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DOES CROSS-BORDER LISTING (STILL) IMPROVE FIRM FINANCIAL PERFORMANCE IN EASTERN AFRICA?

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ABSTRACT

Corporations can raise their development capital domestically or through cross-borders listing. Literature reveals that cross-listing of shares enhances firm's visibility and value, and lessens information asymmetry. However, there is scanty empirical evidence on how it affects a firm's financial performance. The objective of this study was to examine whether cross-border listing affects firm's financial performance in Eastern Africa. Financial data spanning three years before and after cross-listing was collected from financial statements of three Kenyan firms which have cross-listed their shares in USE, DSE, and RSE between 2001 and 2011. Using financial ratio analysis, liquidity, profitability, gearing and investor ratios were computed three years before and after cross-listing. The results show a low positive financial performance in terms of liquidity upon cross-listing. Market confidence as measured by P/E ratio also improved. This implied that regional cross-listing may increase firm's investor confidence. Although profitability and gearing ratios improved in absolute terms post cross-listing, this improvement was not statistically significant. In fact, the investor ratios like dividend yield reduced, but such reduction was not statistically significant. Overall, the findings provide some evidence that firms may benefit from cross-listing in terms of liquidity and confidence. Our analysis has uncovered no clear evidence of material value creation to shareholders of cross-listed firms, except improved market confidence. Firm managers and securities markets policy makers in EAC should give thorough considerations to these issues as they seek a regional approach to capital raising and stock market development.

1. INTRODUCTION

Corporations require resources to enable them serve the needs of their customers effectively. This implies that their owners have to go an extra mile to find the funds necessary to sustain their customers. Most common types of long-term financing for firms include long term debt, common stock, preferred stock and retained earnings. Thus firms may borrow or use their own available savings. However, as they continue to expand they resort to borrowing. Equity or debts are the only options at their disposal yet most prefer to use equity because it forms a permanent source of funding that cannot be easily cancelled. When firms raise equity they may raise it within their own boundaries, or beyond their national boundaries to raise the required resources. The former is referred to as listing, while the latter is known as cross-listing. Listing is the admission of a company into a stock market after meeting certain regulatory requirements set by the regulatory authority of that particular country. For a company to be listed it has to be a public company. Cross-listing refers to the listing of ordinary shares of a firm on a different exchange other than its home stock exchange. It is therefore where a firm lists its shares for trading on at least two stock exchanges located in different countries. To accommodate a wide variety of firms, exchanges have designed several different listing categories, each with a different set of requirements and, to the extent that investors are knowledgeable about this structure, varying potential benefits. There are two broad types of cross-border Listing. First is the ordinary listing. Besides the ordinary listing abroad being prestigious, it is also the one for which requirements are the most stringent. Companies seeking a listing their equity overseas must satisfy several requirements to qualify for listing according to standards set for overseas companies by the

exchanges. When approached by any firm for listing, the exchange conducts an investigation of the firm. The exchange requires the company to provide various pieces of information, to meet certain criteria such as minimum levels market capitalization and certain accounting variables (income, etc.) and also request the firm to recast its financial statements and other disclosures in the format prescribed by the exchange. The rigor of the investigation of the firm performed by the exchange prior to listing, and the accessibility to investors of the information contained in the various financial statements provided by the firm subsequent to listing depends on the listing standards set by the exchange. The other type is depositary receipts. Firms wishing to list shares on the foreign market have also the option of participating in Depositary Receipts program. Depositary Receipts are negotiable bank-issued financial securities representing publicly traded security - equity (usually) or debt, of a company listed in one market which is traded on another market. Such a receipt therefore allows investors to hold shares in equity of other countries without need to go directly into the foreign markets.

Although conventional wisdom has long held that firms cross-list their shares on other developed exchanges buy their access to more investors, greater liquidity, a higher share price, and a lower cost of capital, the strategy seems not to make much sense perhaps because capital markets have become more liquid and integrated and investors more global, or perhaps because the benefits of cross-listing were over stated from the beginning. With integration, firms would raise as much capital as they desire, and profits would consequently go up. This is however not the case, the world markets are segmented making companies to carefully evaluate where they will raise their much needed funds. However, it is not clear why there are many firms listed on the Kenyan Bourse, and only a few have cross-listed across the borders. Also, it has not been established empirically what the real effects of cross-border listing on a firm's financial performance. The literature is also thin in East African Community (EAC) on cross-listing calling for the need to vouch the possible impact of cross-listing on firms' financial health. The objective of the study was therefore to evaluate the effects of cross-border listing on financial performance of Kenyan listed firms that have cross-listed in the East African stock market. The rest of this article is structured as follows: Section 2 presents the key literature describing the structure of regional cross-listings in Africa, particularly east Africa, and the benefits of cross-listing for both home and host countries. Section 3 describes the method used, and finally, Section 5 which presents the result and discussion followed by conclusion and suggested implications for policy.

2. LITERATURE REVIEW

2.1 The Nature of East African Stock Exchanges

There are currently four (4) securities exchanges forming the EAC securities market. The Nairobi Securities Exchange (NSE), formed in 1954, is one of the active capital markets in Africa. The NSE is sub-Saharan Africa's fourth-largest bourse with 58 listed companies and 24 brokerage firms. Trading takes place on Mondays through Fridays between 10.00am and 3.00pm. NSE was a regional security market up to 1972 when it lost its regional character following the nationalization, exchange control and other inter-territorial restrictions introduced in neighbouring Tanzania and Uganda. Currently, the ceiling on foreign investment is 40 percent for institutions and 5 percent for individuals (Onyuma, 2012). This market is regulated by the Capital Markets Authority, which operates under the jurisdiction of the Ministry of Finance.

The NSE successfully installed an automated trading system (ATS) in November 2007 and central securities depositories (CSD) in November 2004. The exchange is also undergoing restructuring of its governance system through demutualization, which is expected to be completed by the end of the second quarter of 2012. Characterized by its liquidity, market capitalization and turnover, the NSE may be classified as both emerging market and frontier market. NSE is therefore a model market in view of its high returns, vibrancy and well developed market structure. It therefore, raises interest and sets a precedent for comparison with other emerging markets in Eastern Africa and the world at large (Nyambura, 2005). The second largest exchange in EAC is Dar es Salaam Stock Exchange (DSE). The DSE was incorporated in September 1996 as a private limited company. Trading takes place four days a week: Tuesdays, Wednesdays, Thursdays and Fridays between 10.00am and 12.00 noon. The exchange has also put in place a CSD similar to the one installed by the NSE. There are nine firms listed on the DSE, three being the cross-listed firms from the NSE. Thirdly, the Uganda Securities Exchange (USE), which was launched in June 1997, is run under the jurisdiction of the Capital Markets Authority, which reports to the Central Bank of Uganda (Onyuma, 2012). The Exchange's doors opened to trading in January 1998. Trading occurs Monday to Friday. There is no capital gains tax and restrictions on foreign investors. There currently ten listed, four of which are cross-listed from the NSE. The automation of the USE is still hampered by the political constraints as Parliament is yet to legislate a law to regulate the same.

