed countries, this research was conducted in developing countries. The current study was analyzed using panel data models. The current study considered regulatory framework moderation effect on executive remuneration and companies' performance interactions.

Executive Director's Shareholding and Financial Performance

In a study undertaken by Sani (2020), the correlation on the ownership of executive directors and the financial performance of Nigerian listed companies was investigated. The analysis employed panel-balanced data from 71 public entities, covering the time frame from 2012 to 2018. The study's findings validated the existence of an inverse or detrimental correlation between the shares subscribed by management and performance interactions. The effect of autonomous board moderation on the shares acquired by managers and the performance was direct, although statistically insignificant. The study specifically targeted a particular niche within the market. The present study specifically examined various divisions within the East African Community (EAC) region. The present investigation extended the duration of the study to a period of 10 years, considering the existing data. This study employed the concept of board autonomy as an internal indicator of CG. The degree of autonomy of the board may be closely linked to the management fraction of shares. Nevertheless, the reliability of these results is uncertain due to the limited evidence supporting diagnostic approaches such as multicollinearity. This variable was unsuitable for moderation. This study investigated the role of the regulatory framework as a moderator variable.

Ogabo, Ogar, and Nuipoko (2021) investigated the effect of the shareholding ownership on the performance of 48 companies listed in the United Kingdom's FTSE. Data was gathered from panels spanning the years 2008 to 2018. ROA, Tobin Q, and ROE served as metrics for assessing financial success. The study discovered a clear and substantial correlation between the shares purchased by company executives and the performance of the firm. This research was undertaken in developed markets, unlike the current study that was carried out in developing markets within EAC region. This research was undertaken in one segment of the market, this research was conducted in different markets within EAC region. The current study considered the regulatory framework moderation effect on the association among the variables.

Internal Corporate Governance, Regulatory Framework and Financial Performance

Daidai and Tamnine (2022) undertook a study on CG code influence on the management practice of quoted firms in Morrocco using panel sample data of 54 non-monetary companies from 2013 to 2022 found that publicly quoted firms have greatly adhered to the governance code. Further, the results affirmed that there exists an inverse interaction between code compliance, the evolution of codes, and accounting and earnings management while governance code compliance and quality of reporting recorded a positive association. This study was based on one sector of the market non-monetary companies, this work was based on both financial and non-monetary companies cross-listed within EAC markets.

Tariq, Ejaz and Bashir (2022) studied corporate governance codes impact based on 11 economies selected based on GDP growth rate in Asia and United Nations corporate governance guidelines and compliance level of 15 non-monetary companies in each country with set guidelines. The findings indicated that Pakistan and the Philippines corporate governance codes have higher percentage of adherence to the UN corporate governance guidelines while India and China are ranked low on based on scores compliance. Malaysian, Indonesian, Indian, and Chinese recorded the highest compliance towards the United Nations requirements on CG compared to their national corporate governance codes. This research was undertaken in emerging economies, this research was carried out in developing countries within EAC markets. This study was based on a sample selected on GDP growth rate; this research included all cross-listed companies within EAC region.

A study by Aluchna and Kuszewski (2021) on corporate governance best practices compliance using a time series sample of 126 firms cross-quoted at the Warsaw Stock Exchange from 2006 to 2019. The findings show an increasing number of company compliance which contributes to increased compliance quality and increasing length of conformity to corporate governance codes. This study used time series data, this research used panel data to expand data points and observe the changes over time. This study was based on a sample that is pruned to sampling errors; this research focused on all cross-listed companies trading at EAC region. This research was undertaken in one segment of the market, this research was based on an EAC trading block comprising 4 listed securities.

Conceptual Framework

Figure 1 shows conceptual model used to analyze the connectedness between internal CG mechanisms, as indicated by the number of independent directors on the corporate board, the salary of executive directors, and the fraction of shares held by executive directors all serve as indicators of the internal procedures. The model also employs two more indicators to assess financial success that's Tobin's Q and ROA. The regulatory compliance index served as the moderator variable in the analysis of how ICG mechanisms affected financial performance.

