

## Stakeholder Engagement and Financial Performance: Evidence from Corporate Firms Listed on the Nairobi Securities Exchange, Kenya

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**Abstract:** This study examined how stakeholder engagement—specifically communication, collaboration, and inclusivity—affects financial performance of firms listed on the Nairobi Securities Exchange (NSE). It addressed the conceptual and empirical gaps arising from the limited integration of stakeholder engagement in sustainability reporting practices within the Kenyan corporate sector. Guided by stakeholder theory, which posits that a firm’s long-term success depends on effectively managing and balancing the interests of all its stakeholders, not just shareholders, this study employed a panel dataset of 57 listed firms covering the period 2014 – 2023. Fixed-effect regression analysis was used to estimate the effect of stakeholder engagement reporting on financial performance, measured using Returns on Equity (ROE). The results shows that all the three stakeholder engagement dimensions significantly and positively influence financial performance. Stakeholder Communication had the strongest effect ( $\beta = 0.1872$ ,  $p < 0.001$ ), followed by inclusivity ( $\beta = 0.1694$ ,  $p < 0.001$ ) and collaboration ( $\beta = 0.0829$ ,  $p < 0.001$ ). The study relied solely on secondary data extracted from annual financial and sustainability reports, which may not have fully captured the depth of stakeholder engagement practices at the firm level. Future research could incorporate primary data or mixed-method approaches for a more comprehensive assessment. Despite this limitation, the findings provide important insights for regulators and corporate managers seeking to strengthen stakeholder engagement as part of sustainable business strategy. The study offered empirical evidence from an emerging market context on how specific dimensions of stakeholder engagement contribute to financial performance. It filled a notable gap in sustainability reporting literature by demonstrating that communication, collaboration and inclusivity are significant drivers of firm value among listed companies in Kenya.

**Keywords:** Stakeholder Engagement; Financial Performance; Returns on Equity; Corporate Firms; Sustainable Business Strategy

**JEL:** M14; G30; C23

### 1. Introduction

In today’s dynamic corporate environment, stakeholder engagement has emerged as a cornerstone of sustainable business strategy and ethical governance (Deloitte & The Fletcher School, 2024; KPMG, 2023). Firms are now evaluated not only by their profitability but also by how they engage with

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stakeholders—such as investors, employees, customers, regulators, and communities—with 83% of global investors using sustainability disclosure reports in their decision-making (PwC, 2023). Accordingly, the integration of stakeholder engagement perspectives into corporate strategy has become a critical driver of long-term value creation, fostering trust, legitimacy, and competitive advantage (Alsayegh et al., 2020).

The stakeholder engagement discourse is deeply rooted in Freeman’s (1984) stakeholder theory, which posits that firms are not only accountable to shareholders but to a broader community of stakeholders who are impacted by or have influence over the firm’s operations (Opanyi & Omare, 2022; Xu et al., 2022). Engaging stakeholders through structured communication, collaboration, and inclusivity enhances transparency, minimizes agency conflicts, and aligns corporate strategies with societal expectations, which ultimately contributes to improved financial performance (Ellili & Nobanee, 2022; Bosi et al., 2022). Empirical evidence further suggests that firms with high stakeholder responsiveness enjoy stronger reputational capital, reduced risk exposure, and increased investor confidence (Mardini, 2022; Agutu & Githira, 2023).

In the Kenyan context, regulatory efforts have sought to institutionalize sustainability practices among listed corporate firms. Notably, the Nairobi Securities Exchange (NSE), in partnership with the Global Reporting Initiative (GRI), introduced ESG Disclosure Guidelines in 2021 to enhance transparency and promote stakeholder inclusion in corporate reporting (NSE, 2021). However, despite these frameworks, empirical evidence suggests that the actual integration of stakeholder engagement into sustainability reporting among Kenyan firms remains limited and inconsistent. While many companies emphasize sustainability reporting metrics such as environmental, social, and governance (ESG) in their disclosures, stakeholder engagement has often received limited attention—both in corporate reporting and in academic studies. Key dimensions such as stakeholder dialogue, inclusivity in decision-making, and collaboration are frequently underreported or entirely omitted (Mutero & Njoroge, 2022). This persistent omission in both practice and literature points to a critical conceptual and empirical gap—specifically, the underexplored relationship between stakeholder engagement and financial performance within the context of emerging markets such as Kenya.

Safaricom Plc, for instance, has demonstrated strong stakeholder engagement practices through community investment and inclusive governance, which have contributed to increased shareholder value and improved brand loyalty. This is evidenced by a 13.8% increase in shareholder value in 2021 (Safaricom Plc, 2021). However, many other firms listed on the NSE have lagged in institutionalizing meaningful stakeholder engagement, raising questions about its financial relevance and strategic value in the Kenyan corporate landscape.

