Board diversity and investment decisions: Evidence from financial firms listed on frontier stock markets in East Africa

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ABSTRACT

The study evaluated the influence of board diversity on investment decisions using evidence from financial firms listed on frontier stock markets in East Africa. Covering the period 2017 to 2023, the research employed a balanced panel of 15 listed firms, making a total of 105 firm-year observations. Investment decisions served as the independent variable, while the proxy for independent variables included board gender diversity, nationality diversity, tenure diversity and financial expertise diversity. Control variables comprised board independence, board size, board meeting, audit quality, firm size and firm age. Grounded in agency theory and resource-based view theory, the study relied on secondary data extracted from published annual reports and audited financial statements, and adopted a fixed-effects regression model for analysis. The correlation analysis among the study variables ranged from -0.432 to 0.674, revealing weak to moderate associations which confirms the absence of multicollinearity concerns. Fixed-effects regression results indicated that gender diversity had significant negative impact on investment decisions, with beta coefficient of -0.0124 and p-value of 0.023. However, board nationality diversity ($\beta = 0.0108$, $p = 0.004$), tenure diversity ($\beta = 0.0310$, $p = 0.023$), and financial expertise diversity ($\beta = 1.7754$, $p = 0.004$) emerged as positive significant predictors. These findings confirm that certain dimensions of board diversity, particularly nationality, tenure and financial expertise, significantly shape firm investment decisions. The study recommends that listed firms in East Africa seeking to improve investment decisions should focus on strengthening board expertise, experience and international representation, while also ensuring effective integration of gender diversity within board processes. The study contributes to the understanding of the nuanced role of board composition in improving strategic financial decisions in emerging markets. Further research may focus on financial firms across Sub-Saharan Africa and conduct a comparative analysis between East Africa and West Africa to enhance generalizability.

Keywords: Board Diversity, East Africa, Investment Decision, Listed Financial Firms, Stock Markets

I. INTRODUCTION

Investment decisions play a critical role in enhancing firm performance and ensuring sustainable growth; yet, they are not the easiest decisions within a dynamic and rapid evolving market environment. Investors analyze every information available in the market that helps them to construct efficient portfolios that maximize returns through capital gains and regular income, while maintaining liquidity, safeguarding principal and minimizing tax burden (Bhalla, 2008). Despite firms' intentions to make prudent investment decisions, they often fail to attain optimal outcomes, resulting in either under-investment in value enhancing projects or over-investment in ventures that do not maximize shareholder value (Ahmad et al, 2021). In theory, investment decisions should be driven by the profitability and value creating potential of the available projects, with preference given to those maximizing shareholder wealth (Modigliani & Miller, 1958).

Numerous studies across different jurisdictions have documented a significant relationship between investment decisions and various determinants, including information asymmetry (Ahmad et al., 2021; Khan et al, 2025), financial restrictions (Abdeljawad et al, 2024; Fazzari et al, 1988; Kumar & Ranjani, 2018), political insecurity (Chen et al, 2011; Jens, 2017), agency conflict (Jensen & Meckling, 1976; Mclean et al, 2012; Yadav & Yadav, 2024) and ownership structure (Boycko et al, 1996; McConnell & Servaes, 1990; Tayachi et al, 2023). Previous research highlights the role of corporate governance quality on investment decisions (Chakraborty et al., 2023; Samani et al., 2025). However, many of these studies primarily emphasize on broad governance mechanisms and assume relatively uniform institutional environments, thereby overlooking specific board attributes that may differentially influence investment decisions.

Since the beginning of the 21st century, board diversity has attracted considerable scholarly and policy attention as an important aspect of effective corporate governance (Ali et al., 2021; Fidanoski et al, 2014; Mirza et al, 2020). As noted by Stein (2003), distortions in corporate investment policies largely arise from agency problems and

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financing constraints. As the principal decision-making body, the board of directors functions as the central hub for strategic deliberations and oversight (Estélyi & Nisar, 2016). This perspective is attributed to the argument that the board of directors functions as a collective organ whose members contribute diverse skills, competencies and experience that strengthen the overall board's capacity to make informed and effective decisions (Knippenberg & Schippers, 2007). Integrating the contributions of the diverse talents, experience and background of the board of directors facilitates a more thorough review of challenges, stimulates challenging questions, and enhances vigorous discussion within the senior management team. Importantly, the collective decision-making role suggests that board diversity may influence investment decisions indirectly by mitigating agency conflicts.

