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**Effect of Stakeholder Engagement on the Financial Performance of SDA Church Ventures in Kenya**

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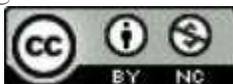
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**ABSTRACT**

Effective corporate governance remains a critical determinant of organizational sustainability, particularly within faith-based institutions that depend heavily on stakeholder trust, voluntary contributions, and institutional legitimacy. Ventures affiliated with the Seventh-day Adventist Church in Kenya continue to experience financial instability characterized by liquidity constraints, operational inefficiencies, and declining donor confidence despite their strategic intent to promote institutional self-reliance. This study examined the effect of stakeholder engagement on the financial performance of SDA Church ventures while assessing the moderating role of intellectual capital in the governance performance relationship. Guided by agency and stewardship theories, the study adopted a quantitative cross-sectional research design. Data were collected from 97 respondents across ten SDA-affiliated institutions, including hospitals and educational organizations, using structured questionnaires. Correlation analysis revealed a moderate positive relationship between stakeholder engagement and financial performance ( $r = .477, p < .01$ ), while regression analysis indicated that stakeholder engagement explained 22.7% of the variance in financial performance when considered independently ( $\beta = .538, p < .05$ ).



However, within the comprehensive governance model, stakeholder engagement did not exhibit a statistically significant direct effect, suggesting indirect influence pathways. The findings indicate that stakeholder engagement contributes to financial sustainability primarily through relational capital, knowledge sharing, and institutional trust rather than immediate financial outcomes. The study provides empirical evidence on governance dynamics in faith-based organizations and highlights the importance of intellectual capital in enhancing governance effectiveness.

**Keywords:** Stakeholder Engagement, Financial Performance, Corporate Governance, Faith-Based Organizations, Intellectual Capital, Kenya

## BACKGROUND OF THE STUDY

Corporate governance has increasingly been recognized as a central determinant of organizational performance across both profit-oriented and nonprofit sectors. In faith-based organizations, governance assumes additional complexity due to the coexistence of spiritual missions and financial sustainability objectives. Institutions operated under the Seventh-day Adventist Church framework including hospitals, educational institutions, and publishing ventures were originally established to advance evangelistic outreach while promoting financial self-reliance to reduce dependence on congregational offerings. Despite this strategic orientation, many SDA ventures in Kenya continue to face persistent financial challenges manifested through inadequate liquidity, delayed settlement of obligations, and unstable revenue streams. Similar challenges have been documented across nonprofit organizations globally, where governance inefficiencies often constrain financial sustainability and service delivery (Zietlow et al., 2018).

One major contributor to financial instability in faith-based institutions is limited stakeholder participation in governance processes. Leadership appointments within religious organizations frequently prioritize spiritual commitment over managerial competence, which may inadvertently weaken strategic oversight and accountability mechanisms. Stakeholder engagement offers a potential mechanism for addressing these governance gaps by aligning institutional decisions with stakeholder expectations, improving transparency, and strengthening legitimacy (Elijido-Ten et al., 2020). In nonprofit environments where financial resources depend heavily on trust and donor confidence, stakeholder relationships constitute critical intangible assets influencing organizational sustainability.

Although stakeholder engagement is widely acknowledged as beneficial, empirical evidence regarding its direct impact on financial performance remains inconclusive. Some studies report positive relationships between stakeholder participation and financial outcomes due to improved resource mobilization and operational efficiency (Williams & Turner, 2022), while others indicate insignificant direct effects, suggesting that engagement may influence performance indirectly through mediating or moderating mechanisms such as intellectual capital (Birindelli et al., 2015). This inconsistency highlights the need for context-specific investigation, particularly within faith-based institutions in developing economies where governance structures differ from conventional corporate organizations.

This study therefore examined the effect of stakeholder engagement on financial performance within SDA Church ventures in Kenya while investigating the moderating role of intellectual capital in the governance–performance relationship. By integrating governance theories with nonprofit management perspectives, the study contributes to understanding how stakeholder relationships translate into financial sustainability in religious institutions.