This study, therefore, seeks to examine the influence of stakeholder engagement on the financial performance of corporate firms listed on the Nairobi Securities Exchange. By using panel data covering a 10-year period (2014–2023), the study offers empirical evidence on whether firms that prioritize stakeholder inclusivity, communication, and collaboration are likely to experience enhanced financial outcomes. The findings are expected to contribute to sustainability reporting literature and guide firms, policymakers, and investors in fostering inclusive and performance-driven corporate governance practices.

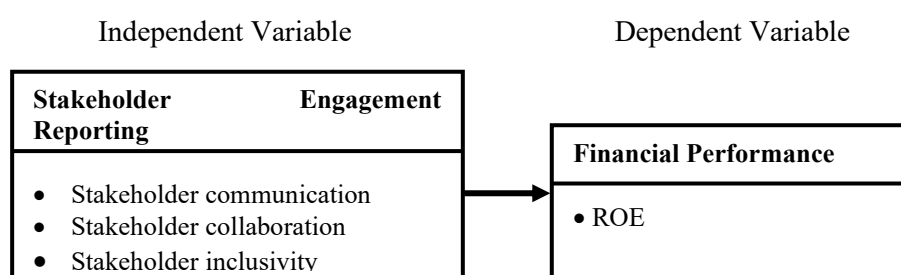
## 1.2. Statement of the Problem

Despite the growing emphasis on comprehensive sustainability reporting, studies reveal that corporate disclosures often emphasize sustainability reporting metrics such as environmental, social, and governance (ESG) while overlooking stakeholder engagement as a distinct and critical component. Specifically, the integration of stakeholder engagement into strategic and financial decision-making among firms listed on the Nairobi Securities Exchange (NSE) remains limited and inconsistent. Regulatory efforts, such as the NSE's 2021 ESG Disclosure Guidelines, have sought to institutionalize sustainability practices; yet, many firms continue to focus primarily on ESG reporting while neglecting stakeholder-specific dimensions such as dialogue, inclusivity in decision-making, and collaboration.

This gap is mirrored in the literature, where the financial implications of stakeholder engagement have received limited empirical attention, particularly in the context of emerging markets like Kenya. While isolated cases such as Safaricom Plc demonstrate the strategic value of stakeholder engagement in enhancing brand loyalty and shareholder returns, such practices remain underutilized across most NSE-listed firms. Consequently, there is insufficient evidence to confirm whether stakeholder engagement—when meaningfully implemented and reported—has a measurable influence on financial performance. This raises a critical research question: Does stakeholder engagement enhance the financial performance of corporate firms in emerging markets such as Kenya?

## 1.3. Conceptual Framework

This study is guided by stakeholder theory, which posits that firms create value by effectively engaging their stakeholders. The conceptual framework examines the influence of stakeholder engagement—measured through stakeholder communication, collaboration, and inclusivity—on financial performance, represented by Return on Equity (ROE). It assumes that firms with stronger stakeholder engagement practices are more likely to achieve superior financial outcomes.



**Figure 1. Conceptual Framework**

*Source: Researcher, 2024*

## 2. Literature Review

This study is anchored in Stakeholder Theory, pioneered by Freeman (1984), which asserts that firms must serve the interests of all stakeholders—not just shareholders—to achieve long-term value creation. Effective stakeholder engagement is viewed as a strategic asset that enhances legitimacy, reduces risk, and secures vital resources such as human capital and investor trust (Xu et al., 2020). Within the context of sustainability reporting, stakeholder engagement strengthens transparency,

builds corporate reputation, and aligns business practices with societal expectations (Fu & Li, 2023; Ellili & Nobanee, 2022; Yuliana & Utami, 2022). The theory is often discussed from instrumental and legitimacy perspectives. The Instrumental view frames stakeholders as contributors to firm performance (Opanyi & Omare, 2022), while the legitimacy view emphasizes ethical alignment and societal acceptance (Ojera & Odoyo, 2020; Mumo, 2022). Firms that disclose stakeholder engagement practices—such as communication, collaboration, and inclusivity—can reduce information asymmetry and enhance financial outcomes by fostering stronger relationships with key stakeholders (Rajakulanajagam & Nimalathan, 2020; Xu et al., 2020).

Despite its importance, stakeholder engagement remains underreported in corporate sustainability disclosures (Dewi et al., 2023), even though frameworks such as the Global Reporting Initiative emphasize the need for organizations to disclose how they identify and engage stakeholders (GRI, 2021). Many firms emphasize environmental, social and governance metrics, but fail to provide substantive reporting on how stakeholders are engaged in shaping corporate decisions. Even within ESG frameworks, stakeholder engagement is frequently implied rather than measured or analyzed independently (Mutero & Njoroge, 2022; Xu et al., 2022). This has resulted in a limited understanding of its direct contribution to firm performance, particularly in emerging market contexts.