A multifaceted understanding of issues can transform boardroom dynamics and is likely to yield superior outcomes compared to those made in a groupthink environment (Li & He, 2023; Mannix & Neale, 2005; Marcel et al, 2011; Miller & Triana, 2009), which may lead to business failure and ruins the entire governance process (Siciliano, 1996). In retaliation to major corporate scandals such as Parmalat in Italy, HIH in Australia, Enron, and WorldCom in the United States, both policymakers and practitioners have pushed for increased diversity among board members.

Extant research has linked board diversity and varied performance outcomes, such as board diversity and firm efficiency (Ali et al., 2021; Ullah et al, 2021), firm performance and board diversity (Fernández-Temprano & Tejerina-Gaite, 2020; Khan et al., 2025; Shehata et al., 2017), financial performance and board diversity (Hosny & Elgharbawy, 2022; Vafaei et al, 2015), and board diversity and innovation (Chen et al, 2023; Makkonen, 2022). The influence of board diversity on corporate investment decisions (Ali et al., 2022; Harjoto et al, 2018; Mirza et al., 2020). However, in Africa, there is little evidence that explains the relationship between board diversity and investment decisions.

Despite their scarcity, most of these studies have inadequately examined the multiple aspects of board diversity, focusing primarily on a restricted set of attributes such as age, gender, tenure, and educational background. Moreover, the role of board of directors differs between developed economies and emerging economies due to institutional disparities, weaker regulatory enforcement, limited stakeholder and legal protection, and concentrated ownership structures (Halkos & Skouloudis, 2016; Lock and Seele, 2016; Ntim et al, 2019). These variations are likely to influence board directors' decisions (Khan et al., 2025). In the context of sub-Saharan Africa and particularly in East Africa, firms continue to experience investment challenges such as low private sector investment and limited access to long-term capital, which may be intensified by limited board diversity. In the light of these deficiencies in governance, ethical standards and legal frameworks, firms in emerging economies are generally perceived as underperforming, and the economies of the East African Community (EAC) are no exception to this trend. Thus, undertaking a study in a specific setting is highly significant for deepening the understanding of board diversity and its influence on corporate investment decisions. Therefore, this study aims to examine the influence of board diversity on investment decisions of firms listed on East Africa's stock exchange markets. It essentially explores how board diversity aspects such as gender, tenure, financial expertise and nationality influence investment decisions as suggested by the dependence theory (Ali et al., 2022; Carter et al, 2010; Wernerfelt, 1984).

This study contributes to the body of existing literature in several ways. First, the study provides the first empirical evidence from East African capital markets linking board diversity to corporate investment decisions. While the relationship between corporate governance structures and firm performance has been explored across several settings and contexts, the literature presents mixed perspectives on the association between firm performance and corporate governance mechanisms (Abdeljawad et al., 2024; Fazzari et al., 1988; Kumar & Ranjani, 2018; Magoma et al, 2024). Second, it advances the existing body of knowledge by demonstrating how multiple board characteristics jointly shape investment behavior.

1.1 Research Objective

i. To examine the effect of board gender diversity on the firm's investment decisions
ii. To examine the effect of board nationality diversity on the firm's investment decisions
iii. To examine the effect of board tenure diversity on the firm's investment decisions
iv. To examine the effect of board financial expertise diversity on the firm's investment decisions

II. LITERATURE REVIEW

2.1 Theoretical Review

The relationship between investment decisions and the board is intricate and continuously changing, and cannot be fully explained by any specific corporate governance theory (Pugliese et al., 2014). Consequently, agency theory and resource-based view (RBV) theory were adopted in the literature review and in the development of research hypotheses to explain the link between firm investment decisions and board diversity.

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2.1.1 Agency Theory

Agency theory, as developed by Jensen and Meckling in 1976 seeks to explain the relationship between a firm's managers (agents) and its owners (principals). In this framework, managers are expected to uphold shareholders' interests by making decisions that maximize firm's value (Jensen & Meckling, 1976). However, as Eisenhardt (1989) notes, the key assumption of this theory is that individuals are rational and self-interested, and that information asymmetry exists between principals and agents. It is common for managers to engage in opportunistic behavior, such as empire building, by taking advantage of the firm's resources or allocating their efforts in an inadequate manner that is not always in the shareholders' best interests. The central role played by the board of directors, which represents shareholders, is to monitor managers' decisions by stimulating transparency, accountability and ensuring they adhere to ethical standards and best practices. The research concerned with the linkage between a company's investment decisions and agency includes (Jensen,1986) and (Myers & Majluf, 1984). These studies conclude that an agency conflict arises when the agent prioritize personal interests over the interest of the principal. however, the key weakness of this theory is that it over emphasizes self-interest and opportunism while neglecting the roles of trust and cooperation.

