Relationship Between Stakeholder Engagement and Financial Performance of State-owned Commercial Enterprises in Kenya

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Abstract
This study aimed to establish how stakeholder engagement, as one of the corporate governance practices, influences the financial performance of state-owned commercial enterprises (SOCEs) in Kenya. Stakeholder theory underpinned the study. The study adopted an explanatory research design and targeted 476 board members and 379 corporate executives from 46 SOCEs in Kenya out of which 153 board members and 142 corporate executives identified using a random sampling technique were sampled. Primary data was collected using questionnaires whereas the Office of the Auditor General's reports and financial statements of SOCEs from July 2014 to June 2023 provided secondary data. This period was chosen since the Government of Kenya enacted the 'Mwongozo' in January 2015. Data were analyzed using descriptive statistics and hypothesis was tested using covariance-based structural equation modeling with the aid of Analysis of Moment Structures software. Study findings showed that the influence of stakeholder engagement (estimate = 0.504, critical ratio = 5.689, $p < 0.001$) on the financial performance of Kenyan SOCEs was positive and statistically significant and recommended that SOCEs should set up reporting systems that enable stakeholders to audit, assess and monitor SOCEs' financial performance; and develop clear policies on managing stakeholder relationships, particularly on their expectations, rights and obligations.

Keywords: Stakeholder Engagement, Financial Performance, State-owned Commercial Enterprises, Kenya

1. Introduction

The financial performance of state-owned commercial enterprises (SOCEs) varies across economies, depending largely on the quality of public-sector governance (Organization for Economic Co-operation and Development [OECD], 2018). Optimizing the performance of SOCEs is thus a paramount objective for the state (Todorovic & Duh, 2015). Notably, quality of SOCE governance is a major factor that drives their performance (Todorovic & Duh, 2015). However, rising corporate failures have renewed calls from stakeholders for increased protection of their interests (Boateng *et al.*, 2019). Therefore, this has necessitated the adoption and implementation of corporate governance practices to ensure accountability and transparency through controlled decision-making, procedures, rules, and processes and to preserve the rights and responsibilities of stakeholders (Boateng *et al.*, 2019).

The focus of this study is on the relationship between stakeholder engagement and financial performance of SOCEs. Primarily, corporate governance involves interrelationships between an organization's shareholders, corporate executives, board, and other key stakeholders for creating long term and sustainable value (World Bank & IFC, 2021). Consequently, these relationships influence an organization's strategic direction and performance (Wheelen *et al*., 2018). Crucially, this is achieved through the board playing a pivotal role in the SOCEs' strategic management process by delineating the corporation's mission, crafting strategies, specifying strategic options, and; monitoring and evaluating strategy implementation (Wheelen *et al*., 2018).

Regarding stakeholder engagement, a deliberate involvement of key stakeholders by an organization is crucial if it is to achieve particular results (Schmitz, 2019). Specifically, key stakeholders are those with a legitimate interest in the institution (Schmitz, 2019). Essentially, stakeholder engagement is typified by dialogue whereby stakeholders are not just listened to, but the organization genuinely attempts to address stakeholders' concerns (World Bank & IFC, 2021). Under stakeholder engagement, the study examined stakeholder participation, information transparency, board stakeholder diversity and stakeholder satisfaction as indicators of stakeholder engagement.

1.1 Statement of the Problem

State-owned commercial enterprises (SOCEs) in Kenya have struggled with poor financial performance, as evidenced by fluctuating profitability metrics such as Return on Assets (ROA) over the years. For instance, ROA for commercial state corporations declined from 4.61% in 2014 to a mere 0.69% in 2020, indicating significant financial distress during this period (Nyongesa, 2023). This decline raises questions about the underlying factors affecting their financial outcomes, particularly the role of stakeholder engagement.

Stakeholder engagement encompasses the relationships and interactions that SOCEs maintain with various parties, including government entities, customers, employees, and the community. Effective engagement is believed to enhance transparency, accountability, and operational efficiency, which are crucial for improving financial performance. However, the extent to which stakeholder engagement directly influences financial outcomes in the context of Kenyan SOCEs remains underexplored.