Research Methodology

This study adopted positivistic research philosophy. This philosophy depends majorly on quantifiable observations that involve the application of scientific tools. As suggested by Orlikowski and Baroudi (1991) that positivistic is used where there are hypothesis testing, measurable variables, and general application of findings from the sample to the entire parameters in the population. To explain CG mechanisms and the financial performance interactions of cross-quoted firms in the EAC region, this study used an explanatory-nonexperimental research design. Saunders et.al, (2009) & Robson (2002), the explanatory research design is used to investigate whether a causal association exists between two or more variables. This study employed quantitative secondary data. The obtained data consisted of longitudinal data for the years 2013-2022. For the 10 years study period that's 2013 to 2022, only nine (9) out of eleven (11) companies targeted remained cross-listed in different securities/stock exchanges. Some two (2) companies that's Kenya Airways and Uchumi supermarket were suspended from trading at securities/stock exchange in 2018 due to CG and liquidity problems because of significant decline in earnings and share price drop which made it difficult to meet minimum regulatory requirements and financial obligations. To support collection of balanced panel data, this study adopted a purposive sampling approach for cross-listed companies at different securities/stock exchanges.

General Model

The general empirical model was:

$FP_{it} = \alpha + \beta_1 X_{it} + E_{it}$……………………………………………………………………...(3.1a)

This equation was transformed by defining $E_{it} = V_i + U_{it}$ as shown below

$FP_{it} = \alpha + \beta_1 X_{it} + V_i + U_{it}$ ………………..…………………………………………………(3.1b)

Where:

FP_{it} is the financial performance (response or dependent variable) of the company *i* at time *t, i* represents companies (1… 9 cross-listed) while t is the time t = 2013… 2022. X_{it} is the independent variable, β_1 is the expected value of coefficient, α is the constant term, V_i *is* the heterogeneity effects, U_{it} denotes idiosyncratic disturbances and E_{it} is the residual errors.

Equation 3.1 was extended to develop equations 3.2 & 3.3 to estimate coefficients that was used in examining hypotheses one to six investigating internal CG mechanisms and financial performance interactions as follows:

$FPi_1t = \alpha + \beta_1 ID_{it} + \beta_2 EDR_{it} + \beta_3 EDS_{it} + E_{it}$………………………………………………(3.2)

$FPi_2t = \alpha + \beta_1 ID_{it} + \beta_2 EDR_{it} + \beta_3 EDS_{it} + E_{it}$…………………………………………… .(3.3)

Where:

FPi_1t = Financial performance measure of the company = Return on Asset at time *t*

FPi_2t = Financial performance measure of the company = TOBIN Q at time *t*

α = Constant or intercept, ID_{it} = Independent directors of the company i at time t, EDR_{it} = Executive director's remuneration in the company *i* at time *t,* EDS_{it} = Executive director's shareholding in the company *i* at time *t,* β^{s} = Coefficients of independent variables and E_{it} = Composite error terms.

Moderation Test

Whisman and McClelland's (2005) moderation test assessed the regulatory framework moderation effect on CG mechanisms and financial performance interactions. In step one the regulatory compliance index was entered as a predictor or explanatory variable and in step 2 as a moderator variable. This study specified equations 3.4, 3.5, 3.6 & 3.7 as follows:

STEP 1: Regulatory compliance index as an independent variable

$FPi_1t = \alpha + \beta_1 ID_{it} + \beta_2 EDR_{it} + \beta_3 EDS_{it} + E_{it}$……………………………………………………………(3.4)

$FPi_2t = \alpha + \beta_1 ID_{it} + \beta_2 EDR_{it} + \beta_3 EDS_{it} + E_{it}$……………………………………………………………(3.5)