Uganda hopes to link its exchange with those of Kenya and Tanzania, thus strengthening economic ties between the three countries. Lastly, the Rwanda Stock Exchange (RSE) is the youngest exchange in EAC, having opened for business on 31st January 2011. The RSE took over from the operations of the Rwanda Over the Counter Exchange (ROTCE), which began business in bond trading in January 2008. The bourse currently has five listed firms, two local and the rest cross-listed from NSE. The Rwandese government is also finalizing its sale of its 10 percent stake in MTN Rwanda, 55 percent owned by South Africa's MTN Group Ltd., with a another shareholder with a 35 percent stake will probably also offer its shares in public offer. In addition, cement-manufacturer, Ciments du Rwanda Ltd., Rwanda Commercial Bank, and an insurance Company, SONARWA are partly owned by the State and considering doing IPO through the RSE. Table 1 below presents market fundamental for the EAC exchanges in comparison with the JSE Securities Ltd, the most developed securities exchange in Africa.

Table 1: Market Fundamentals for EAC Exchanges

Markets	NSE	USE	DSE	JSE
Listed Firms	57	13	8	401
Market Capitalization (mil $)	13,387	265	2,786	833,548
Value of Stock Traded (mil $)	1,300	6.0	12.0	312,439
Market Capitalization %GDP	63.19	2.35	19.75	326.89
Value of Stock Traded %GDP	6.41	0.036	0.11	122.53
Market Turnover, ratio %GDP	15.76	3.13	2.29	49.52
Settlement Period	T+3	T+5	T+5	T+3
Central Securities Depository	Yes	No	No	Yes
Automated Trading System	Yes	No	No	Yes
Demutualization	In progress	No	No	Yes

***Source**: Authors' Computation from Data from Stock Exchanges websites.*

The integration and associated globalization of capital markets has opened up a vast array of new sources and forms of financing. Today's corporate treasures can access foreign capital markets as easily as those at home. Cross-border listing is listing of securities in a local exchange by a foreign based company. Shares should be issued in the country in which the best price can be received, net of issuing costs. Where issuing costs are the same, the company should list in a country where expected equity rate of return is lowest. If all markets were fully integrated, the expected cost of equity capital will be the same every country. When capital markets are segmented, the expected returns on the same security are different in different markets. As a result of capital-market segmentation, companies find it more advantageous to issue shares simultaneously in several equity markets elsewhere. There have been limitations in the stock markets such as; static demand and supply of stocks over long periods of time, capital constraints which have delayed their growth potential and legal impediments that restrain companies to their home country boundaries as far as raising funds is concerned. Most emerging markets, as in EAC, are highly concentrated. As a result they tend to be undeveloped, and are small and illiquid, exhibiting pricing volatility and error. When a firm is unable to raise extra capital outside its boundaries, and it has exhausted available local resources, its growth potential grows dim. Low growth potential reduces profitability, and as a result, unemployment is likely to increase. This is not good for any economy.

Stulz (1999) maintains that when firms decide to cross-list, there are certain things they need to have ready. These include the presence of an independent board of directors to ensure that in the global investors will have confidence that management will properly utilize the resources injected in the firm. Secondly, the firm must receive certification in the capital markets. Securing highly reputed investment banks will help the firm secure the lowest issue costs. Thirdly, legal protection of the minority shareholders to ensure their rights is not over stepped. Lastly, the firm must abide by the stringent disclosure requirements. Cross-listing on a market with strict rules is one way of making companies more committed and have more disclosure. Raising further capital is a major constraint to many firms since IPO is tedious and bank financing is expensive. Only a small portion of what investors pay when buying the IPO shares ends up in the company as much is spent in paying the transaction advisers, underwriters and receiving and marketing services. If all the markets in the world were integrated, issues of where to raise extra equity capital would not arise because the cost would be the same everywhere. Although various African stock markets have experienced varying degrees of integration, some continue to maintain partial financial autarky (Adelegan, 2008). Financial autarky is a state of financial isolation or separation of markets, in which markets operate essentially in parallel, without any interrelationship. Many capital markets in Africa operate along the continuum from financial autarky to a single merged market. The

main forms of stock market integration are (Onyuma, 2006): internationalization through free foreign direct investment and portfolio capital flows; and regional integration through full merger and cross-listing of stocks like in the case of Bourse Regionale des Valeurs Mobilieres (BRVM), which was established by the 8 West African Economic and Monetary Union (WAEMU) countries and began operations in September 1998, and the BVMAC established by the 6 CEMAC countries and began operation in 2008 (Onyuma, 2012). Regional cross-listings of stocks exist in South Africa, Botswana, Namibia, Nigeria, Ghana, Kenya, Tanzania, Uganda, and Zambia (Adelegan, 2008). Full integration has a number of merits and demerits. Such integration can bring about efficiency in allocation of resources, lower inter-market barriers and operating costs, the formation of larger and more liquid markets, more diversified and better risk sharing, innovation, economies of scale and scope, market access, competition, and completeness (Faruque, 2007). However, full regional integration brings with it contagion and spill over risks in addition to typical financial risk - liquidity risk, credit risk, market, and operational risks(Chan-Lau, 2010). With a single market and close financial links, any unfavourable event in any market/country will affect the other markets/countries. Difficulties in consolidating trading and post-trading infrastructures, legal differences, and standardization barriers are additional impediments to full integration of stock markets.

Partial integration brings efficiency in resource allocation, improved liquidity, portfolio diversification, better risk sharing, and stock market development. It is also likely to entail lower financial contagion and spill over risk (Adelegan, 2009). While interoperability, alliances, and joint ventures involve integration of market infrastructures and processes, which are cumbersome and difficult to achieve, cross-listing of stocks does not involve such integration of market infrastructures or trading practices. Thus, regional integration through regional cross-listing, may thus, facilitates cross-border equity investment by firms and operations between stock exchanges under existing market arrangements. From the firms' websites, Kenyan companies that have undertaken cross-border listing have strong financial base respect to profitability, branch networking, and good growth potential. Although seven companies out of the 58 listed on the NSE have undertaken cross-border listing of their shares in markets in Uganda, Tanzania and Rwanda, none of the listed firms from these other exchanges has cross-listed on the NSE.

2.2 Worldwide Trends in Cross Listing

This study draws its roots from the market segmentation theory that advocates that firms consider markets where the costs of operations are cheapest. The costs may be different due to tax rate differentials, interest rate parities, inflation, reporting standards, exchange rate differentials and regulatory requirements. Firms will undertake cross-listing in countries where the cost of equity is least with the aim of improving their profitability prospects. Firms considering issuing securities in another country consider the issuing costs. The securities are issued in essentially segmented markets, each of which finds its own equilibrium independently. Also referred to as Euro-Equity shares elsewhere, cross-listing started during the last two decades in the United States (US). In the US, euro-equity issues have become popular because of the anonymity enjoyed with bearer shares. It has grown rapidly in absolute size and proportion of shares sold in other countries being substantial. During the past two decades, the pace of globalization in capital markets has accelerated and broadened in scope to make easier ownership and trading in securities from around the world. The pace of international cross-listing around the world has decelerated dramatically during the last few years. This is due to combination of global macro-economic, political and regulatory factors. Cross listings as a fraction of their own total listing the order from the highest is; Mexico (53%), Swiss Exchange (31%), and Euronext (25.1%). Thus world cross-listing reached peak in 1999, and since then have remained steady.