Moreover, existing literature indicates that corporate governance factors, such as board diversity and governance practices, have a positive correlation with financial performance in SOCEs

(Abang'a et al., 2022). This suggests that stakeholder engagement, as a component of corporate governance, may similarly impact financial results. However, the lack of comprehensive studies focusing specifically on stakeholder engagement in relation to financial performance in Kenyan SOCEs indicates knowledge gap. This study sought to fill this gap by assessing how stakeholder engagement influences the financial performance of these enterprises, thereby contributing to both academic literature and practical governance frameworks in Kenya.

1.2 Research Objective

The study aimed to assess the influence of stakeholder engagement on financial performance of state-owned commercial enterprises in Kenya.

1.3 Research Hypothesis

In studying the relationship between stakeholder engagement and financial performance of state-owned commercial enterprises in Kenya, hypothesis below was tested:

H_{01}: Stakeholder engagement does not have a statistically significant influence on the financial performance of state-owned commercial enterprises in Kenya.

2. Literature Review

Under stakeholder engagement, search by the title 'stakeholder engagement and performance of state-owned commercial enterprises' produced 74, 900 hits from Google Scholar database for the period 2016-2023. Based on relevance, this was further reduced to 10 studies (Al-Haddad & Al-Abed, 2021; Conner, 2017; Demirkesen & Reinhardt, 2021; Dzomonda, 2020; Ghassim & Bogers, 2019; Gupta et al., 2020; Kenyoru et al., 2015; Ogachi & Kariuki, 2020; Omukubi et al., 2018; Waikenda, 2019).

Ghassim and Bogers (2019) studied stakeholder engagement and profitability through sustainability-oriented innovation in the minerals industry in Norway. The study was anchored on stakeholder theory. The independent variable consisted of stakeholder engagement while the mediator variable between stakeholder engagement and financial performance consisted of sustainability-oriented innovation. The dependent variable was financial performance measured through return on sales. Six different groups of external stakeholders (namely universities, competitors, public authorities, non-governmental organizations, suppliers and customers) were included in the questionnaire. A total of 193 companies were targeted for the study. Additionally, the study sampled 101 mineral companies in Norway. Primary data was collected from chief executive managers through online questionnaires. Secondary data were collected from Proff® database. Hypotheses were tested using ordinal logistic regression. Study results showed that relational and transactional interactions mattered in improving sustainability-oriented innovation measured by profitability. The ordinal regression was highly significant (λ^2 (11) = 94.775, p = .000, R^2 = 0.375), indicating that both the transactional and relational stakeholder engagements were positively associated with sustainability-oriented innovation. In addition, financial benefits were accrued from the transformation of knowledge from external stakeholders to innovative outputs. The study concluded that stakeholder engagement enhanced the firms' capacity to develop sustainable innovation.

Demirkesen and Reinhardt (2021) did a study on stakeholder involvement and performance regarding Polish government projects. The independent variable consisted of stakeholder involvement while the dependent variable consisted of performance. The target population was 13 government projects with project managers and other support staff within the projects' office being the unit of observation. Primary data were collected through questionnaires. Regarding research design, a descriptive survey was adopted. Association between variables was determined through correlation ($r = 0.0531$, $p < 0.01$; $R^2 = 0.146$). Therefore, stakeholder involvement was established to influence performance of government projects positively and significantly. Further, the study concluded that decision making and implementation processes should involve all stakeholders and recommended for consultation of stakeholders before making any changes to the board of management. In addition, consultation of the community members before launching projects in their regions was needed.

Conner (2017) studied the effects of stakeholder engagement on organizational performance in the USA. Independent variable consisted of stakeholder engagement measured through collaboration whereas organizational performance comprised the dependent variable. Target population of the study was 428 Indian education directors and the study sample consisted of 150 directors. The study employed survey research design to explore relationship resulting from collaboration between Native American communities and public officials and considered improvements in organizational performance. Primary data were collected through questionnaires. Results demonstrated that high levels of collaboration and organizational performance were positively related. Moreover, study results further revealed that collaboration had a low effect on cross-cultural learning. However, involving stakeholders bolstered joint problem-solving capacity. The study therefore concluded that public organizations were positively affected by stakeholder engagement leading to enhanced joint problem-solving capacity, stakeholder relations, and high student graduation and retention in K-12. The study recommended further research on diverse measures for outcomes and collaboration.