STEP 2: Regulatory compliance index as a moderator variable

$FPi_1t = \alpha + \beta_1 ID_{it} + \beta_2 EDR_{it} + \beta_3 EDS_{it} + \beta_4 RCI_{it} + \beta_5 ID_{it} * RCI_{it} + \beta_6 EDR_{it} * RCI_{it} + \beta_7 EDS_{it} * RCI_{it} + E_{it}$……………………………………(3.6)

$FPi_2t = \alpha + \beta_1 ID_{it} + \beta_2 EDR_{it} + \beta_3 EDS_{it} + \beta_4 RCI_{it} + \beta_5 ID_{it} * RCI_{it} + \beta_6 EDR_{it} * RCI_{it} + \beta_7 EDS_{it} * RCI_{it} + E_{it}$……………………………………(3.7)

Where:

FPi_1t = Financial performance measure of the company = Return on Assets at time *t*

FPi_2t = Financial performance measure of the company = TOBIN Q at time *t*

RCI_{it} = Regulatory compliance index of the company i, at time *t*

II. Results And Discussions

Descriptive Statistics

A succinct summary of descriptive statistics is provided in table 1, which also includes the average or mean, variability measure-standard deviation, minimum values and maximum values for several variables, including return on assets, Tobin Q, independent directors, compensation of executive directors, shareholding of executive directors, and regulatory framework.

Table 1 indicates the average ROA for the 90 values in the data set was 0.05724, with a variability of 0.04609. The observed values ranged from -0.01250 to 0.22135, which were the lowest and highest values respectively. The negative minimum number implies that some organizations saw a declining trend and most likely reported losses, however the positive mean shows the positive performance trend of respectable enterprises. Tobin Q, which measures a company's financial performance, had a mean return of 0.80362. Its greatest value was 1.8479, and its minimum value was 0.27599. Its standard deviation was 0.26932. Tobin Q's positive value suggests that most enterprises experienced significant success. However, a score as low as 0.27599 implies that certain businesses may still be having difficulty raising their profits. Table 1 data indicated that the independent directors' average was 0.71550, or 71.550%, with a 0.15848 standard deviation.1. 25% was the lowest and 90.909% was the highest number that was discovered. The 71.550% mean average of the company's corporate boards shows that board members who are independent make up most of the board members. The board’s current structure empowers them to take independent actions that improve the operation of the business. If the percentage is at least 25%, then a sizable fraction of the organizations board is made up of executive directors, who hold the primary position. The average value of 1.214% of all shares, or the executive director's shareholdings, is shown in Table 1. With a variability of 0.01923, we can determine the distance the data is to the mean. 0.09624 is the largest figure ever recorded, while 0.0003708 is the smallest. An executive director's typical ownership interest is still quite small in certain companies. Some companies have both executive directors and stockholders, according to the highest percentage of 9.624%. This approach greatly enhances performance by helping shareholders align their interests with those of managers. The regulatory framework's average was 0.80714, with a 0.16843 standard deviation. The range was as high as 1, or 100%, and as low as 0.28571, or 28.571%. Most businesses have complied with the law, as shown by their average compliance rating of 80.714%, with a low compliance rate of 28.571% and a highest compliance score of 100%.

Hausman Tests

To validate either Fixed Effect or Random Effect Model using return on assets as response variable was chosen based Hausman specification tests. The no-difference hypothesis investigated was that the model follows random effect model. The fixed effect model is selected if the significance level is 0.05 or less, which supports the alternative hypothesis. When the Hausman test was conducted at a significant level of 5%, the results showed a chi-square value of 62.99 and a p-value of 0.0000. At a significance level of 5%, the findings show that the chi-square value=62.99 was statistically significant ($p<0.05$). Consequently, the researcher rejected the null hypothesis that the random effect model is preferable than the fixed model when using return on asset (ROA) as the response variable.