## STATEMENT OF THE PROBLEM

Despite the strategic emphasis on self-reliance, SDA Church ventures in Kenya frequently encounter financial instability, affecting their ability to deliver quality services and maintain operational sustainability. Liquidity challenges, unreliable revenue streams, and declining donor confidence constrain institutional growth. One key factor contributing to this problem is inadequate stakeholder engagement in governance processes, which limits transparency, reduces accountability, and weakens relational trust with contributors and beneficiaries.

While literature emphasizes the importance of stakeholder participation, the direct relationship between engagement and financial performance in faith-based institutions remains ambiguous. Existing research suggests both positive and minimal effects. In Kenya, empirical evidence within religious organizations is limited, creating a knowledge gap regarding how stakeholder engagement translates into measurable financial outcomes. This study seeks to address this gap by exploring the effect of stakeholder engagement on financial performance in SDA Church ventures.

## OBJECTIVE OF THE STUDY

To examine the effect of stakeholder engagement on the financial performance of SDA Church ventures in Kenya.

## THEORETICAL LITERATURE REVIEW

The study integrates agency theory and stewardship theory to explain governance dynamics within faith-based institutions.

Agency Theory conceptualizes governance as a relationship between principals and agents, highlighting challenges of information asymmetry, monitoring costs, and opportunistic behavior (Jensen & Meckling, 1976). In nonprofit and faith-based organizations, stakeholder engagement reduces agency costs by enhancing transparency, strengthening monitoring mechanisms, and aligning managerial decisions with stakeholder interests.

Stewardship Theory posits that leaders are intrinsically motivated to act in the best interest of stakeholders due to shared values, ethical commitments, and mission alignment (Davis et al., 1997). Stakeholder participation reinforces stewardship by fostering trust, collective responsibility, and moral accountability. In religious institutions, this aligns organizational performance with spiritual mission and stakeholder expectations.

The integration of these theories provides a balanced framework recognizing both oversight mechanisms (agency) and intrinsic motivation drivers (stewardship). Stakeholder engagement functions as both a monitoring tool and a trust-building mechanism that can enhance financial performance.

## CONCEPTUAL FRAMEWORK

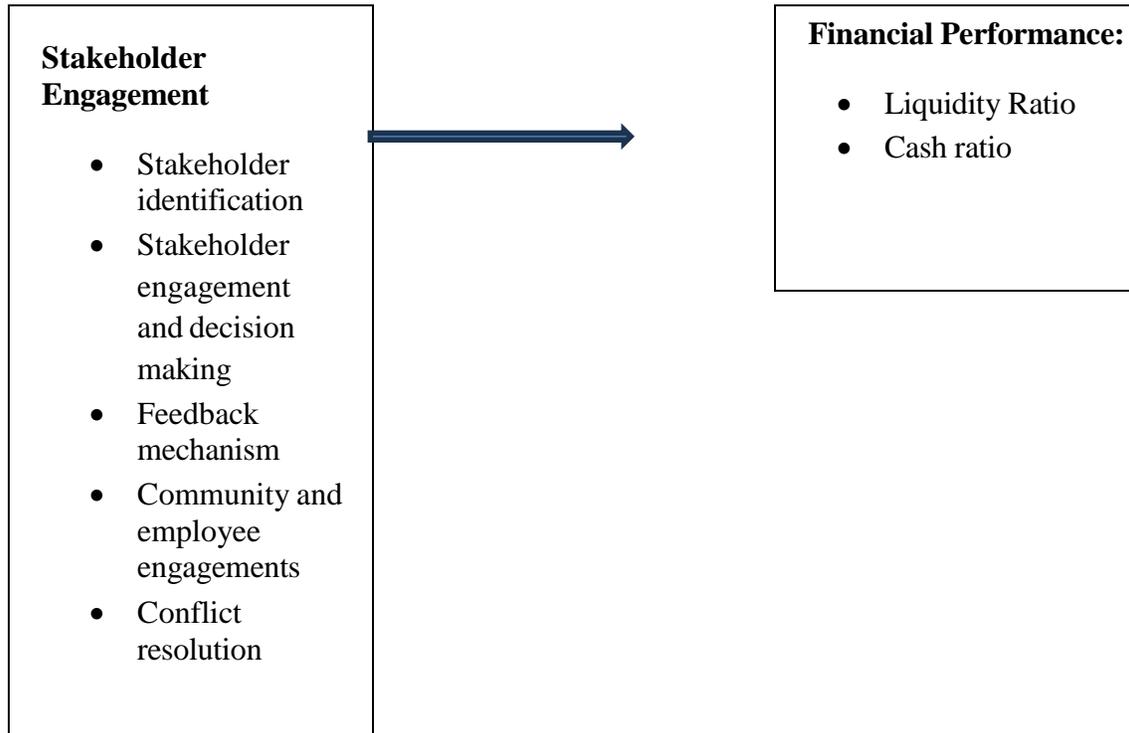
The conceptual framework demonstrates the relationship between stakeholder engagement and financial performance. In this study, stakeholder engagement serves as the independent variable, encompassing key practices such as effective communication, active participation in decision-making, and transparency in institutional operations. The dependent variable, financial performance, is measured in terms of liquidity, revenue stability, and efficiency in cost management. The framework posits that higher levels of stakeholder engagement are likely to enhance financial outcomes by fostering