Gupta *et al.* (2020) studied stakeholder engagement strategies and firm performance. Fundamentally, the study was braced by stakeholder theory. The independent variables consisted of institution-level engagement drivers, stakeholder engagement strategies, and firm-level engagement drivers while the dependent variable was firm performance. A fuzzy-set qualitative design was used to examine linkages between strategies regarding stakeholder engagement and firm performance under various institutional and firm-level conditions. The study sample consisted of 122 firms in the industrial sector across 13 countries (Denmark, Australia, Finland, Austria, Germany, Belgium, Netherlands, Japan, US, Switzerland, Sweden, Norway, and UK) from 2004 to 2011. The study established that configurations that included complimentary strategies of engagement were not associated with high performance. Further, high-performance engagement strategies varied due to firm characteristics and local institutional context. Notably, organizations could deploy strategies of stakeholder engagement that were related to increased performance so as to distinguish themselves from their peers. The study concluded that strategy plays a crucial role, dependent on firm-level factors and institutional context, and recommended for deployment of one of the engagement-strategies by organizations.

Al-Haddad and Al-Abed (2021) examined stakeholder engagement and efficiency of Yemeni gas and oil industry. Principally, the study was supported by stakeholder theory. In their study, the independent variable consisted of stakeholder engagement while the dependent variable was performance efficiency measured through quality, cost, and time. Primary data were collected using questionnaires. The target population consisted of 1674 employees from 3 companies: Safer Exploration and Production Oil Company, OMV Company, and Yemen Liquid Natural Gas Company. Random sampling was employed to select 312 respondents. The association between stakeholder engagement and performance efficiency was determined through correlation analyses ($r = 0.642$, $p = 0.000 < 0.01$; $R^2 = 0.413$). Hypotheses were tested using simple regression analysis ($\beta = 0.493$, $p = 0.000 < 0.005$). Thus, it was demonstrated that the impact of stakeholder engagement on performance efficiency was significant. In conclusion, the study established that effective engagement of stakeholders influenced performance efficiency of Yemeni gas and oil industry through establishing good relationships with local communities as the main stakeholders. The study recommended that stakeholders' engagement should be included in resource management processes, scheduling, and budgeting. Further, building trust with stakeholders, training personnel, and improving communication through proactive and effective engagement was necessary. The study further recommended collaborative problem-solving.

Dzomonda (2020) examined stakeholder engagement and financial performance of listed companies on the Johannesburg Stock Exchange. The stakeholder and signaling theories supported the study. Moreover, the independent variable was stakeholder engagement. This was measured using collaborations on environmental activities, internal stakeholder collaboration, stakeholder communication, and green supply chain management (GSCM). The dependent variable was financial performance evaluated using Tobin's Q. Additionally, both case study and quantitative research design were adopted using panel data for the period 2011-2018. Thirty-two companies listed in the Johannesburg and Financial Times Stock Exchanges were sampled resulting in 256 observations. Selected companies were from different sectors: retail, health and pharmaceuticals, energy, banking manufacturing, mining, services and telecommunications. Annual reports provided secondary data. In addition, data on stakeholder engagement were collected through content analyses. Panel regression was employed. Therefore, study findings demonstrated that stakeholder engagement and financial performance were not significantly associated ($\beta = 0.1129332$, $p = 0.659 > 0.05$). Further, financial performance was positively influenced by communication with stakeholders and collaboration on projects pertaining to environmental sustainability. The study concluded that active engagement of stakeholders by companies can release non-financial worth and recommended that listed firms should demonstrate dedication regarding environmental sustainability by partnering with investors, community and suppliers in environmental sustainability projects.

Waikenda (2019) investigated the subject of stakeholder participation and performance of Kenyan county governments. The study was anchored on stakeholder theory. The independent variable consisted of stakeholder participation. Dependent variable was performance measured through service delivery. The target population was 3,058 county officials who included members of county assemblies (MCAs), deputy county secretaries, county secretaries, county executive committee members, deputy governors and governors. Respondents' selection was done through simple random sampling technique. 354 county officials were sampled. Primary data were collected using questionnaires. Cross-sectional survey design was employed. One paragraph. Regarding data analysis, inferential and descriptive statistical analyses were employed. Regression analyses were used for hypotheses testing ($R^2 = 0.749$, $p = 0.000 < 0.05$; $F_{calculated} = 828.443$, $F_{critical} = 3.89$). Hence, study findings showed that county governments' performance was significantly influenced by stakeholders' participation ($\beta = 2.942$, $p = 0.000 < 0.05$). Thus, the study concluded that inclusiveness significantly and positively influenced performance of Kenyan county governments and recommended for sensitization of county directors to work in consultation with other stakeholders. Further, county officials need to be educated on the application of corporate governance practices so as to improve their operational and financial performance.