2.1.2 Resources-Based View (RBV) Theory

The RBV theory was founded by Wernerfelt in 1984 and further refined by Barney in 1991, advocates that a firm functions as a system largely independent of external environmental settings. The main assumption of this theory is that resources are imperfectly mobile across companies, and that a company's competitive advantage is primarily driven by its unique resources. However, the theory does not provide guidance on how these resources are developed or renewed. It is argued that corporate board should ensure managers receive support across different areas to mitigate uncertainties arising from external environment (Magoma & Ernest, 2023). RBV theory focuses more on a company's internal weaknesses and strengths than external opportunities and threats (Lockett et al, 2009). A company's performance is influenced by key resources possessed by board members, including their experience, background and cognitive capabilities (Kyaw et al, 2017). These qualities shape the board's daily responsibilities and strengthen the corporate governance system in pursuit of strategic goals (Aguilera et al, 2006; Agyei-Mensah, 2023). The achievement of a firm largely dependent on the board's abilities, as directors hold primary responsibility. From the RBV perspective, the board's expertise can serve as a strategic asset, providing the firm with a competitive advantage.

2.2 Empirical Review

2.2.1 Investment Decision

From a firm's viewpoint, a cash outlay is considered as an investment of corporate resources intended to generate future cash inflows. Investment decisions primarily entail financial choices regarding the firm's non-current assets. Provided resource constraint, capital budgeting is necessary to allocated resources among competing investment opportunities (Waheed & Malik, 2019). Ideally, management should prioritize projects with positive net present values (NPVs) rather than being influenced solely by internally generated cash flows (Modigliani & Miller, 1958). On the contrary, sub-optimal investment decisions arise when managers indulge in overinvestment or underinvestment (Bimo et al, 2022). In overinvesting, managers undertake negative NPV projects or allocate resources exceeding the optimal level, whereas underinvestment occurs when managers ignore positive NPV projects or invest below the optimal value (Biddle et al, 2009).

Sub-optimal decisions can be interpreted in two ways. First, such decision is a reflection of agency problem, where managers, motivated by personal benefits, engage in empire building by investing in projects regardless of their growth opportunities (He et al, 2019; Jensen, 1986). When managerial goals diverge from those of shareholders, surplus internal cash generated in excess of what is required to maintain existing assets and finance new positive NPV projects increases the risk of inefficient resource allocation (Richardson, 2006). This behavior often contradicts the objective of maximizing shareholder value (Jensen & Meckling, 1976). Second, sub-optimal investments decision highlights capital market imperfections, whereby costly external financing makes internally generated cash flows instrumental in expanding a firm's available investment opportunities (Fazzari et al., 1988; Fee et al., 2009; Hubbard, 1998). This highlights that the quality of managerial investment decisions is affected by both competence and underlying motives, with agency conflicts possibly undermining investment efficiency (Byrd et al., 1998).

Prior studies have indicated that corporate governance mechanism is a broadly useful tool to moderate agency costs besides aligning management and owners' interests (Jensen, 1993). This chore is typically accomplished in a boardroom, where the board endorses managerial decisions and monitors their implementation. Shareholders appoint the board of directors as their representative to ensure sound investment decisions that support the firm's goal of value maximization and reduce agency costs (Mirza et al., 2020).

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2.2.2 Board Diversity and Investment Decisions

Research on corporate governance constantly underscores the need of fostering diversity in boardrooms, emphasizing the necessity for an extensive range of demographics and personality types among board members (Milliken & Martins, 1996). Such diversities facilitate each director to contribute to the firm's success by exploiting their unique knowledge, features and abilities (Knippenberg & Schippers, 2007). Since some managers may exhibit opportunistic behavior, a diverse board is better positioned to monitoring such conduct and oversee managerial activities. Previous studies have attested that investment decisions are influenced by a diversified board of directors (Ali et al., 2022; Khan et al., 2025; Mirza et al., 2020; Tingbani et al, 2020). However, most of these studies focused on limited diversity attributes, without fully exploiting the broader range of board diversity variables.

2.2.3 Board Gender Diversity and Investment Decisions

Tingbani et al. (2020) argued that increasing the presence of women on boards introduces new perspective to both decision-making process and corporate governance. Proponents of agency theory maintain that greater female representation on boards reduces agency costs and enhances board efficiency by contributing distinct skills necessary for intricate decision making that are critical to a firm's long term sustainability (Coles et al, 2008; Mori, 2014). However, previous research shows inconclusive results on the impact of gender diversity on firm performance. Some studies suggest that females are more conservative in nature and risk-averse, which may decrease their confidence in investment decisions (Dwyer et al, 2002; Graham et al, 2002; Shin et al, 2020). Loukil and Yousfi (2016) argue that women are often risk-averse, and their involvement on boards has almost no impact on the board's willingness to undertake strategic risks. Yu (2023) Finds that firms with female directors exhibit significantly higher investment efficiency compared to those without. Ali et al. (2022) Claim a negative relationship between gender disparity and investment decisions, while Eklund et al. (2009) report that increased gender diversity can be detrimental to a firm's survival. A few researchers find no significant correlation between gender diversity and corporate investments (Harjoto et al., 2018). Overall, empirical evidence emphasizes that female board members often exhibit risk averse attitude, which may lead boards with higher female representation to make more cautious investment decisions. Thus, we hypothesize:

H_1: Board gender diversity reduces the level of the firm's investment

2.2.4 Board Nationality Diversity and Investment Decisions

RBV theory holds that the inclusion of foreign board members in the boardroom improves its effectiveness by allowing skill sharing, exchanging diverse experiences, and linking the firm to international networks, thereby introducing novel perspectives and alternative ways of addressing challenges. Oxelheim et al (2013) suggest that foreign board members are beneficial to the company as they expose the company to new international experience and access to global opportunities and support internationalization. Their presence presents such a useful strategy to enhance competitiveness in a globalized market, improve firm value and transfer corporate governance practices between nations (Handa, 2020; Miletkov et al, 2017; Oxelheim et al., 2013). Agency theorists profoundly promote the inclusion of foreigners on the board, believing that their attendance improves the oversight of shareholders' interests and resources (Fama & Jensen, 1983). Accordingly, the presence of foreign nationals on the corporate board promotes independence of the board and contribute to improved performance and good governance (Estélyi & Nisar, 2016; Ruigrok et al, 2007).

However, empirical evidence provides conflicting results on the impact of board nationality diversity on firm investment decisions. For instance, Mirza et al. (2020) claim that the presence of foreign nationals on the board has significant positive influence on investment decisions. Similarly, researchers such as Joenoes and Rokhim, (2019), Ruigrok and Kaczmarek (2013) find that nationality diversity in the boardroom enhances company's performance. Conversely, other scholars find that a firm's performance may deteriorate when foreign nationals participate in the corporate board (Bekiaris, 2021; Magoma et al., 2024). Some research suggests no significant relationship between director's nationality diversity and firm performance (Darmadi, 2011; Rose, 2007). Masulis et al, (2012) further highlight that foreign independent directors often exhibit poor attendance at board meetings, which is associated with inadequate firm performance and reduced CEO turnover sensitivity. They further note that firms with foreign independent directors tend to underperform relative to peers in the same region. Based on this evidence, we expect that a high proportion of foreign national directors on the board is ineffective due absenteeism. Such absenteeism either reduces pressure on CEOs to undertake value enhancing projects, leading to underinvestment, or make boards more risk-averse in approving significant investments due to ineffective deliberation and engagement by foreign independent directors. Therefore, we propose the following hypothesis:

H_2: Board nationality diversity reduces the level of the firm's investment

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2.2.5 Board Tenure Diversity and Investment Decisions

The agenda of directors' tenure has gained considerable attention in the globe and increasingly documented within the agency theory as an emerging critical governance factor. Vafeas (2003) investigated on the association between director's independence and the length of their tenure, emphasizing that the quality of director is closely tied to board tenure. However, existing literature shows conflicting conclusions on the nature and direction of this relationship. Huang and Hilary (2018) suggest that directors with longer tenure become more familiar with the firm's business environment and are more actively engaged in daily activities. On the other hand, another viewpoint argue that long-term serving director may become familiar with firm's management, risking isolation of key information from other board members and creating communication barrier. Reguera-Alvarado and Bravo (2017) observe that independent directors with an extensive period of time become entrenched and aligned with managers and are therefore unable to monitor them adequately. Bebchuk et al, (2002) argue that directors with longer serving tenure are more critical compared to new directors. Though, a board with just a few years of experience will likely face fewer governance issues and may possess a limited comprehension of the firm's operations and history, thus undermining its monitoring and advisory effectiveness (Huang & Hilary, 2018). Moreover, James et al, (2021) show that younger or newly appointed directors bring basic knowledge and external experience, but they frequently lack the practical knowledge specific to the firm, which can only be acquired with time and immersion. Fun et al, (2023) suggest that directors require five to nine years of service tenure to acquire adequate experience and function effectively. Meanwhile, McIntyre et al (2007) suggest that the optimal board tenure is approximately 12 years.

