

# Impact of Stakeholder Engagement on Organisational Performance in ICT Industries in Nigeria

Kojo Agartha-Christie Ifeyinwa<sup>1</sup> Akinteye Simon Ademola<sup>2\*</sup> Kojo Henry<sup>3</sup>

1,3. Department of of Business Administration, Charisma University, Montana, USA, 1321 Discovery Drive, Billings, MT 59102, USA

2. Department of of Business Administration, Charisma University, Montana, USA, 1321 Discovery Drive, Billings, MT 59102, USA

\*Email of the corresponding author: [akinteye.simon@charisma.edu](mailto:akinteye.simon@charisma.edu)

## Abstract

This paper investigates the influence of stakeholder engagement on financial and non-financial performance in Nigeria's ICT sector. Employing a quantitative research design with 555 respondents from 295 randomly selected companies, the study employs descriptive analysis, panel data regression, and correlational analysis. The study is anchored on stakeholder theory. Findings highlight a substantial positive impact of stakeholder engagement on organizational performance, both theoretically and empirically. Survey participants overwhelmingly expressed positive perceptions. The study contributes valuable insights, emphasizing stakeholder engagement as a crucial determinant of business performance, with implications for future research and recommendations.

**Keywords:** Stakeholder Engagement, Stakeholder Theory, Organisational Performance, Financial Performance, Non-financial Performance.

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## 1. Introduction

Ineffective or failed governance mechanisms pose significant risks to organizations, particularly in regions like Africa, where concerns about poor business performance and failure are pronounced, as seen in Nigeria. The imperative of robust corporate governance gained prominence following global corporate scandals, such as Enron, Parmalat, and Volkswagen, underlining the vulnerabilities of the system and its pivotal role in ensuring effective market operations (Adefemi et al., 2018; Edmondson & Cohn, 2004; Karaian, 2015). These scandals exposed governance deficiencies like weak oversight, conflicts of interest, and inadequate internal controls. A survey by McKinsey and Company (2002) emphasized the growing importance of governance, with 14% of US investors willing to pay a premium for well-governed entities. The financial debacles underscored the need for robust governance mechanisms to protect stakeholder interests and ensure long-term corporate viability (Donaldson & Preston, 1995). Consequently, corporate governance has evolved into a critical aspect of businesses, fostering ethical behaviour, safeguarding stakeholder rights, and nurturing sustainable growth (Mallin, 2013).

Today, corporate governance is multifaceted, covering diverse practices such as board composition, executive compensation, risk management, shareholder rights, and disclosure requirements. The attention to governance mechanisms has intensified, driven by regulatory authorities and stakeholder advocates who recognize its pivotal role in shaping ethical business conduct and sustaining long-term growth.

### 1.2. Stakeholder Engagement

Stakeholder engagement stands as a pivotal aspect of modern corporate governance, acknowledging corporations' responsibilities not solely to shareholders but also a broader spectrum of stakeholders, encompassing employees, customers, suppliers, and the community. Mechanisms facilitating this engagement include the establishment of stakeholder advisory committees or councils, providing platforms for stakeholders to express concerns and contribute to strategic decisions. Another effective approach involves integrating stakeholder perspectives through non-executive directors possessing relevant stakeholder backgrounds (Mohamed, Ahmad, & Khai, 2016), and diversifying viewpoints in the boardroom.

Chen & Wang (2021) affirm this importance, revealing a positive association between stakeholder engagement, corporate sustainability, and firm value. Their study suggests that prioritizing stakeholder interests contributes to long-term shareholder value. Gray, Kouhy & Lavers (2019) assert stakeholder accountability's significance in corporate social reporting, emphasizing companies' reporting on stakeholder interactions as a demonstration of commitment. Hoepner, Rezac & Zhou (2020) further support this nexus, finding that pension funds with stakeholder-oriented investment philosophies favour companies with better corporate governance practices. Therefore, companies prioritizing stakeholder interests are poised to cultivate trust, maintain positive relationships, adeptly identify and manage risks, adhere to legal and regulatory requirements, and operate with a commitment to responsibility and ethics. These findings underline the interconnectedness of stakeholder engagement, corporate governance, and sustainable business practices.