Globally, empirical evidence presents mixed findings. Dzomonda (2020) reported a negative relationship between stakeholder engagement and short-term financial metrics such as Tobin's Q, but a positive correlation with firm size, suggesting potential long-term value. Yildiz and Sezen (2019) highlighted that stakeholder collaboration in environmental initiatives improves operational efficiency, while Haninun et al. (2018) emphasized the signaling benefits of stakeholder engagement in reducing investor uncertainty. In Kenya, Ng'ang'a and Mugo (2022) established that stakeholder engagement significantly influences financial performance among NSE-listed firms, explaining 33.3% of the variance in Return on Assets (ROA). Their findings underscore stakeholder engagement as a meaningful predictor of profitability, although CSR alone could not fully account for firm performance, highlighting the need to isolate stakeholder engagement as a distinct analytical construct. Conversely, some scholars warn of potential financial strain, arguing that investments in engagement-related initiatives may reduce profit margins, particularly in highly competitive or weakly regulated environments (Jones et al., 2018). These contrasting findings point to the importance of context, implementation depth, and firm-specific characteristics in determining the financial returns of stakeholder engagement.

Despite growing interest in sustainability reporting, few studies explicitly examine stakeholder engagement as a distinct reporting dimension. The literature remains dominated by generalized ESG and CSR metrics, leaving a gap in empirical evidence on how stakeholder engagement, when meaningfully implemented and reported, influences financial performance. This study addresses this gap by evaluating the direct effect of stakeholder engagement—through communication, collaboration, and inclusivity—on the financial performance of firms listed on the Nairobi Securities Exchange.

### **3. Methodology**

This research adopted a panel study design to assess the influence of stakeholder engagement reporting on the financial performance of firms listed on the Nairobi Securities Exchange (NSE) over a ten-year period (2014–2023). A panel approach—combining both cross-sectional and time-series

data—was considered appropriate for capturing firm-level variations across time and enabling stronger causal inference (Kothari & Garg, 2019; Yuliana & Utami, 2022; Oso & Onen, 2013). The target population consisted of 65 firms listed on the NSE, and a census method was applied to include all firms that satisfied the selection criteria. A final sample of 57 companies was retained based on their continuous listing during the study period and the completeness of their annual disclosures. Firms that underwent delisting, mergers, or acquisitions during the period were excluded. The choice of NSE-listed firms was based on their strategic contribution to the economy and adherence to formal governance and disclosure practices. A full enumeration was deemed suitable given the small, well-defined population and its ability to minimize sampling bias (Kothari & Garg, 2019; Oso & Onen, 2013; Ouma & Oluoch, 2019).

The study utilized historical secondary data drawn from publicly available audited financial statements—including income statements and balance sheets—for the period 2014 to 2023. In addition, qualitative data on stakeholder engagement practices were obtained from company-issued sustainability and integrated reports, accessed through official corporate websites and regulatory repositories. Key stakeholder engagement dimensions such as communication, collaboration, and inclusivity were systematically coded using a structured content analysis framework. A standardized checklist was employed to guide the data extraction process, ensuring consistency, accuracy, and alignment with the study's objectives across all sampled firms.

To enhance methodological rigor, a pilot test was conducted on five corporate firms listed on the Nairobi Securities Exchange (NSE), representing approximately 10% of the study population, consistent with recommendations by Kimilu (2021). Diagnostic tests—specifically the Hausman Test was used to determine the appropriate effects model (fixed or random), minimizing biases from unobserved heterogeneity. The Wooldridge Test addressed serial correlation issues, ensuring that regression estimates were statistically valid. Together, these tests reinforced the credibility of the findings by validating the appropriateness of the analytical models applied.

Data entry and transformation were conducted using Microsoft Excel, while statistical analyses were performed using STATA version 16.0. Descriptive statistics—specifically means and standard deviations—were computed to summarize the data. Pearson correlation analysis was employed to assess the strength and direction of relationships among the study variables. For inferential analysis, multiple regression was used to estimate the effect of stakeholder engagement reporting components—communication, collaboration, and inclusivity—on financial performance, measured by Return on Equity (ROE). The model incorporated both firm-specific effects and time-fixed effects to control for unobserved heterogeneity across firms and time periods. The panel regression model used in the study is specified as follows:

$$ROE_{it} = \beta_0 + \beta_1 SC_{it} + \beta_2 SCL_{it} + \beta_3 SI_{it} + \alpha_i + \lambda_t + \varepsilon_{it}$$

Where:

$ROE_{it}$  = denotes the Return on Equity for firm  $i$  at time  $t$ , serving as the dependent variable and a measure of financial performance.