Extant literature has shown a positive impact of the director's extended tenure and firm performance in various outcomes (Fun et al., 2023; Khan et al., 2025; Lun et al, 2025; Sohail et al, 2023; Tingbani et al., 2020). Fun et al. (2023) and Mirza et al. (2020) reveal that the association between board tenure and firm's investment decisions is positive. Chamberlain (2010) reports a nonlinear relationship between board tenure and firm performance, but with an overall positive correlation. Firm performance tends to increase during the early years of director's tenure, but starts declining as tenure extends and directors accumulate more experience. Vafeas (2003) suggest that a long-serving director decreases firm performance because they establish friendships with managers that influence the monitoring role of the daily operations. Additionally, firms with high diversity of directors serving tenure in the boardroom will reduce cooperation, cohesion, coordination, and sharing of information, which affects group performance negatively (Milliken & Martins, 1996). Low levels of coordination, cooperation and persistent information asymmetry may undermine board's capacity to effectively oversee investment activities of managers (Ali et al., 2022). Based on these arguments, it is evident that longer director tenure improves board's monitoring effectiveness and discourages managers' opportunistic tendency towards overinvestment. Consequently, we expect that a higher proportion of experienced directors on the board decreases the attitude of empire-building and promote more efficient investment decisions. Thus, we develop a hypothesis as follows.

H_3: Board tenure diversity increases the level of the firm's investment

2.2.6 Board Financial Expertise Diversity and Investment Decisions

Drawing on the human capital and resource dependency theories, training and education strengthen employees' knowledge and skills, thereby facilitating them to contribute more effectively to the achievement of firm objectives. Simons et al (1999) further argue that educational diversity improves firm performance. According to agency theory, directors need to demonstrate financial literacy and requisite skills to proficiently oversee and manage company's operations. Individuals tend to make more informed decisions if they have access to financial information (Rossi et al., 2020). Bianchi (2018) reports that individuals with high level of financial literacy tend manage investment portfolios more efficiently, resulting to greater experience in generating investment income and higher annual returns. Additionally, directors with financial expertise are more adept at detecting and reducing managerial distortion of financial results, as their understanding of financial reporting standards provides them requisite knowledge to scrutinize and comprehend the reports prepared by management (Githaiga et al, 2023). Bertrand and Schoar (2003) maintain that as the level of education increases, the director's risk-taking propensity also increases. Similarly, Rasool and Ullah (2020) suggest that investor biases decrease with increasing financial literacy. From these arguments, we suggest that director financial literacy improves the board's monitoring role. Thus, we expect that a board with greater financial expertise diversity will increase investment level and eliminate the tendency towards empire-building. We therefore hypothesis:

H_4: Board financial expertise diversity increases the level of the firm's investment

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III. METHODOLOGY

3.1 Research Design

The study employed quantitative research design using secondary panel data gathered from the annual reports and audited financial statements of 15 financial firms listed in East Africa. Following Magoma and Ernest (2023), the non-financial sector was excluded, as financial firms possess unique accounting and financial features, making them subject to distinctive governance structures and additional regulatory requirements imposed by the central bank. The study employed secondary data from financial reports and audited financial statements of financial firms listed in Kenya, Tanzania, and Uganda over a six-year period from 2017 to 2022. The rationale behind selecting the 2017–2023 timeframe is rooted in data accessibility, economic dynamics, and relevance to contemporary issues in corporate governance studies.

Table 1

Study Variable Measurement and Operationalisation

Variables	Acronym	Variable type	Measurement	Previous studies	Source
Investment decision	INVD	Response (RV)	Capital expenditure scaled by lagged total assets.	(Ali et al., 2022; Mirza et al., 2020)	Financial statements
Board gender diversity	GD	Explanatory (EV)	The ratio of female directors to total directors on the board.	(Erhardt et al, 2003; Magoma and Ernest, 2023; Mirza et al., 2020)	Annual reports
Board nationality Diversity	ND	Explanatory (EV)	The ratio of foreign directors to total directors on the board.	(Assenga et al., 2018; Darmadi, 2011; Mirza et al., 2020)	Annual reports
Board tenure diversity	TD	Explanatory (EV)	Average of the length of time, stated in years, that the directors have been on the board.	(Gallego-Álvarez and Rodriguez-Dominguez, 2025; Mirza and Malik, 2019; Tejerina-Gaite and Fernández-Temprano, 2021)	Annual reports
Board financial expertise and diversity	FED	Explanatory (EV)	The ratio of directors with accounting and finance knowledge to the total directors on the board.	(Magoma et al., 2024) Gallego-Álvarez & Rodriguez-Dominguez, 2025)	Annual reports
Board independency	IND	Control (BCV)	The proportion of independent directors to the total number of board members	(Huynh, 2022; Ismail et al., 2024) Mirza & Malik (2019)	Annual reports
Board Size	BS	Control (BCV)	Number of Directors on Board	(Coleman & Wu, 2021; Ismail et al., 2024)	Annual reports
Board meeting	BM	Control (BCV)	Number of board meetings conducted in a year	(Bawuah, 2024; Roziq & Ilma Ahmad, 2024)	Annual reports
Audit quality	BIG4	Control (BCV)	Calculated by dummy measurement, “1” if the annual report is audited by any one of the Big Four auditor firms in a particular year, and “0” otherwise	(Ismail et al., 2024; Sarhan et al., 2019)	Financial reports
Firm size	FS	Control (FCV)	The natural logarithm of a listed financial firm’s total assets	(Magoma et al., 2024; Magoma et al., 2022)	Financial statements
Firm age	FA	Control (FCV)	The natural log of the For years, the firms have been registered on the stock exchange	(Idris and A, 2021; Ismail et al., 2024)	Financial statements