Conchrane et al. (1996) notes that in USA, market price reactions around foreign listings since the growth in the demand for equity financing has spurred increased cross-border listings as individuals and institutions invest their funds in foreign equities to diversify their portfolios and to earn higher risk-adjusted yields. Cross-listing of stocks in the USA has increased dramatically over the past twenty years. Karolyi (2004) reports that at the end of 2003 there were over 2000 foreign firms listed in the USA, more than twice the amount listed in 1990. The total value of trading across world markets reached its peak in 1999 and has remained steady across all major stock exchanges through to 2004. The fraction trading comprised of foreign listings also levelled off at a median of 5.8% in 2004, though this was double the figure noted in 1995. London Stock Exchange (LSE) has maintained the largest absolute amount of $2.2 billion in trading foreign listing. It is the second largest in terms of the fraction of dollar trading (53%) after the Swiss Exchange (93.53%). The Swiss Exchange benefitted greatly from Virt-X, a facility for trading European blue-chip stocks initiated in 2001. Other notably large markets in dollar terms are NYSE and NASDAQ.

2.2.1 Cross-border Listing in Africa

The African Stock Exchanges Association (ASEA) was formed achieve common listing requirements, disclosure standards applicable to advanced capital markets. It is aimed at encouraging the development of stock exchanges in all African countries and finally integrates African exchanges through technology.

The regional cross-border listing trail was blazed by the JSE Securities Exchange of South Africa when it cross-listed on the Namibia Stock Exchange (NSX) on the first day of trading of the NSX in October 1992. Subsequently, South Africa has cross-listed 28 firms on the NSX. There has also been regional cross-listing between stock markets in Botswana and South Africa since 1997; Malawi and South Africa in 1999; Nigeria and South Africa first in 2001 and later in 2006 (MNET/Super Sport, a JSE primary listed company was cross-listed on the Nigerian Stock Exchange in 2001and delisted in 2003); Zambia and South Africa in 2003; and Ghana and South Africa in 2004. Triple listing of stocks has also commenced, with the three East African Exchanges of Kenya, Uganda and Tanzania in 2004; and Ghana, Nigeria, and WAEMU (Bourse Régionale des Valeurs Mobilières) exchanges in 2006 (Onyuma, 2006).

There have been further agreements to cross-list among stock markets in the African region. South African exchange has signed a MoU with Botswana, Egypt, Ghana, Kenya, Namibia, Nigeria, and Uganda. Nigerian market has signed a MoU with Ghana and WAEMU, while the NSE has signed MoUs with Ghana, Nigeria, Tanzania, Uganda, and WAEMU. Pagano et al. (2002) argue that company size and especially the industry's market-to-book ratio increase the likelihood of a company going public or cross-listing. Larger firms may be able to take the advantage of economies of scale in the offering process. Firms that are older and have a longer operating history should be easier to value; hence old firms are more likely to go public. East African Stock markets have a plan to merge, and form one stock exchange.

It is now easier to cross-list in the East African Bourse due to the following incentives: First there are no requirements of Reporting Accountants Report. Second, only a summarized information memorandum is required. Third incentive is that an abridged financial statement for the last five years is acceptable. Fourth, provision of the latest annual or interim accounts submitted to the home exchange would be accepted as the latest financial statements. Finally, standard initial cross-listing fee of US$5,000 against previous US$21,126 has been set for firms listing their equities across Kenya and Uganda borders (Onyuma, 2012).

However, only companies in the Main Investment Market Segment in their home country are allowed to cross-list their securities in the East African Bourse. This noble act, if successful, will provide employment opportunities for the residents of the region. Cross listing plans in Kenya started in 1997 when an agreement was reached among the capital authorities of Kenya, Tanzania and Uganda. This agreement was under the East African Security Regulatory Authorities (EASRA) (Kuria, 2008).

Cross border listing has gained significance over the past few years since the signing of the East Africa Community treaty in 1999. The development of cross listing across national stock markets in Tanzania, Kenya, Uganda and Rwanda is a milestone in the EAC's drive for regional integration. The three East African Stock Exchanges, namely Nairobi securities Exchange (NSE), Uganda Securities Exchange (USE) Dar es Salaam Stock Exchange (DSE), and the Rwanda Stock Exchange have established a working relationship among them in the spirit of integrating and developing capital markets in the East African Community (EAC). The exchanges operate under the umbrella of East African Stock Exchanges Association (EASEA). EASEA is a member of Capital Markets Development Committee (CMDC) of the EAC. Other members of the CMDC include East African Securities Regulatory Association (EASRA) and East African Stock Exchange Brokers Association (EASBA). The three associations have the common objective of integrating the three markets in order to achieve growth of the market with the ultimate aim of economic union in the EAC. The three markets are aiming at achieving this objective in a systematic, coordinated manner that will facilitate the availability of listed securities in the three markets simultaneously. To this end EASEA has determined mass cross listing as the key activity that will achieve this objective. The East African Member States Securities and Regulatory Authorities (EASRA) comprising capital market authorities of Kenya, Tanzania, and Uganda ware established on March 5, 1997 through the signing of an MOU. It was set up with the objective of establishing a framework for mutual cooperation in the area of capital market development, harmonization of securities laws, and promotion of information-sharing and cooperation among members. The geography of cross listing has changed considerably with both Kenya Airways (KQ) and East Africa Breweries Limited (EABL), Jubilee Insurance Holding (JIH), Equity Bank (EB), Kenya Commercial Bank (KCB), Nation Media Group (NMG), and Centum Investment Company Ltd. (Centum) which are Kenyan firms, listing in Uganda, Tanzania and Rwanda. Consequently, cross

listing in East Africa has become a way of high quality innovative firms to distinguish themselves from others. But with the NSE announcing mass cross listing in East Africa, this trend is likely to change with cross listing firms citing more monetary and non-monetary benefits that will accrue to them if they list in Rwanda, Tanzania and Uganda. There are four securities exchanges in EAC region. The stock market in Kenya is called the NSE, that in Uganda is known as USE, the one in Tanzania is called DSE, while the market in Rwanda is the RSE – formerly, Rwandan Over- the-Counter Market. Of these markets, the NSE is the oldest and more developed market with a running central securities depository (CSD) and an automated trading system (ATS). Before exploring the benefits and likely consequences to be faced by companies cross listing in East Africa, it is paramount that we understand the history and extend to which the security markets integrate in these three countries.

There are currently seven (7) Kenyan companies listed on the Uganda Securities Exchange (USE) and five (5) listed on the Dar-es-Salaam Stock Exchange (DSE). These companies contribute an estimated 84 percent and 65 percent of market capitalization on the USE and the DSE respectively[1]. The EABL, KQ, JHL, KCB, and NMG which are cross-listed on the USE and the DSE; EB and Centum are also cross-listed on the USE. Two Kenyan cross-listing on the RSE include Centum, and KCB. In fact, Nation Media Group is cross listed in all the three markets. The NSE however does not yet have any firm with a primary listing on the other EAC Exchanges listed on its trading platform. With a view to offering Kenyan investors access to the economic growth potential of the EAC Partner States, the NSE is targeting two regional cross-listings into Kenyan market by the end of the first quarter of 2012. By cross listing on the NSE, issuing companies from the other EAC Partner States can look forward to increased liquidity, and deep pools of capital. Last but by no means least, cross-listing provides a public profile in the Kenyan market through which the listed company can market their goods and services. Table 2 below presents the NSE listed firms which have cross-listed on the other EAC exchanges and dates in which they cross-listed.