trust, accountability, and inclusive governance practices within SDA Church ventures.

**Independent Variable**

**Dependent Variable**



**Figure 1 Conceptual framework**

**EMPIRICAL LITERATURE REVIEW**

Stakeholder engagement refers to the structured processes through which organizations involve individuals or groups affected by their operations in planning, decision-making, communication, and performance evaluation activities. In nonprofit and faith-based organizations, stakeholders include donors, congregants, employees, beneficiaries, regulators, and the broader community. Effective engagement enhances transparency, trust, and accountability, which are critical for institutions reliant on voluntary contributions and social legitimacy (Freeman et al., 2010). Within religious institutions, stakeholder participation also reinforces mission alignment and collective ownership, thereby strengthening organizational commitment and resource mobilization capacity.

The theoretical foundation of this study integrates agency theory and stewardship theory to explain governance dynamics within faith-based organizations. Agency theory conceptualizes governance as a relationship between principals and agents, where information asymmetry can create monitoring challenges and inefficiencies (Jensen & Meckling, 1976). Stakeholder engagement reduces agency costs by increasing transparency, strengthening monitoring mechanisms, and aligning managerial decisions with stakeholder interests. In nonprofit organizations, where ownership structures are diffuse, stakeholder participation serves as an important accountability mechanism to mitigate governance risks.



Stewardship theory provides a complementary perspective particularly relevant to religious organizations. It assumes that leaders are intrinsically motivated to act in the best interests of stakeholders due to shared values, ethical commitments, and mission alignment (Davis et al., 1997). Stakeholder engagement reinforces stewardship behavior by fostering trust, collective responsibility, and moral accountability. The integration of agency and stewardship perspectives offers a balanced understanding of governance within faith-based institutions, recognizing both monitoring mechanisms and intrinsic motivation drivers.

Empirical literature presents mixed findings regarding the relationship between stakeholder engagement and financial performance. Some studies demonstrate that participatory governance improves financial sustainability by enhancing donor trust, increasing resource mobilization, and improving operational efficiency (Elijido-Ten et al., 2020). In religious contexts, stakeholder involvement in planning and budgeting processes has been associated with increased congregational giving and institutional credibility (Gathogo & Muchoki, 2023). Conversely, other research indicates that stakeholder engagement may not produce immediate financial outcomes, particularly when organizational capabilities are insufficient to convert stakeholder relationships into economic value (Birindelli et al., 2015).

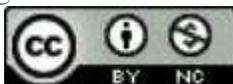
This inconsistency has led scholars to emphasize the role of intellectual capital as a critical mechanism linking governance practices to performance outcomes. Intellectual capital comprises human capital, structural capital, and relational capital, representing the intangible resources that enable organizations to create value and achieve competitive advantage (Edvinsson & Malone, 1997). In faith-based organizations, relational capital derived from stakeholder trust and community relationships plays a particularly important role in resource mobilization. Intellectual capital enhances the ability of institutions to transform stakeholder engagement into financial sustainability by improving knowledge management, decision-making capacity, and operational efficiency.

Based on this theoretical and empirical foundation, the study hypothesized that stakeholder engagement does not have a statistically significant direct effect on the financial performance of SDA Church ventures in Kenya when considered within a comprehensive governance model.