$\beta_0$  = represents the intercept of the regression function.

$\beta_1$ ,  $\beta_2$ , and  $\beta_3$  = are the estimated coefficients for the independent variables: Stakeholder Communication (SC), Stakeholder Collaboration (SCL), and Stakeholder Inclusivity (SI), respectively.

$SC_{it}$  = indicates the extent to which firm  $i$  disclosed stakeholder communication activities during year  $t$ .

$SCL_{it}$  = reflects the degree of collaborative engagement with stakeholders reported by firm  $i$  at time  $t$ .

$SI_{it}$  = measures how much inclusivity in decision-making was disclosed by firm  $i$  in the given year.

$\alpha_i$  = accounts for unobserved firm-specific effects that are constant over time but vary between firms.

$\lambda_t$  = captures year-fixed effects, controlling for time-specific factors that uniformly affect all firms.

$\varepsilon_{it}$  = is the error term, capturing idiosyncratic shocks or other influences not explained by the model variables.

### 3.1. Measurement of Variables

The study used ROE as a measure of financial performance, which functioned as the dependent variable. ROE was determined by dividing the net income after tax by the average shareholders' equity for each financial year, expressed as:

$$ROE = \frac{\text{Net Profit After Tax}}{\text{Average Shareholders' Equity}}$$

ROE was chosen due to its widespread use across different sectors and its reliability in capturing the value generated for shareholders over time, making it particularly suitable for longitudinal studies (Pandey, 2006; Pike & Neale, 2009).

The independent variables—representing the dimensions of stakeholder engagement reporting—were measured using a structured document analysis sheet developed in alignment with the ESG Disclosure Guidance Manual issued by the Nairobi Securities Exchange (NSE, 2021) and the Global Reporting Initiative (GRI) Standards. According to Bowmans (2021), the NSE guidance manual is harmonized with internationally recognized GRI reporting principles. The structured document analysis sheet was used to evaluate disclosures across stakeholder Communication, Collaboration, and Inclusivity dimensions. Each criterion was rated on a scale of 0 to 5 based on its compliance with reporting standards, the quality and clarity of information, and overall comprehensiveness. Annual mean scores for each firm and variable were computed using the averaging method described by Munjal and Sharma (2019). The Method is specified as follows:

$$\text{Mean Score}_{jt} = \frac{1}{N_j} \sum_{i=1}^{N_j} X_{ijt}$$

Where:

**Mean Score<sub>jt</sub>** = The average stakeholder engagement score for firm  $j$  in year  $t$ , calculated separately for each stakeholder engagement dimension (Communication, Collaboration, and Inclusivity).

**$X_{ijt}$**  = The score assigned to disclosure item  $i$  for firm  $j$  in year  $t$ , based on the quality and comprehensiveness of reporting.

**$N_j$**  = The total number of stakeholder engagement disclosure items assessed for firm  $j$ .

The study used a panel data approach, covering 57 listed companies over a 10-year period. For each stakeholder engagement dimension (communication, collaboration and inclusivity), average scores across the entire period were computed per firm. These aggregated scores were then utilized in the

regression analysis to explore the long-term influence of stakeholder engagement reporting on financial performance. The overall stakeholder engagement score was derived using the following formula:

$$\text{Overall Mean Score}_{jt} = \frac{1}{T} \sum_{t=1}^T \left( \sum_{j=1}^N \frac{X_{ijt}}{N_j} \right)$$

Where:

**Overall Mean Score<sub>jt</sub>** = The average stakeholder engagement score for firm *j* at time *t*.

**T** = Total number of years (*T=10*).

**t** = A specific year within the study period (from 2014 to 2023).

**N** = Total number of firms in the study (*N=57*).

**j** = Index representing each firm (1 to 57).

**X<sub>ijt</sub>** = The score (out of 5) for item *i* disclosed by firm *j* at time *t*, based on the level and quality of disclosure.

**N<sub>j</sub>** = Total number of disclosure items assessed for firm *j*.

## 4. Results and Discussions

### 4.1. Descriptive Analysis

This study analyzed financial and non-financial data from 57 corporate firms listed on the Nairobi Securities Exchange (NSE) over a 10-year period (2014–2023), yielding a total of 570 firm-year observations. Descriptive statistics—including means, standard deviations, minimums, and maximums—were computed to assess the distribution and central tendencies of the key variables related to stakeholder engagement reporting. These descriptive insights offer a foundational understanding for subsequent diagnostic tests and inferential analysis on the relationship between stakeholder engagement and financial performance.