Ogachi and Kariuki (2020) studied stakeholder engagement and performance of Kenyan commercial banks. Moreover, stakeholder theory supported the study. Additionally, independent variable comprised stakeholder engagement while the dependent variable was performance. Further, target population was 126 managers from forty-two Kenyan licensed commercial banks. 75 managers were selected through simple random sampling. Regarding research design, a descriptive survey was adopted. Primary data were collected using questionnaires. In relation to the findings, the study demonstrated that operational functioning of Kenyan commercial banks was positively influenced by engagement of stakeholders ($r = 0.734$, $p = 0.000 < 0.05$; $\beta = 0.478$, $p = 0.000 < 0.05$) and recommended that for continuous engagements, relations with stakeholders should be buttressed.

Omukubi *et al*. (2018) assessed stakeholder relationships and performance of Kenyan state-owned sugar manufacturing companies. Further, the study was theoretically underpinned by stakeholder theory. Moreover, the independent variable was stakeholder relationships while the dependent variable was performance. This was evaluated through profit, market share, and growth in sales. Regarding research design, a correlational survey was employed. Target population was 4 state-owned Kenyan sugar manufacturing companies. The collection of primary data was done through interview guides and questionnaires. Financial reports of sugar manufacturing firms provided secondary data. A significant and positive association between stakeholder relationships and performance was established ($r = 0.825$, $p = 0.000 < 0.05$; $\beta = 0.678$, $p = 0.000 < 0.05$) and recommended for investment in improving stakeholder relationships through regular stakeholders' communication by state-owned sugar firms.

Kenyoru *et al*. (2015) examined stakeholder engagement and performance at Kenya Power and Lighting Company Ltd, North Rift Region. Stakeholder theory supported the study. In addition, independent variables of the study were employee investment, performance management systems,

and employee involvement. The dependent variable comprised organizational performance whereas target population consisted of 718 employees at Kenya Power and Lighting Company, North Rift Region. A total of 215 employees were selected through stratified random sampling. Regarding research design, descriptive survey was employed. Collection of the primary data was done using questionnaires. Inferential and descriptive statistical analyses were adopted. Multiple regression analyses were used for hypotheses testing. Findings indicated that performance management systems ($\beta = 0.143$, $p = 0.000 < 0.05$), employee involvement ($\beta = 0.441$, $p = 0.000 < 0.05$), and employee investment ($\beta = 0.145$, $p = 0.000 < 0.05$) had positive and significant effects on performance. The study concluded that the contributions of employee and customer involvement strategies to performance at Kenya Power and Lighting Company Ltd were significant and formed a central part in company's decision-making processes. Therefore, the involvement of stakeholders in the company's decision-making activities was recommended so as to realize improved performance.
Five major findings in relation to stakeholder engagement and performance emerge from the reviewed literature. First, the transformation of knowledge acquired from external stakeholders to innovative outputs leads to the accrual of financial benefits to a firm (Ghassim & Bogers, 2019). Second, stakeholders should be involved in both decision-making and implementation processes (Demirkesen & Reinhardt, 2021; Kenyoru *et al*., 2015). Third, in the link between stakeholder engagement and financial performance, strategy plays an important role, depending on firm-level factors and institutional context (Gupta et al., 2020). Fourth, stakeholder management positively and significantly affected the performance of state-owned enterprises (Al-Haddad & Al-Abed, 2021; Conner, 2017; Ogachi & Kariuki, 2020; Omukubi et al., 2018; Waikenda, 2019). Fifth, a positive but not significant relationship was demonstrated between stakeholder engagement and performance (Dzomonda, 2020).