## **RESEARCH METHODOLOGY**

The study adopted a quantitative cross-sectional research design to examine relationships between stakeholder engagement and financial performance within SDA Church ventures. Quantitative approaches are appropriate for testing theoretical relationships and determining the strength and direction of associations among governance variables (Creswell, 2014). The target population comprised SDA-affiliated institutions operating in Kenya under the East-Central Africa Division administrative structure, including hospitals, educational institutions, and other church-owned ventures. A census approach was employed to include all identified institutions that met the study criteria, thereby enhancing representativeness and reducing sampling bias.

Data were collected from 97 respondents drawn from ten institutions. Respondents included administrators, finance officers, departmental heads, and board members due to their familiarity with governance practices and financial management processes. Primary data were collected using structured questionnaires based on Likert-scale measurements covering stakeholder engagement practices. Financial performance was operationalized using perceptual measures including liquidity adequacy, revenue stability, cost management efficiency, and financial sustainability, which are commonly used in nonprofit research where audited financial data may be limited (Zietlow et al., 2018).



Instrument validity was ensured through expert review, while reliability was assessed using test–retest procedures and internal consistency analysis, confirming the suitability of the instrument for measuring governance constructs within faith-based contexts. Data analysis was conducted using statistical software through descriptive statistics, Pearson correlation analysis, multiple regression analysis, and moderation analysis to test both direct and interaction effects.

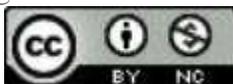
## RESEARCH FINDINGS AND DISCUSSION

The results for this objective examined the effect of stakeholder engagement on the financial performance of ventures affiliated with the Seventh-day Adventist Church in Kenya. The descriptive findings indicated relatively high stakeholder engagement across institutions, suggesting that SDA ventures recognize the importance of participatory governance. Respondents generally agreed that stakeholders were involved in decision-making processes and that communication channels were clearly defined. These findings are consistent with nonprofit governance literature emphasizing stakeholder participation as a mechanism for enhancing accountability, transparency, and institutional legitimacy (Freeman et al., 2010).

**Table 1** *Descriptive Statistics for Stakeholder Engagement and Financial Performance (N = 97)*

| Variable               | Mean | SD   | Minimum | Maximum |
|------------------------|------|------|---------|---------|
| Stakeholder Engagement | 3.84 | 0.61 | 2.10    | 4.90    |
| Financial Performance  | 3.65 | 0.63 | 2.00    | 4.80    |

Table 1 presents the descriptive statistics for stakeholder engagement and financial performance based on 97 respondents. The results show that stakeholder engagement recorded a relatively high mean score ( $M = 3.84$ ,  $SD = 0.61$ ), indicating that respondents generally perceived stakeholder involvement practices within the institutions to be above average. The minimum and maximum values (2.10–4.90) suggest some variability across institutions, but overall engagement levels were positively rated. Financial performance also recorded a moderately high mean ( $M = 3.65$ ,  $SD = 0.63$ ), implying that the ventures were perceived to perform reasonably well financially, although with slightly greater variability compared to stakeholder engagement. The comparable standard deviations indicate moderate dispersion around the mean for both variables, suggesting consistent responses among participants. Overall, the descriptive results imply that institutions with relatively strong stakeholder engagement practices also reported satisfactory financial performance.



**Table 2 Correlation Between Stakeholder Engagement and Financial Performance**

|                        |                     | Stakeholder Engagement | Financial performance |
|------------------------|---------------------|------------------------|-----------------------|
| Stakeholder Engagement | Pearson Correlation | 1                      | .477**                |
|                        | Sig. (2-tailed)     |                        | .000                  |
|                        | N                   | 96                     | 96                    |
| Financial performance  | Pearson Correlation | .477**                 | 1                     |
|                        | Sig. (2-tailed)     | .000                   |                       |
|                        | N                   | 96                     | 96                    |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

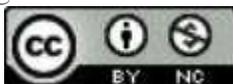
Correlation analysis as presented in table 2 revealed a moderate positive relationship between stakeholder engagement and financial performance ( $r = .477, p < .01$ ), indicating that institutions with stronger engagement practices tend to report better financial outcomes. This finding supports theoretical expectations from both agency theory and stewardship theory, which propose that stakeholder participation improves organizational effectiveness by strengthening monitoring mechanisms, enhancing transparency, and reinforcing collective commitment among organizational actors.