Table 1 presents the descriptive statistics for the three stakeholder engagement dimensions: communication, collaboration, and inclusivity, as well as for the dependent variable, Return on Equity (ROE). The results indicate that stakeholder communication had a mean score of 2.10 (SD = 1.91), suggesting that while communication efforts exist, their intensity remains relatively modest on the standardized scale of 0 to 5. Stakeholder collaboration followed closely with a mean of 2.05 (SD = 1.87), also reflecting moderate levels of engagement. Stakeholder inclusivity recorded the lowest average at 1.99 (SD = 1.83), pointing to limited inclusion of diverse stakeholder voices in corporate decision-making processes.

The relatively low average scores across all three dimensions indicate that stakeholder engagement remains underdeveloped in many listed firms, with considerable room for improvement. Given that stakeholder engagement is widely recognized as a strategic tool for enhancing legitimacy, trust, and long-term performance, these findings underscore the need for firms to deepen their practices in these areas. This is consistent with prior studies (e.g., Ng'ang'a & Mugo, 2022), which emphasize the role of stakeholder inclusivity and communication in improving organizational outcomes.

Notably, the relatively high standard deviations observed across all three dimensions reflect substantial variation in engagement practices among firms. This suggests that while some firms have institutionalized robust engagement mechanisms, others have yet to do so. Such variability may stem from industry-specific practices, managerial priorities, or differing levels of commitment to transparency and inclusivity.

In contrast, the dependent variable—Return on Equity (ROE)—recorded a mean value of 2.46 (SD = 0.50), indicating a moderate level of financial performance across the sample. This metric will be further examined in relation to stakeholder engagement variables in the inferential analysis. Overall, the descriptive findings highlight a critical opportunity for firms to strengthen stakeholder engagement reporting practices to potentially enhance both social legitimacy and financial outcomes.

**Table 1. Descriptive Statistics**

Variable	Observations (n)	Mean	Standard Deviation	Minimum	Maximum
Stakeholder Communication	570	2.102	1.906	0.	5
Stakeholder Collaboration	570	2.051	1.866	0	5
Stakeholder Inclusivity	570	1.996	1.828	0	5
Return on Equity (ROE)	570	2.46	0.50	1.42	4.00

*Note: This table presents the core descriptive statistics, which provide an overview of the data distribution and support the examination of how different aspects of stakeholder engagement reporting relate to the financial performance of corporate firms listed on the Nairobi Securities Exchange (NSE).*

#### 4.2. Diagnostic and Preliminary Tests

Given the study's relatively large panel of observations and the adoption of Feasible Generalized Least Squares (FGLS) estimation, strict adherence to normality assumptions was not essential for statistical inference. This is supported by the Central Limit Theorem, which posits that estimators tend toward normal distribution in large samples (Wooldridge, 2010). To ensure the robustness of the panel regression model, several diagnostic procedures were performed. The Levin-Lin-Chu unit root test verified that all key variables—stakeholder communication (SC), stakeholder collaboration (SCL), stakeholder inclusivity (SI), and return on equity (ROE)—were stationary, with all p-values below 0.001. This outcome indicated the absence of spurious regression and affirmed the dataset's suitability for panel data analysis (Stock & Watson, 2018).

The Modified Wald test detected heteroskedasticity ( $\chi^2 = 21,000,000$ ;  $p < 0.001$ ), while the Wooldridge test identified first-order autocorrelation ( $F = 41.785$ ;  $p = 0.0001$ ). Both issues were addressed by employing FGLS, which corrects for heteroskedasticity and autocorrelation, producing consistent and reliable standard errors (Baltagi, 2021; Torres-Reyna, 2007). Pairwise correlation analysis showed all coefficients to be below 0.9, indicating that multicollinearity was not a concern. Finally, the Hausman specification test ( $\chi^2(5) = 34.93$ ,  $p < 0.001$ ) favored the fixed effects model over the random effects alternative, validating its use to control for firm-level unobserved heterogeneity.

#### 4.3. Correlation Analysis

Table 2 presents the correlation matrix examining the relationships between Return on Equity (ROE) and the three dimensions of stakeholder engagement reporting: communication, collaboration, and

inclusivity. This analysis provides insight into which specific engagement practices are most strongly associated with financial performance, offering firms a data-driven basis for prioritizing stakeholder strategies that contribute to profitability and long-term value.