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3.2 Regression Model

Drawing on the nature and dataset structure, the study employed the following linear model to examine the influence of board members' diversity on investment decisions, regressing each diversity variable on the firm's investment efficiency indicator. The selection between the fixed-effects model and the random-effects model is based on the Hausman test of validity (Hausman, 1978). The model has been specified as follows:

$$INVD_{it} = \beta_0 + \beta_1 EV_{it} + \beta_2 BCV_{it} + \beta_3 FCV_{it} + \varepsilon it \ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Whereby the INVD represents the response variable (investment decisions) measured as the beginning year capital expenditure of the i_{th} firm at year t, scaled by lagged total assets. The explanatory variables (EVs) are the board diversity in gender, nationality, tenure and financial expertise. Lastly, the control variables are classified into two categories. The first category is the board control variables (BCVs) represented by board independence, board size, board meeting and audit quality. The other category is the firm control variables, explained by firm size and firm age.

IV. FINDINGS & DISCUSSION

4.1 Descriptive statistics

The descriptive statistics analysis provides a summary of investment decisions (INVD), board gender diversity (GD), board nationality diversity (ND), board tenure diversity (TD), board financial expertise diversity (FED), board independent (IND), board size (BS), board meeting (BM), audit quality (BIG4), firms size (FS) and firm age (FA). The summary presents key measures including mean, standard deviation, minimum and maximum values, skewness and kurtosis

Table 1

Descriptive Statistics

	INVD	**GD**	**ND**	**TD**	**FED**	**IND**	**BS**	**BM**	**BIG4**	**FS**	**FA**
	Stats	Stats	Stats	Stats	Stats	Stats	Stats	Stats	Stats	Stats	Stats
N	105	105	105	105	105	105	105	105	105	105	105
Mean	0.960	0.282	0.195	5.994	0.503	0.514	11.952	6.066	0.961	13.612	3.917
SD	0.172	0.130	0.137	2.372	0.133	0.212	4.462	2.873	0.192	1.3018	0.626
Min	0.726	0.060	0.000	1.833	0.153	0.080	5.000	4.000	0.000	10.881	2.197
Max	2.184	0.550	0.555	14.416	0.727	1.000	26.000	16.000	1.000	16.404	4.844
Skewness	3.941	0.128	0.310	1.139	-0.734	-0.430	1.672	1.394	-4.825	0.1830	-0.692
Kurtosis	26.557	1.927	2.719	4.617	3.114	2.604	5.646	4.160	24.289	2.731	3.245

Table 2 above indicates the descriptive statistics for the 105 observations. Investment decisions (INVD) had a mean of 0.960 and standard deviation of 0.172, with a wider range from 0.726 to 2.184. Board diversity variables including gender (GD), nationality (ND), tenure (TD) and financial expertise (FED) reported mean values of 0.282, 0.195, 5,994 and 0.503 respectively with varying ranges and standard deviations. Other variables such as board independence (IND), board size (BS) and board meeting (BM) had mean value of 0.514, 11.952, and 6.066, while audit quality (BIG4), firm size (FS) and firm age (FA) had mean values of 0.961, 13.612 and 3.917 respectively. On the other hand, Kurtosis analysis indicates leptokurtic distribution for investment decisions (INVD), tenure diversity (TD), board size (BS), board meeting (BM), audit quality (BIG4) and firm age (FA). Furthermore, platykurtic kurtosis distribution are observed for board gender diversity (GD), board nationality diversity (ND), board financial expertise diversity (FED), board independent (IND) and firm size (FS). The Gaussian normal distribution states that normally distributed data has a skewness value of 0. From table 2 above board nationality diversity (ND), board tenure diversity (TD), board financial expertise diversity (FED), board independent (IND), audit quality (BIG4) and firm age (FA) revealed to be negatively skewed, implying an asymmetrical distribution while the rest are positively skewed. These descriptive summaries provide an overview of the data serving as a foundation for further analysis and modelling.