Table 2: Regional Cross-Border Listings in the EAC Market

Company	Primary Listing	Date of Cross Listing	Bourse where cross listed
EABL	NSE	27th March 2001	USE
Kenya Airways	NSE	28th March 2002	USE
Kenya Airways	NSE	1st October 2004	DSE
EABL	NSE	29th June 2005	DSE
Jubilee Insurance Holdings	NSE	14th February 2006	USE
Jubilee Insurance Holdings	NSE	27th June 2006	DSE
KCB	NSE	29th Nov. 2008	USE
KCB	NSE	8th June 2009	RSE
Equity Bank Ltd	NSE	18th June 2009	USE
Centum Investments	NSE	11th February 2010	USE
Nation Media Group	NSE	2nd November 2010	RSE
Nation Media Group	NSE	19th October 2010	RSE
Nation Media Group	NSE	21st February 2011	RSE

Source*; Authors' Compilation from Stock Exchanges and Companies' websites.*

2.3 Potential Benefits of Cross-listing

Capital market development literature indicate that regional integration is important for stock market development in smaller emerging countries (Demirguic-Kunt et al., 2008, Tahari et al, 2007, Shah et al., 2008). Proponents of cross-listing have argued that regional integration can bring greater efficiency, synergies, and economies of scale; attract the foreign flow of funds; foster risk sharing and portfolio diversification; act as an impetus to financial sector reforms, thereby broadening the competitiveness of regional financial systems and minimizing the risks of financial instability; facilitate capital market development; and lead to economic growth

[1] See, The Exchange, a magazine of EASEA, Issue No. 1 (May) 2011, page 21.

(Faruqee, 2007; Adelegan, 2008). Developed markets like in Europe have experienced many approaches to integration, including interoperability, alliances, mergers, joint ventures, and horizontal and vertical approaches. A certain level of success has been recorded, although the multiplicity of the European system has continuously created barriers to efficient cross-border trading, clearing and settlement.

Regional integration has been undertaken by African capital markets with attendant financial flows in various forms including that of cross-border listing of stocks (Onyuma, 2006). Theoretical asset pricing models have predicted an increase in stock prices upon cross-listing. Decisions on regional cross-listing are taken by firms, while market regulators, policy makers and stock exchanges facilitate the regional approach to cross-listing by signing MoUs and putting in place the necessary conditions to harness the benefits of regional cross-listing and develop their capital markets. These conditions include (Adelegan, 2009): sound legal and regulatory frameworks, macroeconomic and political stability, harmonization of listing rules, accounting laws and disclosure requirements across the region, strong money markets, and incentives for listed firms and other market participants and efforts towards monetary union.

If regional cross-listing is beneficial to the firms and to the countries of both primary listing (home country) and secondary listing (host country), then policy makers of the countries of primary and secondary listings need the right policy handles to encourage facilitate and steer regional cross-listing efforts by firms. Through complementary policy based efforts, policy makers can set the stage for the regional cross listing of stocks and harness the numerous benefits that are associated with it. In addition to providing the avenue for cross-border trading in stocks, the home firm and country of primary listing can therefore, enjoy a number of benefits including: greater access to lower cost equity finance from a wider investor base – if cross-listing is accompanied by an initial public offering, the financing of the firm is increased and its cost of capital is reduced as equity increases. An optimal gearing level of equity and debt will result in the lowest weighted average cost of capital (Onyuma, 2006) –; enhanced business reputations through openness and more stringent financial disclosure; a reduction in transaction costs for investors through gains in market liquidity as a result of cross-listings (Claessens et al., 2002); mitigation of market segmentation through a reduction in barriers to foreign investors that arise from regulation and lack of information; and addressing of information asymmetries and enhanced corporate governance (Faruquee, 2007).

Cross-listing is also beneficial for the firm and country of secondary listing. In addition to increasing stock market liquidity, cross-listing also: provides an avenue for portfolio diversification for a wider investor base; improves the employment level through gains from the expansion of operations in the country of secondary listing; enhances both the business reputation of the cross-listed firm and other national listed firms; reduces spreads on interest rates and debt securities by increasing the number of investors in the stock market, thereby reducing the concentration of investors in the money market; increases the availability and accuracy of public information and lowers information asymmetries; and enhances corporate governance, and market transparency and quality. Regional cross-listings in sub-Saharan Africa have been associated with expansion and the setting-up of operations in the host countries. In almost all cases, firms are large with a strong base in their home countries, and they first established operations in their host countries before deciding to cross-list. In fact, almost all the cases, the listing requirements include a condition that a firm must have established an operational base for about three years before it can be listed or cross-listed on the stock exchange of the host country. Many cross-listings are undertaken to expand operations in the host countries. Almost all the firms that are cross-listed (about 98 percent) have set up operations in the host countries (Onyuma, 2012). For example, EABL, with Kenya as the home country, has a subsidiary Uganda Breweries Ltd in Uganda, its host country of cross-listing. It acquired a financial state in Uganda Breweries in 1959. Upon cross-listing in 2001, EABL purchased the entire issued ordinary share capital of International Distillers Uganda Ltd from Selviac Nederland B.V costing Sh. 300 million, and a brewery in Tanzania. Jubilee Insurance Group has subsidiaries in Uganda and Tanzania; Kenya Airways owns 49 percent of Precision Air of Tanzania; KCB also has subsidiaries in Uganda and Rwanda; Ecobank Transnational has operations in the Cote D'Ivoire (WAEMU) the home country and in Ghana and Nigeria, the host countries; Investec and Ellerine have operations in South Africa and Botswana; and the 28 firms that are cross-listed in South Africa and Namibia have an operational base in both countries. The only exception is Oando PLC, listed in its home country Nigeria, but registered as an external firm and listed on the JSE, South Africa. Cross-listing in Africa has been generally accompanied by an initial public offering and/or secondary market listing.

Regional cross-listings in Africa have either been policy driven or market driven (Adelegan, 2009). Some of the government policy induced regional cross-listings are the cross-listings between the Johanesburg Stock Exchange (JSE) and Namibia Stock Exchange (NSX); and those in the EAC stock exchanges (NSE and USE and

DSE). Cross-listing of many JSE listed firms, on the NSX has been motivated by the imposition of capital controls on portfolio flows and by the domestic investment requirements set by the Namibian authorities in an attempt to keep the large surpluses of the country's pension and insurance funds invested in Namibia. By cross-listing, JSE firms were able to qualify as Namibian investments. Similarly, the cross-listing of East African Breweries on the USE and DSE was linked to ensuring market access for beer trade throughout the EAC region. The market driven cross-listings, on the other hand, include the West African triple cross-listing of Ecobank on the BRVM, the Nigerian Stock Exchange (NiSE), and Ghana Stock Exchange (GSE); the cross-listing of Oando on the NiSE and the JSE; and the cross-listing of Shoprite on the JSE and Lusaka Stock Exchange (LuSE) in Zambia. Irrespective of the reason for the regional cross-listing, it is beneficial to both the host and home countries.

2.4 Possible Effect of Cross-Border Listing

A body of literature has studied the impact of the international cross-listing of stocks by firms from emerging economies on the local capital market (Domowitz et al. 1998; Hargis and Ramanlal, 1998; Miller, 1999; Hargis, 2000; Claessens et al, 2002; Jayakumar, 2002; and Levine and Schmukler, 2003). Domowitz et al. (1998) examine the impact of international cross-listing where investors acquire costly information and highlight the importance of intermarket information linkages using data from the Mexican stock market. Findings from the home countries show that the impact of cross-listing reflects the costs of order flow fragmentation and the benefits of increased competition; and cross-listing is associated with positive excess returns that accrue largely to stocks open to foreign investors prior to cross-listing.