**Table 2. Correlation Matrix — Stakeholder Engagement Dimensions and Return on Equity**

No	Variable	1	2	3	4
1	Return on Equity (ROE)	1			
2	Stakeholder Communication (SER_SC)	0.5451	1		
3	Stakeholder Collaboration (SER_SCL)	0.5358	0.2173	1	
4	Stakeholder Inclusivity (SER_SI)	0.7015	0.3660	0.6102	1

*Note: This table presents correlation matrix, illustrating the strength and direction of the relationships between Return on Equity (ROE) and the various dimensions of stakeholder engagement reporting.*

The results show a strong and statistically significant positive correlation between ROE and stakeholder inclusivity ( $r = 0.7015$ ,  $p < 0.001$ ), suggesting that firms that emphasize inclusive engagement practices tend to experience superior financial performance. Additionally, ROE is positively correlated with both stakeholder communication ( $r = 0.5451$ ,  $p < 0.001$ ) and stakeholder collaboration ( $r = 0.5358$ ,  $p < 0.001$ ), underscoring the financial relevance of robust stakeholder dialogue and joint problem-solving.

These findings reinforce the strategic importance of stakeholder engagement in enhancing firm outcomes. In particular, the strong association between ROE and inclusivity highlights the value of incorporating diverse stakeholder voices into corporate decision-making—a view supported by earlier studies that link inclusive practices to stronger stakeholder loyalty, legitimacy, and financial resilience (Jones et al., 2018).

The correlations among the engagement dimensions themselves also offer noteworthy insights. Stakeholder collaboration shows a modest correlation with communication ( $r = 0.2173$ ) but a stronger relationship with inclusivity ( $r = 0.6102$ ), suggesting that collaborative practices may serve as a bridge toward more inclusive stakeholder models. These interrelationships highlight the need for integrated engagement strategies that balance open communication, meaningful collaboration, and inclusive participation—key pillars in driving sustainable financial performance.

#### 4.4. Panel Regression Analysis

Table 3 presents the results of the fixed-effects multiple regression analysis, based on the panel model specified as:  $ROE_{it} = \beta_0 + \beta_1 SC_{it} + \beta_2 SCL_{it} + \beta_3 SI_{it} + \alpha_i + \lambda_t + \varepsilon_{it}$ , where  $ROE_{it}$  denotes Return on Equity for firm  $i$  at time  $t$ , while SC, SCL, and SI represent stakeholder communication, collaboration, and inclusivity, respectively. The model controls for both firm-specific effects ( $\alpha_i$ ) and time-specific effects ( $\lambda_t$ ). The regression outputs were used to test the null hypotheses and to evaluate the specific effect of each stakeholder engagement component on financial performance. The summarized results are presented in Table 3 below:

**Table 3. Fixed Effect Regression Analysis Results**

Variable	Coefficient ( $\beta$ )	Standard Error	T-test	p-value	95% Interval	Confidence
Stakeholder Communication (SER_SC)	0.1872	0.0183	10.22	0.000	[0.1512, 0.2232]	

Stakeholder (SER_SCL)	Collaboration	0.0829	0.0140	5.93	0.000	[0.0554, 0.1103]
Stakeholder (SER_SI)	Inclusivity	0.1694	0.0165	10.29	0.000	[0.1371, 0.2017]
2015		0.1093	0.0556	1.97	0.050	[0.0001, 0.2185]
2016		-0.0199	0.0556	-0.36	0.721	[-0.1291, 0.0894]
2017		0.1083	0.0556	1.95	0.052	[-0.0010, 0.2175]
2018		-0.0170	0.0556	-0.31	0.760	[-0.1262, 0.0922]
2019		0.0941	0.0556	1.69	0.091	[-0.0151, 0.2033]
2020		-0.0134	0.0556	-0.24	0.810	[-0.1227, 0.0959]
2021		0.0878	0.0557	1.58	0.115	[-0.0216, 0.1972]
2022		0.0221	0.0556	0.40	0.691	[-0.0872, 0.1314]
2023		0.0983	0.0556	1.77	0.078	[-0.0109, 0.2076]
Constant/Intercept		1.2964	0.0797	16.27	0.000	[1.1399, 1.4530]
sigma_u		0.1320				
sigma_e		0.2967				
rho		0.1651				(fraction of variance due to u_i)
F-test	F(56, 501)		1.91		0.000	

*Model Diagnostics: Number of obs (within) = 570 Group variable: ui Number of groups = 57 R-sq: within = 0.3635 Obs per group: min = 10 between = 0.8631 avg = 10.0 overall = 0.6167 max = 10 F(12,501) = 23.84 corr(u\_i, Xb) = 0.0111 Prob > F = 0.0000 sigma\_u .13195394 sigma\_e .29668966 rho .1651404 (fraction of variance due to u\_i) F test that all u\_i=0: F(56, 501) = 1.91 Prob > F = 0.0002*