4.2 Correlation Analysis

Table 3 presents the Pearson correlation analysis, asserting the relationship between investment decisions (INVD), board gender diversity (GD), board nationality diversity (ND), board tenure diversity (TD), board financial expertise diversity (FED), board independent (IND), board size (BS), board meeting (BM), audit quality (BIG4), firms size (FS) and firm age (FA). Since the correlation coefficients of the study variables range from -0.432 to 0.674, is an indication that multicollinearity is not a concern, as all the values are below the commonly accepted threshold of 0.8.

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Table 2
Correlation Analysis

	INVD	GD	ND	TD	FED	IND	BS	BM	BIG4	FS	FA
INVD	1										
GD	-0.101	1									
ND	-0.002	-0.230*	1								
TD	-0.094	-0.173	-0.348*	1							
FED	0.072	0.021	0.203*	-0.200*	1						
IND	0.037	0.223*	0.299*	-0.428*	0.509*	1					
BS	-0.131	-0.256*	-0.432*	0.674*	-0.329*	-0.399*	1				
BM	0.110	0.059	-0.209*	-0.173	0.008	-0.191*	-0.065	1			
BIG4	0.140	0.156	-0.320*	0.211*	0.207*	-0.060	0.165	0.143	1		
FS	0.120	-0.268*	0.399*	-0.272*	0.152	0.001	-0.114	0.294*	-0.148	1	
FA	0.043	-0.088	-0.166	-0.101	0.007	0.229*	0.091	0.167	-0.028	-0.273*	1

Key: *Correlation is significant at the 0.05 level

The correlation analysis shown in table 3 above revealed that investment decisions (INVD) shows a weak correlation with board gender diversity (GD), board nationality diversity (ND), board tenure diversity (TD), board financial expertise diversity (FED), board independent (IND), board size (BS), board meeting (BM), audit quality (BIG4), firms size (FS) and firm age (FA) by -0.10, -0.002, -0.094, 0.072, 0.037, -0.131, 0.110, 0.14, 0.120 and 0.043 respectively. board gender diversity correlates weakly with board nationality diversity, board tenure diversity, board financial expertise diversity, board independence, board size, board meeting, audit quality, firm size and firm age by -0.230, -0.173, 0.021, 0.223, -0.256, 0.059, -0.268 and -0.088, respectively. Board nationality diversity correlates with board tenure diversity, board financial expertise diversity, board independence, board size, board meeting, audit quality, firm size and firm age by -0.348, 0.203, 0.299, -0.432, -0.209, -0.320, 0.399 and -0.166, respectively. Board tenure diversity correlates with board financial expertise diversity, board independence, board size, board meeting, audit quality, firm size and firm age by -0.200, -0.428, 0.674, -0.173, 0.211, -0.272 and -0.101, respectively. Board financial expertise diversity is weakly related to board independence, board size, board meeting, audit quality, firm size and firm age by 0.509, -0.329, 0.008, 0.207, 0.152 and 0.007, respectively. Board independence is weakly related to board size, board meeting, audit quality, firm size and firm age by -0.399, -0.191. -0.060, 0.001 and 0.229, respectively. Board size is correlated with board meeting, audit quality, firm size and firm age by -0.065, 0.165, -0.114 and 0.09, respectively. Board meeting is weakly related to audit quality, firm size and firm age by 0.143, 0.294 and 0.167, respectively. Audit quality has a weak relationship with firm size and firm age of -0.148 and -0.028, respectively, while firm size and firm age are related by -0.273.

4.3 Autocorrelation Result

An autocorrelation test was done by using the Durbin-Watson test. The test reported a d-statistic value of 2.025, which falls between 1.5 and 2.5, indicating the absence of autocorrelation in the dataset (Magoma et al., 2024). Generally, a Durbin-Watson d-statistic within this range suggest that autocorrelation is not present. Thus, the study is study is considered free from autocorrelation concerns.

4.4 Regression results

4.4.1 Model Selection Test for First Model

The research adopted the Hausman test to determine whether the fixed effects or random effects model was more appropriate for the analysis. A statistically significant Hausman test results indicates a preference for the fixed effects model, while an insignificant result favors the use of the random effects model.

Table 4
Hausman Test for the Model

	Model
Chi2(6)	23.81
P-Value	0.0046

Test: Ho: Not systematic in the coefficients difference

The Hausman test in Table 4 above indicates that the Chi-square p-value is less than 0.05 significance level, suggesting that the difference in coefficients is systematic and statistically significant. Thus, the null hypothesis is rejected and the fixed effects model is preferred over the random effects model. Therefore, the study adopted the fixed effects model for subsequent analysis.