Miller (1999) notes abnormal returns around the announcement date of American Depository Receipts (ADR) and also finds that market reaction is related to choice of exchange, geographical location and avenue for raising equity capital. Previous studies have concentrated on stock price reactions to first international cross-listing, especially ADR, and have been silent on the impact of regional cross-listing on firm value (Jayaraman et al 1993). Switzer (1987) discusses market reactions to cross-border listing announcements for Canadian listings on the US markets, (Miller, 1996) for a small sample of non-US firms on the US markets, and Lau et al. (1994) discusses about US firms listings in other stock exchanges. About post-listing performance, studies have been done in numerous countries by (Switzer, 1986) for Canadian listings on US markets, (Miller, 1986) for non-US listings on the US markets. Inder et al. (2004) assessed whether cross-listing leads to a higher firm growth and found externally financed firm grew following cross-listing. The cross-listed firms exhibited greater externally financed firm growth in comparison to a matched sample of non cross-listed firms. After cross listing, cross-listed firms experience higher externally financed growth rates than the matched sample of non cross-listed firms. Cross-listing can therefore act as a mechanism through which firms can improve their access to lower cost of external financing and consequently use the funds to invest in viable projects it can enable more investor recognition, enhances liquidity, mitigates the costs due to market segmentation, and affirms a strong commitment to stringent rules backed by stringent enforcement.

Burns and Bill (2006) assessed the issue of cross-listing and legal bonding, and whether cross-listing in the USA leads to complete legal bonding or whether reputational bonding and the protection of minority interests in the acquirer's country are still important factors in investors' decision to hold shares in cross-listed firms. They found that compared to US firms, cross-listed firms are less likely to use equity in takeovers of USA target firms and that it does not provide complete bonding. Cross-listed firms from countries with poorer legal protections are less likely to finance with equity and pay higher premiums than cross-listed firms from countries with better legal protections. Results suggest that while cross-listing reduces barriers to investment, there are limits to its ability to completely ignore both legal environment and the importance of monitoring of financial intermediaries. According to King and Segal (2004), firms choose to cross-list their shares because it represents an opportunity to improve a firm's corporate governance. Cross-listing is a vehicle through which a firm's management can 'bond' themselves to a legal system with more protections against management self dealing or excessive consumption of private benefits of control (Burns and Bill, 2006). This is true for firms that originate from relatively less-developed country with weaker institutions. For instance firms from Africa which cross-list on the American market has to maintain the standards of the American system. This in essence will improve their governance practices. The firm conducting the issue will have more source of funding, and the funds will be relatively cheap. The shares of the firm will become more liquid because there will be a wider market in which to trade from. Increased liquidity will improve a company's market capitalization. Karolyi (2004) noted that corporate managers that have initiated cross listings for their firms cite liquidity as a main motivator. Information based traders seek to camouflage their information by timing their trading when the markets are thick with other

liquidity traders. This means that since all are similarly motivated, they are strategic in selecting their trading location in the thickest of the competing markets. This explains the predictions about clustering of trading volume around market open and closes, about clustering of trading volumes in some markets.

Cross- listing of stocks are positively viewed by investors because the action taken by the management circumvent many of the regulatory restrictions, costs, and information problems that represents barriers to cross-border equity investing. Cross-listing further allows foreign investors to trade shares in their own currency (Alexander et al, 1987). This enables them to save any transaction costs associated with dealing in a foreign currency and dealing with foreign exchange regulations. For instance, Ugandans and Tanzanians do not worry about the exchange rate differentials when they decide to buy a share of the cross-listed Kenyan firms. A cross listed firm will not only have access to a broader investors' base but may also benefit from tax holidays such as no with-holding tax on dividends paid to foreign investors. Media interest in the hosting country will additionally lead to visibility and familiarization of the firm in that country. Burns and Bill (2006) notes that firms that undertake cross-listing achieve their objective of raising extra funds, while at the same time protecting their minority shareholders from the risks of takeovers. This means that a firm can retain its shareholders, but at the same time raise capital offshore.

Cross listing improves firm’s access to lower cost of external financing. Cross-listing is a mechanism through which firms can improve their access to lower-cost external financing and consequently can invest in potentially profitable projects (Inder et al, 2006). These authors note that cross-listing contributes to firm’s value as it limits the ability of controlling shareholders to extract private benefits of control. Companies will as a result have better ability to raise capital at a lower cost and pursue potential profitable projects. It implies therefore that cross-listing will improve a firm’s growth potential. Cross-listing may serve to counter the effects of market segmentation. Stulz (1999) points out that these barriers serve to segment domestic capital markets. The upshot here is that domestic investors in segmented domestic capital markets require a risk premium for bearing all the risk of the economic activities of that country (Inder et al, 2006). When firms from these segmented markets cross-list, theory anticipates the stock prices for these firms to rise and consequently their cost of capital to decline as an additional built-in risk premium compensating for these barriers dissipates (Foerster and Karolyi, 1996).

Kuria (2008) determined the short-term and long-term effects of cross-border listing announcements on companies listed at the NSE and their post listing performance, and reported that cross-listing announcements have statistically significant negative effects on stock returns. In fact, the non cross-listed firms had higher daily turnover ratios than cross-listed firms, an indicator of increased activity hence liquidity. Moreover, Mugo (2010) and Mugo et al., (2011) have reported that cross listing “may” affect firm liquidity and P/E ratios. However, a closer look at these findings reveals fatal interpretational errors as the changes were never tested for significance. Unlike the developed market, studies on cross-listing are thin. Recent work by Adelegan (2008; 2009) examined the effect of cross-listing on stock returns and stock market development in Sub-Saharan Africa and found positive abnormal returns around the announcement date, and leading to stock market development. This suggests that firms benefit from the regional cross-listing of stocks outside their home country. However, there is no study of effect of regional cross-listing of stocks on financial performance in EAC. This study, tries to fill this gap. Although regional cross-listing can promote stock market development, the decision to cross-list is taken by the firm. Thus, it is desirable to examine the impact of such a decision on firm financial performance. Firms generally are profit maximizers, and so decisions taken by firms are geared towards improving the firm’s financial performance.

3. METHODOLOGY & DATA

The population of interest for this study comprised corporations with primary listing in the NSE, and have undertaken cross-listing within the EAC stock markets. Although seven listed firms in Kenya have cross-listed, only three firms had data spanning over three years post cross-listing. These include KQ, EABL, and JIH. Therefore, a census was carried out covering all the three cross-listed companies. Therefore, the three constituted the sample.

3.1 Data Collection

Using a data collection schedule, secondary data was obtained from the firms’ published financial statements available on their websites and also from Capital Markets Authority (CMA). This included profits before tax, current assets, current liabilities, fixed assets, turnover, debt level and equity shares outstanding.

3.2 Data Analysis

Financial ratio analysis was used to compute current ratios, gearing ratios, profitability ratios, and investor ratios. A correlation analysis was conducted to establish whether the findings indicated a strong positive or negative correlation. Any value that was greater than 0.5, regardless of the sign, indicated a strong correlation while any value that was lesser than 0.5 indicated a weak correlation. This type of inference has also been applied by other previous works such as Jayakumar (2002) and Kiilu (2006). The financial ratios computed included the following:

3.2.1 Profitability Ratios

i. ROCE is the return on capital employed computed as earnings before interest and taxes divided by capital employed: (EBIT/CE).

ii. GPM is the gross profit margin computed as profit before operating expenses divided by the net sales: (GP/NS)

iii. ROI is the return on investment which measures the return on the proprietor's investment in a company – the total share capital plus the reserves that they indirectly own, computed as: (EAT/TSC).