3. Materials and Methods

The research was undertaken in Kenya concentrating on state-owned commercial enterprises (SOCEs). It was an explanatory research by design. Explanatory investigations seek to shed light on a given phenomenon, and account for its occurrence and predictions of occurrences in the future (Sue & Ritter, 2012). The target population comprised corporate management executives, mainly of the members of the board and corporate executives of 46 SOCEs in Kenya. The 46 SOCEs had 476 board members and 379 corporate executives, summing up to 855 (Government of Kenya, 2022). Board members and corporate executives were engaged because they play a central role in an organization's corporate governance.

From the target population, 295 respondents were sampled based on the Nassiuma (2000) formula. The sample comprised 153 board members and 142 corporate executives. A stratified random sampling technique was subsequently utilized to select the board members and corporate executives. Data was gathered using a questionnaire and document analysis guide. Document analysis focused on SOCEs' financial statements and audit reports, which provided data on the financial performance of SOCEs. Data collected through questionnaires were coded, keyed in, and edited. Then analyzed using both descriptive statistical and SEM analyses. SEM analyses were carried out using AMOS software version 29. In the study, the latent factor (sub-dimension) for the corporate governance construct was stakeholder engagement. Stakeholder engagement was measured using four indicators, namely stakeholder participation, information transparency, board stakeholder diversity, and stakeholder satisfaction.

4. Results and Discussion

In this study, the following components of stakeholder engagement were assessed: stakeholder participation, information transparency, board stakeholder diversity, and stakeholder satisfaction. Therefore, regarding stakeholder engagement and Kenyan SOCEs' financial performance, the study results were as summarized in Table 1 below:

Table 1: Stakeholder Engagement and Financial Performance of SOCEs in Kenya

Statements	Mean	Standard Deviation
The board has developed a policy on managing stakeholder relationships	3.66	1.05
Education of the stakeholders on their rights and obligations is facilitated by the SOCE	3.25	1.17
The SOCE provides feedback on employee issues	3.97	1.08
The SOCE ensures that customer complaints are promptly addressed	3.86	0.76
The SOCE ensures that supplier complaints are promptly addressed	3.87	0.77
The nature of SOCE's engagements with county and national governments is disclosed in annual reports	3.53	0.92
The SOCE ensures that its policies, practices, and strategic plans are aligned with the government directives	4.06	0.71
The SOCE undertakes its corporate social responsibilities	4.11	0.69
The SOCE ensures that shareholders participate in the Annual General Meetings (AGMs)	4.08	0.82
The SOCE has forums to regularly engage the employees	3.71	0.97
The SOCE conducts customer satisfaction surveys	3.68	1.13
There is timely access to relevant information by stakeholders	3.71	0.88
Board composition represents the diversity of stakeholders	3.58	1.09
The SOCE conducts customer satisfaction surveys in order to enhance stakeholders' value on a sustainable basis	3.62	1.05
The board has documented stakeholders' expectations	3.72	0.74
Average	**3.76**	**0.92**

Source: Field data (2024)

In relation to stakeholder participation, respondents were undecided on whether the board had developed a policy on managing stakeholder relationships and on whether education of the stakeholders on their rights and obligations was facilitated by the SOCEs (mean = 3.45, SD = 1.11). The respondents intimated that the SOCEs provided feedback on employee issues and that customer and supplier complaints were promptly addressed (mean = 3.9, SD = 0.87).

However, on average, 70.6% (mean = 3.53, SD = 0.92) were undecided on whether the nature of SOCEs' engagements with county and national governments were disclosed in annual reports. Meanwhile, respondents agreed that SOCEs ensured that their policies, practices, and strategic plans were aligned with the government directives and that the SOCEs undertook corporate social responsibilities and ensured that shareholders participated in the Annual General Meetings (AGMs, mean = 4.08, SD = 0.70)). Additionally, on average 74% (mean = 3.7, SD = 1.00) were of the view that SOCEs held regular forums to engage the employees and that the SOCEs conducted customer satisfaction surveys.

Concerning information transparency, the respondents believed that access to relevant information by stakeholders was timely (mean = 3.71, SD = 0.88). In relation to board stakeholder diversity, respondents were of the opinion that board composition represented the diversity of stakeholders (mean = 3.58, SD = 1.09). Regarding stakeholder satisfaction, respondents were of the view that the SOCEs conducted customer satisfaction surveys to enhance stakeholders' value on a sustainable basis and that the board had documented stakeholders' expectations (mean = 3.67, SD = 0.89).