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4.4.2 Model Estimation Results for First Model

Table 5 below shows the fixed effects regression result, revealing the relationship between board diversity and investment decision. The results indicate that gender diversity is significant and negatively related to investment decisions. While board nationality diversity and board tenure diversity show a significant positive relationship with investment decision.

Table 5

Relationship between Board Diversity and Investment Decisions

INVD	*Coef.*	*Std. Err.*	*t*	*P>t*
GD	-0.01240	0.00536	-2.31	0.023
ND	0.01078	0.00517	2.08	0.004
TD	0.03095	0.01325	2.34	0.023
FED	1.77540	0.60114	2.95	0.004
IND	0.01604	0.01036	1.55	0.125
BS	0.03009	0.01326	2.27	0.027
BM	0.52765	0.35867	1.47	0.145
BIG4	-0.04125	0.09044	-0.46	0.657
FS	18.31282	9.05001	2.02	0.046
FA	0.70802	1.05463	0.67	0.504
_CONS	-0.61818	0.55443	-1.11	0.002
R- Square	within			0.1415
	between			0.0148
	overall			0.0213

4.5 Discussion

4.5.1 Board Diversity and Investment Decisions

The results from the fixed effects regression model assert that in East Africa, listed financial firms' investment decision is significantly negatively influenced by board gender diversity, implying that when the ratio of female directors increases by -0.01240 in the board room, the capital expenditure decreases by one unit. The findings suggest that high proportion of female representation on the board is linked to a more cautious investment behavior, possibly indicating a greater degree of risk aversion in decisions associated with investments. Thus, the alternative hypothesis (H_1) was accepted. These results agree with the findings of Yu, 2023; Ali et al. (2022) and Harjoto et al., (2018) who found that the proportion of female board members is negatively related to investment decisions. Similarly, board nationality diversity showed a significant and positive influence on investment decisions, suggesting the rejection of H_2, which states a negative relationship. This relationship indicates that as the proportion of foreign directors increases by 0.01078 in the board room, the capital expenditure increases by a unit. Thus, listed financial firms in East Africa seeking to improve their investment decision should focus on the number of foreign nationals on their board. These findings differ from those of Darmadi (2011) and Rose (2007), who suggested an insignificant influence of board nationality diversity. Board tenure diversity asserts a significant positive influence on investment decisions, implying that the experienced director improves the level of investment decision by one unit for every 0.03095 increase in director experience. The results agree with the findings of Fun et al. (2023); Khan et al., (2025), who established a positive influence. board financial expertise diversity found to be positively influencing investment decisions, indicating that an increase in directors with financial knowledge leads to an increase in capital expenditure. Consequently, an increase in the ratio of financial knowledge of directors in the board by 1.77540 leads to a unit increase in investment decision. The results are similar to those of Ruigrok et al. (2007); and Bertrand and Schoar (2003) who suggested a positive influence of board financial knowledge on firm investment decisions.

V. CONCLUSION & RECOMMENDATIONS

5.1 Conclusion

The study was conducted to achieve the objective of assessing the influence of board diversity on investment decisions among listed financial firms in East African stock markets, namely the Nairobi Securities Exchange, the Dar es Salaam Stock Exchange, the Uganda Securities Exchange and the Kigali Stock Exchange. The study covered the period from 2017 to 2023. Investment decision served as dependent variable, while the proxy for independent variables included board gender diversity, board nationality diversity, board tenure diversity and board financial

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expertise diversity, while control variables were represented by board independence, board size, board meeting, audit quality, firm size and firm age. The results from the fixed effects regression analysis concluded that board gender diversity is influencing investment decisions negatively. Furthermore, board nationality diversity, board tenure diversity and board financial expertise diversity influence investment decisions positively. Drawing on these results, listed financial firms in East Africa seeking to improve investment decisions should focus on increasing the proportion of foreign directors, the number of directors with financial knowledge and experienced directors, while carefully managing the proportion of female directors on the board. The findings help listed financial firms in East Africa in formulating proper policies that improve investment decisions, growth and profitability.

5.2 Recommendations

In light of the findings, the study recommends that listed financial firms in in East African stock markets should consider strengthening board composition by increasing the proportion of directors with financial expertise, relevant experience and international exposure. This is because nationality diversity, tenure diversity and financial expertise diversity were found to improve investment decisions. While gender diversity exhibited a negative relationship with investment decisions in this context, firms are recommended to focus on fostering effective board dynamics and inclusive decision making processes rather than limiting representation. Future research may extend the analysis to non-financial firms and adopt more advance econometric techniques to address potential endogeneity concerns and enhance the robustness of the findings. Additionally, further research could examine listed financial firms across Sub-Saharan Africa and conduct a comparative analysis between East Africa and West Africa.

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