3.2.2 Liquidity Ratios

i. CR is the current ratio which measures liquidity by dividing total current assets by total current liabilities. It is computed as (TCA/TCL). Under normal situations, a ration of 2:1 is deemed adequate

ii. QR is the quick ratio, another measure of liquidity developed to cover some aspects that current ratio do not address. It argues that for the purposes of raising quick cash, inventories should be disregarded. Generally, a ratio of 1:1 is deemed adequate. It measures liquidity by dividing current assets except inventory by total current liabilities as follows: It is computed as: (CA-I)/TCL.

3.2.3 Gearing Ratios

These ratios measure the contribution of financing by owners compared to financing by the firms creditors.

i. DER is the debt-equity ratio which shows the relationship between owners' funds and the borrowed funds. It is the total debt divided by total shareholder's equity. The larger the portion of owners equity, the lesser the risk faced by creditors. It is computed as: (TD/TSE).

ii. ER is the equity ratio which represents the relationship between owner's equity and total capital employed, and computed as: (SHE/TCE).

3.2.4 Investor / valuation Ratios

i. DY is the dividend yield which is the divided per share divided by market price per share, and computed as: DPS/MP

ii. EPS is the earnings per share determined by dividing profit after taxes and preference share dividend by the total ordinary shares outstanding. It is computed as: EATP/OSO

iii. PER is the price-earnings ratio which measures how long it will take before recovering the cost of the investments. In essence, it shows the number of times the earnings are covered by the share market price. The ration is determined by dividing the market price per share by earning per share, thus computed as: MPS/EPS. This is number of times the earnings are covered by the share market price. It measures how long it will take before recovering the cost of the investments. It is the reverse of earnings yield.

4. RESULTS AND DISCUSSION

4.1 Results

All the EAC countries have a basic legal and regulatory framework for their stock market, as well as a basic legal framework and code of corporate governance. However, the legal and regulatory frameworks for host countries (Uganda, Tanzania , Rwanda) seems to be lower than those of the home country, Kenya with a modern computerized depository and share trading system running.

4.1.1 Description of Cross-listed Firms under Analysis

The following three firms had data spanning more than three years following cross-listing in EAC. They therefore form the cross-listed firms under consideration and results presented below stem from analysis of data for EABL, KQ and JHL. East African breweries Ltd. is a public limited liability company incorporated under the laws of the Republic of Kenya (see www.eabl.com). It has 150 million authorized ordinary shares of KShs.10/- representing an Authorized share capital of KShs.1.5 Billion and 108.989 million issued and fully paid shares representing an Issued share capital of KShs.1, 089,893,110. Founded in 1922, East African Breweries Ltd is the group holding company for the largest brewing concern in East Africa with an annual turnover of US $325 million. East African Breweries Ltd owns 100% shares in Kenya Breweries, Central Glass and Kenya Maltings. In Uganda, it owns 93% of Uganda Breweries Ltd and in Tanzania, 86% of Kibo Breweries. The first cross border listing in the East African market occurred with the listing of East African Breweries Ltd on the USE in 2001.

Kenya Airways was first listed in 1996 on the Nairobi Stock Exchange. Incorporated in 1977 as a company wholly owned by the Government of Kenya following the collapse of East African Airways, the company was privatized-first in 1995 when 26% of the shares of the company were sold to KLM Royal Dutch Airlines and then in 1996 involving an initial public offering of the Company's shares in the biggest share offering in Kenya's history, which was oversubscribed by 82% (see www.kenya-airways.com). Since then the company's share has attained 'blue chip' status on the NSE owing to, among other factors, a high level of corporate disclosure, earnings growth and the share's relatively high liquidity. Presently KQ is a public limited liability company incorporated under the laws of the Republic of Kenya. It has 1billion authorized ordinary shares of KShs.5/- representing an authorized share capital of KShs.5 Billion and 461,615 million issued and fully paid shares representing an Issued share capital of KShs.2, 308,077,420. The decision to cross list KA's shares on the Uganda Securities Exchange was made as part of the company's pursuit of its strategy to be a major player in the African region. This move enhanced the Company's profile both regionally and internationally. Kenya Airways was the second company to be cross listed on the USE in 2002.

Jubilee Holdings Limited is already quoted on the Nairobi Stock Exchange, and was be the first Insurance Company to be quoted on the USE. It has been in operation since 1937 and boasts of a presence in the three East African countries. Its Ugandan operations were revived in 1992 by the formation of The Jubilee Insurance Company of Uganda Limited together with the Aga Khan Fund for Economic Development, the International Finance Corporation and the Development Finance Company of Uganda Limited. Today Jubilee is considered one of the leading insurance companies in Uganda (see www.jubileeinsurance.com).

4.1.2 Pre and Post Financial Performance of Cross-listed Companies

It is evident from Table 3 below that the profitability and liquidity ratios of EABL improved after it first cross-listed in year 2001. The firm's current and quick ratios outperformed the recommended 2 and 1 times parameter. However, it can also be noted that the ratios that deal with the shares outstanding declined-these ratios measure the relative return on shareholders. Due to increased share capital, the gearing of the firm reduced after it cross-listed. The Return on Capital Employed and Return on Investments ratios improved marginally after EABL cross-listed. Due to dilution of share capital, we find the yield ratios reducing drastically. This is because the increase in profitability was not commensurate with the increase in the shares outstanding. The price-earnings ratio also improved. When the P/E ratio is high, it implies that shareholders have more confidence in the firm thus willing to wait for long years to recoup their earnings. When it is low, it may imply that the investments made by the management are so good such that they take fewer years to recoup the initial capital outlay.

Secondly, the liquidity of KQ deteriorated after it first cross-listed in year 2002. This is in respect to current ratio and quick ratio. The return on capital employed and investments ratios also reduced drastically. Debt and equity ratios however increased in this period as there were more shares that were floated, probably due to increased borrowing needs. The profitability ratio measured by the gross profit margin however increased in during the same period. Although price to earning ration went up, the Earnings and Dividend Yields however reduced drastically.

There was a great improvement on the liquidity of Jubilee Insurance Holdings after it cross-listed. A significant improvement on the returns ratios was also noted in year 2008. Due to increase in its proportion of issued shares, its equity ratio also improved. This also led to decrease of the yield ratios as there was a dilution effect. Due to more funds at the disposal, the profitability and return ratios increased over the same period.

Table 3: Financial Performance Before and After Cross-listing

East African Breweries			Kenya Airways			Jubilee Insurance Holding		
Measures	**Before Cross Listing**	**After Cross Listing**	**Measures**	**Before Cross Listing**	**After Cross Listing**	**Measures**	**Before Cross Listing**	**After Cross Listing**
Current Ratio	0.9806	2.4499	Current Ratio	1.5975	0.83184	Current Ratio	1.1795	2.0293
Quick Ratio	0.31308	1.43291	Quick Ratio	1.488805	0.72191	Quick Ratio	1.1796	2.0293
Return on Capital Employed	0.166	0.26282	Return on Capital Employed	0.18687	0.096092	GP Margin	0.74544	0.7721
Return on Investments	0.14178	0.156	Return on Investments	0.40225	0.16126	Return on Capital Employed	0.044678	0.06022
GP Margin	0.30162	0.34653	GP Margin	0.28906	0.29529	Return on Investments	0.1362	0.22257
Debt-Equity Ratio	0.5036	0.3738	Debt-Equity Ratio	1.1017	2.64008	Debt-Equity Ratio	0.9271	0.8414
Equity Ratio	1.14134	1.1002	Equity Ratio	2.1017	2.6745	Equity Ratio	3.955	4.6671
Earnings per Share	0.15118	0.07602	Earnings per Share	0.8013	0.2892	Earnings per Share	0.1095	0.1088
Dividend per Share	0.10395	0.082873	Dividend per Share	0.095	0.0769	Dividend per Share	0.00417	0.025
Price to Earnings Ratio	6.61445	13.1541	Price to Earnings Ratio	1.248	3.4574	Price to Earnings Ratio	8.982	9.1938

***Source**: Data Analysis (2012)*

4.1.3 Two Tailed T-Test Results on Financial Performance

But, how significant are these findings? From the data collected, T-test was performed to establish the significance of the differences between measures of financial performance before and after cross-listing. Each of these tests concentrated on liquidity, profitability, gearing and equity-related ratios. The results of the T-test are presented in Table 4 below. The shocking revelation is that a part from liquidly, the changes in all the other measures of financial performance before and after was non-significant. In absolute terms, price to earnings ratio improved. The reasons for these findings are as explained in the next section.