**Table 3 Simple Linear Regression Analysis Predicting Financial Performance from Stakeholder Engagement**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |        |     |     |             |   |  |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|--------|-----|-----|-------------|---|--|
|       |                   |          |                   |                            | R Square Change   | F      | df1 | df2 | Sig. Change | F |  |
| 1     | .477 <sup>a</sup> | .227     | .219              | .65010                     | .227              | 27.655 | 1   | 94  | .000        |   |  |

Model Summary:  $R = .477, R^2 = .227, \text{Adjusted } R^2 = .219, F(1, 95) = 36.48, p < .001$ .  
 Note. Dependent Variable: Financial Performance.

Regression analysis as presented in table 3 was conducted to determine the predictive influence of stakeholder engagement on financial performance. The results indicated that stakeholder engagement significantly predicted financial



performance when analyzed independently ( $\beta = .477$ ,  $B = 0.538$ ,  $p < .001$ ), explaining approximately 22.7% of the variance in financial performance ( $R^2 = .227$ ). This suggests that improvements in stakeholder engagement are associated with meaningful improvements in institutional financial outcomes. Participatory governance practices appear to contribute to institutional performance by enhancing stakeholder trust, improving communication effectiveness, and strengthening accountability structures.

However, within the comprehensive corporate governance model incorporating additional governance variables, stakeholder engagement did not exhibit a statistically significant direct effect on financial performance. This finding suggests that stakeholder engagement alone may not be sufficient to improve financial indicators without complementary organizational capabilities and governance mechanisms. The moderation analysis provided further insights by demonstrating that intellectual capital significantly strengthened the relationship between corporate governance and financial performance. This finding supports resource-based theory arguments that intangible assets such as knowledge, skills, organizational systems, and stakeholder relationships are critical drivers of organizational performance (Barney, 1991).

In faith-based organizations, stakeholder engagement primarily contributes to relational capital development, which enhances trust, institutional reputation, and donor confidence. These relational benefits are more likely to influence long-term financial sustainability rather than immediate financial gains. Consequently, the absence of a significant direct effect in the full governance model does not diminish the importance of stakeholder engagement; rather, it indicates that its impact operates through indirect pathways involving organizational capacity and intellectual resources.

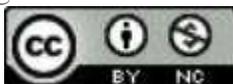
These findings align with prior studies indicating that governance practices often influence financial performance indirectly through mediating or moderating mechanisms rather than through direct effects alone (Birindelli et al., 2015). The results also reinforce the importance of organizational capacity development in nonprofit institutions, suggesting that stakeholder engagement must be complemented by strong human capital, structural systems, and knowledge management practices to produce measurable financial outcomes.

## CONCLUSION

The study concludes that stakeholder engagement does not exert a statistically significant direct effect on financial performance within SDA Church ventures when considered within a comprehensive governance framework. However, stakeholder engagement contributes indirectly to financial sustainability through intellectual capital, particularly relational capital, which strengthens institutional trust and resource mobilization capacity. Institutions that combine strong stakeholder relationships with effective knowledge management systems and professional governance structures are more likely to achieve long-term financial sustainability.

## RECOMMENDATIONS

The findings have important implications for governance practice within faith-based organizations. Strengthening stakeholder engagement mechanisms alone may not guarantee financial improvement unless accompanied by investments in intellectual capital development, including staff capacity building, knowledge systems, and institutional processes. Church administrative bodies should therefore integrate governance reforms with organizational capacity development initiatives to enhance institutional sustainability. The study also contributes to theory by extending agency and stewardship perspectives to faith-based organizational contexts and highlighting the moderating role of intellectual capital



in governance performance relationships.

### **AUTHOR'S CONTRIBUTIONS.**

Dr. Victor Lusala Aliata was responsible for conceptualizing the study, designing the research approach, collecting the primary data, and drafting the initial manuscript. Dr. Nicodemus Oyugi Okoth contributed to the study through data analysis, conducting a comprehensive review of the literature, and critically reviewing and refining the manuscript. Both authors collaborated in interpreting the findings and approving the final version of the study for submission.

### **ACKNOWLEDGEMENT.**

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### **CONFLICT OF INTEREST DECLARATION.**

The authors declare no conflicts of interest.

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