The fixed-effects regression results presented in Table 3 indicate that the three sub-variables (stakeholder communication, stakeholder collaboration, and stakeholder inclusivity) each have a significant positive relationship with return on equity (ROE). The coefficient for stakeholder communication is 0.1872, with a t-statistic of 10.22 ( $p < 0.001$ ), suggesting that a one-unit increase in stakeholder communication correlates with a 0.1872 unit increase in return on equity (ROE). This finding suggests that firms that prioritize effective communication with their stakeholders can enhance their financial performance. This aligns with existing research, which posits that clear and open communication can lead to stronger relationships and trust between firms and their stakeholders, ultimately resulting in improved financial outcomes (Ng'ang'a & Mugo, 2022).

Stakeholder collaboration also demonstrates a positive and significant relationship with return on equity, with a coefficient of 0.0829 and a t-statistics of 5.93 ( $p < 0.001$ ). This result indicates that enhanced collaborative practices with stakeholders contribute to an increase in financial performance. Although the effect size is smaller than that of stakeholder communication, it is still meaningful. This finding suggests that firms engaging in collaborative initiatives, such as joint projects or partnerships with stakeholders, may benefit from shared knowledge and resources, thereby leading to improved financial outcomes. Previous studies have highlighted the value of collaboration in fostering innovation and responsiveness to stakeholder needs, reinforcing the importance of this dimension in corporate strategy (Kwamega et al., 2018).

Finally, the coefficient for stakeholder inclusivity is 0.1694 with a t-statistics of 10.29 ( $p < 0.001$ ), reflecting a significant positive relationship with return on equity. This finding indicates that firms that engage stakeholders in decision-making processes and actively consider their input are likely to see enhanced financial performance. The strong effect size of this coefficient underscores the critical importance of inclusivity as a driver of organizational success. By involving stakeholders in their

operations and strategies, firms not only build stronger relationships but also create a sense of ownership among stakeholders, leading to increased support and loyalty. This result is consistent with literature advocating for inclusive practices as a means to achieve sustainable business success (Jones et al., 2018).

The model's variance components show that  $\sigma_u$  (0.1320) represents the standard deviation of unobserved firm-specific effects, while  $\sigma_e$  (0.2967) captures the standard deviation of firm-specific error term. The  $\rho$  value of 0.1651 indicates that 16.5% of the total variance in ROE is attributable to unobserved firm-specific factors. This suggests that while firm-specific characteristics have some influence on ROE, the majority of the variance is explained by other factors included in the model.

The within-group R-squared of 0.3635 shows that 36.35% of ROE variation within firms is explained by the independent variables, while the between-group R-squared of 0.8631 suggests that 86.31% of the variance between firms is captured by the model. The overall R-squared of 0.6167 highlights that the model accounts for 61.67% of total ROE variability. F-statistics confirm the model's statistical significance, with the F-test for independent variables ( $F(12, 501) = 23.84, p < 0.001$ ) and for firm-specific effects ( $F(56, 501) = 1.91, p = 0.0002$ ) supporting the use of a fixed-effects model. Notably, all sub-variables were tested against the threshold of 0.05 for statistical significance, and all coefficients met the required significance level.

#### 4.5. Stakeholder Engagement Reporting and Financial Performance

Based on the regression results presented in Table 3, the null hypothesis ( $H_0$ )—that stakeholder engagement reporting has no significant effect on financial performance—is tested across its three dimensions as follows:

##### 4.5.1. Stakeholder Communication Reporting and Financial Performance

*H<sub>01</sub>: There is no significant influence of stakeholder communication reporting on the financial performance of corporate firms listed on the NSE.*

The regression analysis reveals a positive and statistically significant coefficient for stakeholder communication ( $\beta = 0.1872, p < 0.001$ ). This indicates that firms that actively disclose how they communicate with stakeholders tend to achieve higher ROE. Consequently, the null hypothesis ( $H_{01}$ ) is rejected.

These results are consistent with that of Ng'ang'a and Mugo (2022), who found that effective communication enhances trust and reduces information asymmetry, leading to improved investor confidence and financial outcomes. Similarly, Ellili and Nobanee (2022) emphasize that stakeholder communication facilitates transparency and accountability, which are essential in building reputational capital. This finding supports the argument that stakeholder communication is not merely a symbolic gesture but a value-enhancing practice.

##### 4.5.2. Stakeholder Collaboration Reporting and Financial Performance

*H<sub>02</sub>: There is no significant influence of stakeholder collaboration reporting on the financial performance of corporate firms listed on the NSE.*

The coefficient for stakeholder collaboration is positive and statistically significant ( $\beta = 0.0829$ ,  $p < 0.001$ ), suggesting that firms reporting collaborative efforts with stakeholders—such as partnerships, joint initiatives, or shared governance structures—experience measurable improvements in ROE. Thus, the null hypothesis ( $H0_2$ ) is rejected.