To validate either Fixed or Random Model using TOBIN Q as response variable, Hausman specification tests were performed. Whether the variable model is preferable to the fixed effect model was the no-difference hypothesis that was investigated. If the constant model is selected, the alternative hypothesis is accepted if the p-value < 0.05. At 5% significance level, the Hausman test chi-square value was 32.27, p-value = 0.0001<0.05. The findings show that, at a significant level of 5%, the chi-square value produced was favorable. The researcher disproved the null hypothesis, which states that when using Tobin Q as the response variable, the random model is adopted.

The Hausman test results led to the adoption of fixed effect model. The researcher conducted a time fixed effect test to verify whether time-fixed effects are present. If the dummy variables corresponding to the years

under study are zero, the time-fixed effects verify this. If the dummy variables equaled zero, an F-test was run to evaluate if the fixed effects (FE) or ordinary least squares (OLS) model should be employed. The no-difference test states that the data did not contain any fixed effects. The report indicated the presence of fixed effects in the information. Table 4 shows that the ROA chi-square value was 7.90, which translates to a 0.0000 p-value. This chi-square value was statistically favourable at 5% significance level. The chi-square results for the Tobin Q model were 7.52, with a p-value of 0.0000, according to appendix 7. This implies that the chi-square test was statistically significant at the 5% level of significance. The argument that there were no fixed effects in the data was refuted by the null hypothesis. The investigation's findings demonstrate the continuous panel effects of Tobin's Q and return on assets (ROA). This study accounted for fixed effects by replacing the ordinary least squares (OLS) model with a fixed effect model.

FGLS with ROA as the dependent or response variable

This study tested several hypotheses regarding financial performance of cross-listed entities in the EAC region and independent directors, executive directors' compensation, and their shareholding all based on ROA as the dependent variable as shown below.

In relation to hypothesis i, the panel regression results indicated in table 5 above indicates that independent directors' effect on return on assets is significant with a positive coefficient of 0.055575 and a p-value = 0.045 < 0.05 significance level. The findings clearly indicate that there exists a positive significant correlation between independent directors and the ROA of cross-listed companies in the EAC region. The results further reveal that a unit increase in director's independence triggers 0.055575 increase in ROA. The independent directors' findings are consistent with agency theory proposed by Stephen, Ross, and Barry Mitnick (1973). They argued that maintaining boards independence can be used to harmonize executive and board of directors' interests with those of shareholders which leads to operational efficiency and optimal allocation of firm resources resulting in better financial performance and increased returns to the shareholders. The results corroborate with Mihail and Micu (2021); Arora & Soni (2023). These results contradict the findings of earlier studies by Mishra (2023), Onong, Nasih, Anshori, and Harymawan (2022), and Al-Saidi (2021), which indicate that there is no meaningful interaction between the components. Regarding hypothesis ii, the panel regression findings presented in table 5 revealed that executive directors' remuneration effect on ROA is statistically significant with a positive coefficient of 0.0123671 and p-value = 0.040 < 0.05 level of significance. The findings indicate that there is a direct significant association between independent directors' compensation and the ROA of cross-listed entities in the EAC region. The results further indicate that one unit increase in executive directors' remuneration contributes 0.0123671 increase in ROA. They argued that executive director's remuneration is directly linked to ROA because if the board of directors and managers perform their responsibilities as required by shareholders to protect their wealth and increase profitability, their payment or remuneration in the form of salaries, fees, bonuses, and allowances for the services provided is expected to increase as a reward for a good performance. The corroborate with the studies carried out by Rehman et al. (2021) & Soni & Singh, (2020) which reported significant association between the variables. The findings disagree with studies done by Sharmin et al. (2020) & Md Zain (2019) which recorded negative relationship between the variables.