Moreover, the respondents agreed to initiatives under stakeholder participation (mean = 3.80) and information transparency (mean = 3.71). However, they expressed their reservations on board stakeholder diversity (mean = 3.58) and stakeholder satisfaction (mean = 3.67) indicators. These findings were congruent with those of a study Mao (2019), which revealed that major shareholders' participation in corporate governance and corporate performance were positively related. A study by Attamah (2018) also established that performance was positively and significantly impacted by stakeholder engagement. Summary of statistics on the independent variable/s and the dependent variable are missing.

In addition, Okumba (2018) established that stakeholder involvement and performance, measured by customer satisfaction and profitability, were positively and significantly related. Moreover, Omukubi et al. (2018) showed a significant and positive correlation between stakeholder relationships and performance. Furthermore, Stocker (2020) found that stakeholder engagement actions were positively and significantly associated with financial performance.

4.1 Hypothesis Test Results for Stakeholder Engagement and Financial Performance

The study sought to assess the influence of stakeholder engagement on the financial performance of SOCEs in Kenya. Subsequently, the null hypothesis, H_{01}, stated that stakeholder engagement does not have a statistically significant influence on the financial performance of state-owned commercial enterprises in Kenya. The results of the hypothesis test using beta coefficients are shown in Table 2 below:

Table 2: Regression Weights for Direct Relationship between Stakeholder Engagement and Financial Performance

Path			Estimate	S.E.	C.R.	P Label
Financial Performance	<---	Stakeholder engagement	0.504	0.089	5.689	***
***p < 0.001						

Source: Author (2024)

As shown in Table 2, the hypothesis that stakeholder engagement does not have a statistically significant influence on the financial performance of SOCEs in Kenya was rejected (estimate = 0.504, critical ratio = 5.689, $p < 0.001$). Consequently, it was concluded by the study that there was satisfactory evidence at the 95% confidence level to suggest that influence of stakeholder engagement on the financial performance of Kenyan SOCEs was positive and statistically significant.

Overall, the study findings showed that the influence of stakeholder engagement on the financial performance of Kenyan SOCEs was positive and statistically significant. These were congruent with those of a study by Ghassim and Bogers (2019) on stakeholder engagement and profitability through sustainability-oriented innovation in the minerals industry in Norway which found that stakeholder engagement enhanced the firms' capability to develop sustainability-oriented innovation that enhanced profitability.

Similarly, Demirkesen and Reinhardt (2021), in a study in Poland, established that stakeholder involvement influenced the performance of government projects. Additionally, Al-Haddad and Al-Abed (2021), in an inquiry undertaken in the Yemeni gas and oil industry, found that the impact of engagement of stakeholders on performance efficiency was significant. Dzomonda (2020) also established that communication and collaboration with stakeholders positively influenced the financial performance of listed companies in the Johannesburg Stock Exchange. Moreover, study findings by Waikenda (2019) showed that stakeholder participation significantly influenced the performance of county governments in Kenya. Further, studies by Ogachi and Kariuki (2020), Omukubi *et al*. (2018), and Kenyoru *et al.* (2015) revealed that stakeholder management positively and significantly affected the performance of SOEs.

5. Conclusion

Firstly, the study concluded that ensuring information transparency by SOCE through timely access to relevant information by stakeholders positively and significantly influenced its financial performance. Secondly, ensuring stakeholder satisfaction by conducting customer satisfaction surveys in order to enhance stakeholders' value on a sustainable basis also positively influenced SOCEs' financial performance. Thirdly, documenting stakeholders' expectations enhanced Kenyan SOCEs' financial performance.

5.1 Recommendations

Firstly, the management of SOCEs should develop clear policies for directing stakeholder relationships, particularly on their expectations, rights and obligations. Secondly, they should establish coordinated structures of engagement and communication with stakeholders so as to ensure centralized monitoring, escalation of stakeholder issues and dissemination of relevant information. Thirdly, management should ensure that engagements with county and national governments are firmly anchored on disclosure policy and included in the annual reports. Finally, under stakeholder participation, management should utilize digital communication systems to ease information access by the public.

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