Table 4: T – Test Analysis for the Effect on Financial Performance Before and After Cross-listing

Two tailed T-test: KENYA AIRWAYS (KQ)							
					95% confidence level		
Measure	**t-stat**	**d.f**	**t-critical**	**mean 1**	**mean 2**	**Mean difference**	**p-value**
Liquidity ratio	9.9134	4	4.3027	1.5433	0.7789	1.17	0.01
Profitability ratio	1.2694	5	2.7764	0.2927	0.1842	0.2385	0.2731
Gearing ratio	-2.1099	3	12.7062	1.6017	2.6573	2.1295	0.2818
Equity-related	-0.4895	4	4.3027	0.7148	1.2745	0.9946	0.6729
Two tailed T-test: EABL							
					95% confidence level		
Measure	**t-stat**	**d.f**	**t-critical**	**mean 1**	**mean 2**	**Mean difference**	**p-value**
Liquidity ratio	-2.1284	4	4.3027	0.6468	1.9414	1.2941	0.1671
Profitability ratio	-0.7001	5	2.7764	0.2031	0.2551	0.2291	0.5225
Gearing ratio	0.1768	3	4.3027	0.8225	0.737	0.7797	0.8759
Equity-related	-0.4415	4	3.1824	2.2899	4.4377	3.3638	0.6888
Two Tailed T-test: Jubilee Insurance Holding (JIH))							
					95% confidence level		
Measure	**t-stat**	**d.f**	**t-critical**	**mean 1**	**mean 2**	**Mean difference**	**p-value**
Liquidity ratio	-16995	4	12.706	1.180	2.029	1.604	0.000
Profitability ratio	-0.1392	4	2.776	0.309	0.352	0.330	0.896
Gearing ratio	-0.1284	3	4.303	2.441	2.754	2.598	0.910
Equity-related	-0.0182	4	2.776	3.032	3.109	3.071	0.986

***Source**: Data Analysis (2012)*

4.2 Why Cross-Border Listing may not Affect Firms' Financial Performance?

A closer look at the benefits that accrue to a firm will perhaps shed more light on why cross listing in East Africa is not a viable investment. Cross-listing is followed by a substantial divestment by the controlling shareholders or surrender of control to outsiders (Mikkelson et al. 1997). Firms which have cross-listed are no longer owned by citizens of one country. Moreover, strong financial performance following cross-listings may be observed for firms from countries that are substantially integrated in the world markets. For instance, Canadian firms experience a dramatic long-run capital market reaction to USA cross-listings as European and Asian firms, given the long standing evidence of USA equity market integration. However, market segmentation hypothesis cannot explain the time series pattern of listings. Since listings have continued to grow, it is expected that with greater integration of markets overtime, the overall benefits should diminish since the cost of capital for companies is increasingly determined globally. Evidence also show that segmented markets cannot explain why share price reactions are largest for exchange-listed firms (Miller, 1999) nor can it explain why listing share-price declines are smaller for listings associated with capital raising activity (Foerster and Karolyi, 1996). For any potential cross listing, the driving force is to access new and different investors. This will increase company's capital base hence securing it. The East African security markets offer this, but listing alone will not guarantee that trading and ease of conversion of shares of the company into cash will improve. A listing firm will have to consider other drivers such as the availability of service providers, competitiveness between the East African security markets and the efficiency of the stock exchange in which it cross-lists. The cost of equity capital of a cross listed firm will, generally, be relatively lowered due to a decline in the transaction costs or an improvement in the quality of information available to investors hence favourable to the firm's profitability. However, this depends on the industrial structure in which the firm operates. Firms that are operating in highly competitive markets and are industry's followers will gain less or nothing, while companies that operate as a monopoly or are industry's leaders will have much to gain from cross-listing. Also, there are enormous costs to be incurred as a result of cross-listing by companies. Maintaining an additional listing also generates extra costs like fees for the stock exchange and additional reporting requirements.

Moreover, a cross listed firm will not only have access to a broader investors' base but may also benefit from tax holidays such as no with-holding tax on dividends paid to foreign investors. However, in this age of electronic trading providing easy access to foreign markets, that argument for foreign listing can give firms a broader shareholder base no longer makes sense. Moreover, a foreign listing is neither a condition, nor a guarantee for attracting foreign shareholders. It may improve access to private investors, but as capital markets become increasingly more global, institutional investors typically invest in stocks they believe are attractive, irrespective of where they are listed. For instance, CalPERS, a large global equity investor holds over 2,400 listed stocks in its portfolio, but less than 10 percent of them have cross listing in USA. In fact, due to better trading liquidity in the home market, the institutional investors often prefer to buy a stock there rather than the cross-listed stock. Furthermore, media interest in the hosting country will additionally lead to visibility and familiarization of the firm in that country. Cross-listed companies are also likely to get more media coverage perhaps due to their large size. However, after correcting for size, Tobbs and Goedhart (2008) found that cross-listed European firms in USA are covered by only 2 more analysts than non-cross-listed. Such a small increase is unlikely to have any financial significance, after all major media houses, like Nation Media Group and The Standard, and stock brokers, like Dyer & Blair in Kenya have also established their branches in other EAC countries.

In addition, cross-listing of companies is also expected to improve their profitability since more market access in cross listed country is likely to bring in more revenue. They are also likely to borrow less because they have access to another pool of capital. Again, this will depend on the cost structure of the company and the cost of doing business in that country, in addition to the intended use of the capital raised. Davis-Friday et al. (2003) have showed that for Mexican firms, on average, cross-listed (ADR) firms are smaller, more highly levered and less profitable than non-cross-listed firms. Besides, companies which cross-list are expected to access a large pool of capital that can be used to develop the company and improve its financial performance. This is possible where companies cannot easily attract large amounts of new equity capital in their home country. However, as investors increasingly come to trade around the world, local stock markets have provided a sufficient supply of equity capital to firms in he developed economies. Cross-listing therefore does not appear to confer a compelling benefit. In fact, three out of four of USA cross-listings of firms from developed economies through 420 ADRs on NASDAQ, NYSE and AMEX between 1970 and 2008 have never involved any raising of capital in USA share transactions (Tollmunen and Torstila, 2005). They only provided foreign firms with acquisition currency