This result aligns with the findings of Kwamega et al. (2018) and Yildiz and Sezen (2019), who observed that collaboration with stakeholders can increase efficiency and innovation by pooling expertise and resources. However, Dzomonda (2020) found a weaker correlation between collaboration and short-term profitability, implying that collaborative benefits may be more long-term and context-dependent. Nonetheless, the current study confirms that even moderate collaboration efforts are associated with improved financial performance in the Kenyan context.

#### 4.5.3. Stakeholder Inclusivity Reporting and Financial Performance

*H0<sub>3</sub>: There is no significant influence of stakeholder inclusivity reporting on the financial performance of corporate firms listed on the NSE.*

Stakeholder inclusivity demonstrated a strong and statistically significant relationship with ROE ( $\beta = 0.1694$ ,  $p < 0.001$ ). This suggests that firms that engage a diverse range of stakeholders in decision-making and governance processes are more likely to realize higher financial returns. The null hypothesis ( $H0_3$ ) is therefore rejected.

This finding supports Jones et al. (2018), who argue that inclusive stakeholder engagement enhances legitimacy and fosters broader support, both of which contribute to superior financial outcomes. Alsayegh et al. (2020) also contend that inclusivity ensures stakeholder alignment with firm objectives, which improves organizational resilience and adaptability. The strong coefficient observed in this study reinforces inclusivity as a particularly impactful dimension of stakeholder engagement in emerging markets.

## 5. Conclusions and Recommendations

### 5.1. Conclusions

The findings of this study reveal a clear and statistically significant positive link between stakeholder engagement reporting (SER) and financial performance, measured by Return on Equity (ROE). The overall correlation was strong ( $r = 0.7563$ ), with all three dimensions of stakeholder engagement—communication, collaboration, and inclusivity—showing favorable associations with financial outcomes. Notably, stakeholder inclusivity and communication had the most pronounced effects, highlighting the value of integrating stakeholder perspectives into business operations.

The regression results also confirmed these relationships, with a coefficient of 0.0917 ( $p < 0.001$ ), further validating that effective stakeholder engagement practices contribute positively to a firm's profitability. These insights reinforce the argument that stakeholder engagement should be treated not just as a reporting requirement but as a strategic element of sustainable business management.

Moreover, the analysis indicated that transparency moderates the effect of sustainability disclosures in complex ways. While it enhances the effectiveness of social and stakeholder reporting, it may lessen the positive effects of environmental and governance disclosures—particularly when transparency exposes unfavorable information. Excessive transparency can also shift organizational focus from genuine improvement to mere compliance, reducing the strategic value of disclosures. This

underscores the need for a balanced approach—where transparency is combined with meaningful reporting and action—to maximize both stakeholder trust and financial gains.

Ultimately, the study advances scholarly understanding in the area of sustainable finance, particularly within the context of emerging economies. It provides actionable insights for corporate managers, policymakers, regulators, and investors on how stakeholder engagement can be leveraged to drive both accountability and performance.

## 5.2. Recommendations

The study offers several key recommendations for firms, regulators, and other stakeholders:

- **Corporate Actions:** Businesses should invest in strengthening communication with stakeholders, as it showed the highest influence on financial performance ( $\beta = 0.1872$ ,  $p < 0.001$ ). Fostering open, consistent communication builds trust and strengthens corporate reputation. Similarly, inclusive engagement ( $\beta = 0.1694$ ,  $p < 0.001$ ) should be prioritized, enabling broader stakeholder input into corporate decisions. Collaboration ( $\beta = 0.0829$ ,  $p < 0.001$ ), although with a smaller effect size, also plays a vital role and should be encouraged through joint stakeholder initiatives.
- **Regulatory Frameworks:** Regulators should consider establishing mandatory ESG disclosure standards, moving beyond voluntary guidelines. Clear and enforceable policies will promote uniformity and improve the reliability of sustainability information across sectors.
- **Capacity Development:** Policymakers should facilitate training and support mechanisms to help organizations meet ESG and stakeholder engagement standards effectively. This will help bridge knowledge gaps and improve the overall quality of reporting.
- **Investor Considerations:** Investors are advised to incorporate stakeholder engagement indicators into their financial analyses. Understanding how firms communicate with and involve stakeholders can serve as a predictive factor for long-term performance and risk management.

By integrating stakeholder engagement into their sustainability strategies, firms can unlock both social and financial value, strengthening their competitive advantage and fostering responsible governance.

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