Regarding hypothesis iii, table 5 indicated that executive directors' shareholding and ROA correlation is statistically favorable at 0.4031098 correlation coefficient with a p-value = 0.049 which is below 5% significance level. The results indicate that there exists a direct correlation between the executive directors' shareholding and ROA of cross-listed companies in the EAC region. Further, the outcome indicated that one unit increase in executive directors' shareholding leads to 0.4031098 increase in ROA. The findings support a study carried out by Ogabo, Ogar & Nuipoko (2021) which advocated for a direct association. The results in this study differ from studies carried out by Saidu & Gidado (2018), Shan (2017) & Sani (2020) that reported insignificant relationship between the variables. Table 5 indicate the Wald Chi square value of 60.03, log likelihood of 172.725 and p-value = 0.0000 < 0.05 level of significance. This means that jointly all predictor variables that includes independent directors; executive directors' remuneration and executive director's shareholding are statistically significant. This implies that jointly all explanatory variables considered in this study affect ROA which measures financial performance. The general panel multiple regression equation was as follows. ROA = α + 0.055575 independent directors + 0.0123671 executive directors' remuneration + 0.4031098 executive directors shareholding + E_{it}

FGLS using Tobin Q as the response variable.

In relation to hypothesis i, the panel regression results in table 6 indicates that independent directors' effect on Tobin Q is significant with positive coefficient of 0.4561271 and a p-value = 0.001 < 0.05 significance level. The findings show that there exists a positive connection between independent directors and Tobin Q of cross-listed entities in the EAC region. The results further reveal that a unit increase in director's independence leads to 0.4561271 increase in Tobin Q. The findings are corroborated with Mihail and Micu (2021), Niskanen (2012), and Arora & Soni (2023). These results contradict the findings of earlier studies by Mishra (2023), Onong,

Nasih, Anshori, and Harymawan (2022), and Al-Saidi (2021), which indicate that there is no meaningful interaction between the components. Regarding hypothesis ii, the panel regression findings presented in table 6 indicated that executive directors' remuneration effect on Tobin Q is statistically significant with a positive coefficient of 0.1733399 and p-value = 0.000 < 0.05 level of significance. The findings indicate there exists a direct significant association between independent directors' remuneration and the Tobin Q of cross-listed companies in the EAC region. This means that one unit increase in executive directors' remuneration contributes 0.1733399 increase in Tobin Q. This corroborated with the studies carried out by Rehman et al. (2021) & Soni & Singh, (2020) which reported significant association between the variables. The findings disagree with studies done by Sharmin et al. (2020) & Md Zain (2019) which recorded negative relationship between the variables.

Regarding hypothesis iii, table 6 revealed that executive directors' shareholding and Tobin Q association is statistically significant with a positive correlation coefficient of 2.893312 and a p-value = 0.003 which is within 5% significance level. The results reported that there exists a positive significant correlation between executive directors' shareholding and Tobin Q of cross-listed companies in the EAC region. Further, the findings show that one unit increase in executive directors' shareholding triggers a 2.89312 increase in Tobin Q. The findings corroborate a study carried out by Ogabo, Ogar & Nuipoko (2021) which advocated for a direct association. The results in this study differ from studies carried out by Saidu & Gidado (2018), Shan (2017) & Sani (2020) that reported insignificant relationship between the variables. Table 6 indicate the Wald Chi square value of 135.85, log likelihood of 32.26563 and p-value = 0.0000 which is below 5% level of significance. This means that jointly all predictor variables that includes independent directors; executive directors' remuneration and executive director's shareholding are statistically significant. This implies that jointly all explanatory variables considered in this study influence Tobin Q. The general panel multiple regression equation was as follows. Tobin Q = α + 0.4561271 independent directors + 0.1733399 executive directors' remuneration + 2.893312 executive directors shareholding + E_{it}

Testing Moderation Effect

The primary aim was to investigate how the regulatory framework, as measured by the regulatory compliance index affects the financial performance of entities cross-listed at East African Community by mediating corporate governance variables and financial performance associations. The equations 3.4, 3.5, 3.6, and 3.7 are specified below based on the regression results.