for USA and thus doubled their acquisition of USA firms within five years of cross-listing. Conventional wisdom may imply that cross-listing may improve liquidity of the cross-listed shares. The improved relations between the cross-listed firm and the EAC market participants in which it will list should improve the liquidity of the firm's shares, increase investor recognition hence giving the firm greater prestige and improving access to capital. It will also help a firm to easily switch to another country's offerings when the demand of its share is low in the parent country. Although liquidity is difficult to measure, the trading volumes of cross listed shares (ARDs) of European firms in the USA typically account for only 3 percent of these firms' total traded volumes. Tobbs and Goedhart (2008) have however reported that in USA, such cross-listing do not much improve liquidity. Cross-listed firms become subject to scrutiny of various regulatory authorities, thus facing several challenges such as complying with multiple regulators in the three countries and lacking harmonized legislations and disparities in physical infrastructure such as the ICT platform that are different in each country. This may pose a problem to the firm in that it may find it corporate policies conflicting between different countries. This will be a problem in that strong corporate culture cannot be established. There is usually a cost associated with these challenges. In fact, if the lower cost of capital from eliminating investment barriers, is the main incentive, all firms for which capital would fall sufficiently to justify the costs of overseas listing would embrace this trend. Investors, on the other hand, will enjoy greater protection from the increased number of regulators who will help keep the company's management in check. Additionally, the investor will be able to diversify his investments in the increased number of listed firms and reduce his risks. The level of corporate governance in developed markets is assumed to be better than in developing markets. For instance, UK and USA capital markets may once have had higher corporate governance standards than their counterparts in other part of the world. Those higher standards lent credence to the argument that firms apply for cross-listing in developed markets would inevitably disclose more and better information, give shareholders greater influence, and protect minority investors more fully thereby improving these firms' ability to create value for shareholders. However, many economies have radically improved their own corporate governance requirements. Consequently, the governance advantages once derived from a second listing in the developed markets hardly exist today for firms based in developing markets. The irony is that Kenyan firms are coming from a more developed market to less developed securities market, no wonder they do not derive any improved financial performance.

Lel and Miller (2006) have examined a primary outcome of corporate governance, the ability to identify and terminate poorly performing CEOs, to test the effectiveness of USA investor protections in improving the corporate governance of cross-listed firms. They found that firms from weak investor protection regimes that are cross-listed on a major USA exchange are more likely to terminate poorly performing CEOs than non-cross-listed firms. However, cross-listings on exchanges that do not require the adoption of the most stringent investor protections like OTC and private placements are not associated with a higher propensity to shed poorly performing CEOs. Michael et al. (2004) explain that some members of a company like managers and large shareholders who have control may enjoy private benefits (control benefits) but not minority shareholders. There can be non-pecuniary, such as the ability to direct company's resources, or use of a position for the enhancement of one's human capital. This is why managers, out of their own ambitions, build their own empires causing an agency conflict with the shareholders. The recent financial crisis has put to question not only the governance and regulatory levels in more developed financial systems. Both developed and developing markets were together affected. Although foreign capital flow may promote growth, however during periods of volatility, more foreign capital flows have been associated with slower firm growth (Mody and Murshidi, 2011). It is clear that Kenyan firms which are cross-listing to other EAC markets are moving from a more developed market with relatively higher level of corporate governance to ones with weak legal institutions and less developed financial markets. In fact, the global institutional investors such as fund managers holding cross-listed stocks usually overreact during financial crisis and contagion, engaging in momentum trading, exacerbating volatility, and aiding in transmitting crises across countries even in the absence of fundamental linkages (Gelos, 2011). The recent global crisis has highlighted the volatility of international capital flows, and the current surge in flows to emerging markets has reignited the debate on reforms to the international financial architecture as appropriate policy response. Although conventional wisdom has long held that firms cross-list their shares on other developed exchanges buy their access to more investors, greater liquidity, a higher share price, and a lower cost of capital, the strategy seems not to make much sense perhaps because capital markets have become more liquid and integrated and investors more global, or perhaps because the benefits of cross-listing have all along been over stated. Probably that is why between May 2002 and may 2008 two-hundred and twenty nine foreign firms have terminated their cross-listing from NYSE, NASDAQ, and LSE (international main market) as requirements for deregistering was made easy through a requirement that if less than 5 percent of global trading in their shares takes place on US stock exchanges (Tollmunen and Torstila, 2005; Tobbs and Goedhart, 2008). The trend is the same for Tokyo stock exchange. On the average, these firms estimated that on the average, they would save,

upon delisting, $20 million each in annual service and compliance costs. This sum may, however, exclude the time firm executive spend monitoring compliance and disclosure in cross-listed countries. In fact, on announcement of such delisting from cross-listing, there has been no negative share price response.

4.3 Areas of Policy Considerations

This study has presented some evidence on the effect of cross-border listing on the financial performance of listed firms in EAC stock markets. It was shown that cross listing leads to improvement in a variety of firm fundamentals as it is associated with improved liquidity, earnings, and price to earnings ratio. It was reported that firms benefit less from cross-listing of shares outside their home market. Our analysis so far has uncovered no clear evidence of material value creation to shareholders of cross-listed companies. The study found neither anything suggesting that cross listing has significant impact on their financial performance nor any systematically less borrowing for asset investment. Nonetheless, we did uncover some positive findings only relating to improved market confidence as shown by positive changes in the price-to-earnings ratio for all the cross-listed firms. Every EAC company needs to know that it has access to capital markets beyond the geographical boundaries of their country and it can list in all the three East African capital markets. They should also know that cross listing of firms will promote genuine regionalization with an opportunity for stakeholders in the region to own a part of a successful regional company. But it may not inject strong financial performance.

For these reasons, policy makers and stock market authorities in EAC should provide incentives to encourage corporate firms to cross-listing since it may just promote the integration of the regions capital markets. Cross-border listings are the building blocks for the construction of regional markets. As such, full integration of capital markets requires harmonization of laws, and unification of currency, which in turn help standardize pricing of stocks, and reduce investors transaction and information costs when forming regional portfolio allocation. Fast track policies aimed at integrating the markets, harmonizing trading practices, and trading engines, improving governance structures and attracting foreign investors and listing. To foster an increase in regional cross-listings therefore, appropriate and complementary strategies are needed by exchanges, listed firms, and policy makers. For firms to pursue regional cross-listings that are market driven, they need to improve on corporate governance, minimize information asymmetry, increase their net worth and harmonize their accounting and reporting format with international standards. First, policy makers need to give due consideration to taking the necessary steps to further integrate EAC stock markets. This would enable easy access of regional capital markets by firms, and not necessarily consider cross-listing. The introduction of policy measures that focus on shareholder protection and information, and the proper code and regulation of corporate governance are paramount. Strong investor protection and transparency are prerequisites for capital inflows. Such measures are important if the stock markets are to make external capital available to firms.

In addition, efforts should also be made aimed at improving the regional flow of information and coordination and communication infrastructure to facilitate market integration as opposed to cross-listing. Daily and hourly dissemination of information about the stock market should be undertaken. This could elicit interest both on regional and domestic investors. Moreover, the regional countries should work towards harmonization of their different currencies.[2] However, the EAC member countries should avoid hasty implementation of a monetary union (Onyuma, 2006) but first bridge their disparate economic strengths by the weaker economies raising their per capita income levels, and harmony in the management of the economies to avoid the recent shocks seen in the eurozone where over expenditure in Greece is pooling down other states.[3] Introduction of regional integration policies geared at removing legal, regulatory barriers.

[2] Kenya currently has the strongest currency in the EAC, with its shilling trading at Sh.87 to $1, Uganda's is Sh.2, 220, while Tanzania's is Sh.1,515.

[3] Currently, Kenya's per capita income is $770, Rwanda's is $460, while Burundi's is $150.

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