Table 7 above involves testing regulatory compliance as an explanatory variable. The findings indicated that with a coefficient (B) of independent directors of 0.0689137 and p-value = 0.019, and executive directors' remuneration of 0.0133179 and p-value = 0.026 were statistically favorable at 5% level of significance. The results further indicates that with a coefficient (B) of executive director's shareholding of 0.285649 and p-value = 0.198, and regulatory compliance with a coefficient (B) = 0.0605381 and p-value = 0.194 were unfavorable at 5% level of significance. In table 7 indicate the Wald Chi square value of 62.84, log likelihood of 173.5609 and p-value = 0.0000< 5% level of significance. The regression coefficients were used to develop panel multiple regression equation 3.4 as follows. ROA = -0.6203456 + 0.0689137 independent directors + 0.0133179 executive directors' remuneration + 0.285649 executive directors shareholding + E_{it}. The coefficient of regulatory compliance 0.0605381, p-value = 0.194 was insignificant at 5% level of significance. In line with MacKinnon et.al., (2002), argued that in a case where moderator variable is statistically unfavorable, regulatory compliance index is treated as a moderator variable on corporate governance mechanisms and ROA. This requires inclusion of regulatory compliance index variable interactions effect in the model.

The findings show that regulatory framework had insignificant positive moderating effect on independent directors and financial performance associations as indicated by coefficient of 0.0036656 and p-value = 0.986 tested at 5% level of significance. At 5% level of significance, the report shows that regulatory compliance index had a significant positive influence on executive director's shareholding and financial performance connections with coefficients of 14.54496, and p-value of 0.006. Further, the regression results indicate that regulatory framework had a favorable negative effect executive directors' remuneration and ROA associations. The panel regression analysis presented in table 8 indicates the Wald Chi square value of 48.84, log likelihood of 169.237 and p-value = 0.0000 which is below 5% level of significance. The regression coefficients were used to develop panel multiple regression equation 3.6 as follows. ROA = -1.316637 + 0.0183942 independent directors + 0.0387955 executive directors' remuneration -12.87188 executive director's shareholding + 0.1500641 regulatory framework + 0.0036656 ID * RCI- 0.0507559 EDR * RCI + 14.54496 EDS * RCI + E_{it}.

The findings indicated that with a coefficient (B) of executive directors' remuneration of 0.1548526 and p-value = 0.000, and executive director's shareholding of 5.1771 and p-value = 0.000 were statistically significant at 5% level of significance. The results further indicates that with a coefficient (B) of independent directors of 0.1967834 and p-value = 0.093 was unfavorable or insignificant at 5% level of significance. The coefficient of regulatory compliance -1.177041 and p-value = 0.000 was statistically significant at 5% level of significance. In line with MacKinnon et.al (2002), regulatory compliance is treated as an explanatory variable when response

variable is Tobin Q. This requires inclusion of regulatory framework variable as a predictor variable. In table 9 indicate the Wald Chi square value of 235.80, log likelihood of 48.75444 and p-value = 0.0000 < 5% level of significance. The regression coefficients were used to develop panel multiple regression equation 3.5 as follows. Tobin Q = -4.62095 + 0.1967834 independent directors + 0.1548526 executive directors' remuneration + 5.1771 executive directors shareholding + E_{it}.

III. Conclusions Of The Study

The focus of this study was the hypothesis development, collection of data, and empirical testing of hypotheses to determine whether to reject them. These methodological considerations support the present body of information by showing that the implementation of corporate governance improves a company's financial performance, as this study has proved. This study finds that greater director independence has a positive impact on the financial performance of cross-listed companies in the EAC region, as measured by both ROA and Tobin Q. This finding contradicts the initial hypothesis, which holds that independent directors do not significantly affect financial performance. The study's findings support the agency theory's claim that increased director independence helps to minimize agency conflicts and matches management's and shareholders' interests. In response to the second hypothesis, which looks at the connection between executive director compensation and financial performance, this study discovered that executive director compensation directly and favorably affects the financial performance of the company as indicated by ROA and Tobin Q. The results support the concept of agency theory, which suggests that paying executives more would drive them and that giving them a larger stake in the company would help handle agency issues.

This study concluded that a higher executive director's shareholding had a direct or positive impact on the company's financial success as assessed by ROA and Tobin Q, based on the third hypothesis, which states that there is no significant correlation between an executive director's shareholding and financial performance. This study documented that regulatory framework moderates the relationship when ROA is used to measure financial performance, but it does not moderate the association between Tobin Q and corporate governance mechanisms when Tobin Q is used as a statistically significant explanatory variable. As a result, having an effective regulatory framework improves business financial performance and operational structures.

IV. Recommendations For The Policy And Practice

This study's findings and conclusion provide the following recommendations for the policy and practice; Firstly, it was determined that independent directors had a substantial and direct impact on the financial performance of organizations. The results of the hypothesis test revealed that an increase in the number of independent directors on boards is positively correlated with increases in enterprises' financial performance. This study proposes that capital market authorities and other policy makers such as CBK, IRA & RBA should collaborate and enhance the policy on board independence. This can be achieved by issuing regulations that provide guidelines and policies to reinforce the importance of board independence. By doing so, listed firms will be able to attract committed investors through increased transparency, improved decision-making, and enhanced protection of shareholders' wealth. The code of corporate governance highlights the need for independent directors who are appointed as executive directors adhering to legal and regulatory requirements while fulfilling their obligations.

It was determined that the remuneration of executive directors had a statistically significant impact on the financial performance of the organizations. The compensation, including wages, bonuses, and allowances, provided to executives was determined to have a substantial and beneficial impact on the financial performance of the firms. Consequently, this study portends that shareholder, acting through the board of directors, establish explicit policies and align compensation for executive directors with that of their counterparts in other companies. This approach aims to incentivize them and mitigate conflicts of interest. Providing executive directors with rich compensation can serve as an effective tactic for overseeing and regulating the actions of managers and top leadership, particularly regarding their tendency to grant themselves excessive salaries, substantial allowances, and lavish fringe benefits. This practice, however, can result in diminished returns for shareholders, who receive less dividends as a result. Finally, it is crucial for capital market regulators and policymakers to prioritize the grounding of effective corporate governance procedures, specifically in relation to the transparent disclosure of senior directors' remuneration.

Thirdly, it was discovered that the ownership of shares by the executive director had a notable and beneficial impact on the company's financial performance. There was a positive and significant correlation between the percentage of shares held by the chief executive officer, chairman, or managing directors and the financial success of the companies. Hence, this study recommends s that policy makers should establish explicit and efficient guidelines allowing executive directors and other employees to receive multiple share options. Subsequently, these individuals should have the opportunity to subscribe for shares in the company after a specified period, granting them the right to possess shares at a predetermined price. Additionally, it is crucial for

these individuals to fully disclose their ownership of shares. The opportunity to purchase shares affords customers the possibility of becoming shareholders in the company, so enabling them to reap the benefits of receiving dividends and capital gains. The strategy is to drive the company towards profitability, enabling shareholders to receive dividend payments at the conclusion of the accounting period, so enhancing overall shareholder returns.

Lastly, the study revealed that the regulatory framework had a detrimental and statistically significant impact on financial performance, as evaluated by Tobin Q. The study found that the regulatory framework, as evaluated by the regulatory compliance index, had a detrimental impact on financial performance when used as an explanatory factor. Consequently, this study suggests that policy makers should implement stringent restrictions that directly impact organizations' performance. Additionally, it is recommended that important stakeholders be actively engaged in the formulation of policy guidelines. Additionally, this study discovered that the regulatory framework plays a role in modulating the connection between corporate governance mechanisms and financial performance. This study suggests that policy makers should exercise careful consideration while formulating regulations, aiming to enhance their effectiveness in facilitating managerial functions within firms, ultimately leading to improved company performance.