### **1.3. Organisational Performance**

Organizational performance, as defined by Mahapatro (2013) and Toma & Marinescu (2013), is the firm's ability to achieve its goals through effective administration, good governance, and continuous dedication to business objectives. Richardson (2017) adds that it involves the organization's efficient and effective attainment of goals, covering financial performance, market position, customer satisfaction, operational efficiency, innovation, and employee satisfaction (Acur & Bititci, 2004; Pfeffer & Salancik, 1978).

Amidst evolving trends and global disruptions, organizations face an imperative to efficiently manage operations for competitive success. Consequently, implementing best practices becomes crucial for optimizing outputs (Arshad, Asif, & Baloch, 2012; Richardson, 2017). This underscores the significance of adopting efficient operational strategies and global best practices to enhance overall organizational performance in a dynamic business environment. To measure organizational performance, various quantitative and qualitative methods are employed. Traditional financial metrics such as return on investment (ROI) and net profit margin offer valuable insights into the financial health of an organization (Kyereboah-Coleman, 2007). However, relying solely on financial measures may provide a limited perspective on performance, as they fail to capture non-financial aspects that contribute to long-term success. To address this limitation, complementary non-financial indicators are used. Therefore, organisational performance in this study will be discussed under two categories, financial and non-financial performance.

#### **1.3.1 Financial Performance**

Financial methodologies for gauging organizational performance encompass the utilization of financial indicators and metrics to appraise and scrutinize an organization's fiscal health and performance. These methodologies furnish quantitative gauges that aid stakeholders, including investors, managers, and analysts, in evaluating an organization's financial stability, profitability, and operational efficiency. The evaluation of financial performance within the ICT sector involves the utilization of various key performance indicators (KPIs). One noteworthy KPI is revenue growth, which quantifies the escalation in sales over a designated timeframe. Notably, Sani, Aliyu, & Bakare (2019) underscored the significance of revenue growth as a pivotal metric for evaluating a company's fiscal well-being, signifying its prowess in garnering new business and expanding market share. Another pivotal metric is the profit margin, representing the percentage of profit derived from each unit of revenue. According to Mohammed & Fahmida (2017), a high-profit margin signals adept cost management and effective pricing strategies within the industry.

#### **1.3.2 Non-Financial Performance**

Non-financial performance indicators play a pivotal role in the assessment and evaluation of organizational performance. These indicators offer valuable insights into diverse facets of an organization's operations, cultural dynamics, and relationships with stakeholders (Abdulmalik & Ahmad, 2016). They are essential for comprehensively gauging organizational performance beyond purely financial metrics (Kaplan & Norton, 1992). These non-financial performance indicators encompass a range of critical areas, including firm reputation, customer satisfaction, competitive advantage, employee engagement, product quality, innovation, and sustainability, providing a well-rounded evaluation (Hitt, Franklin, & Zhu, 2002; Homburg & Pflesser, 2000). The majority of the Nigerian corporate governance literature places considerable emphasis on the influence of

corporate governance on financial performance, often neglecting the exploration of non-financial performance aspects (Adams & Ferreira, 2009). While financial metrics hold undeniable significance, they possess a notable limitation – they fail to encapsulate the initiatives undertaken by companies to enhance customer experience, contribute to community development, support employee welfare, and fulfil corporate social responsibility (Kyereboah-Coleman, 2007).

#### **1.4. Objectives of the Study**

The study is to examine the following specifics:

1. To determine the effect of stakeholder Engagement on the organisational performance of ICT Industries.
2. To examine the impact of stakeholder engagement on the financial performance of ICT Industries.
3. To determine the impact of board independence on the non-financial performance of ICT Industries in Nigeria.

## **2. Literature Reviews**

An organization is a collective of stakeholders working together to manage their well-being, needs, and perspectives (Kombe & Wafula, 2015). Beyond shareholders, stakeholders encompass staff, creditors, public interest groups, debtors, business partners, and more (Kombe & Wafula, 2015). Effective stakeholder engagement requires clear identification, level of engagement, and purpose (Kibwana, 2015). Bourne (2016) defines stakeholders as entities that can impact or be influenced by a firm. Stakeholder engagement, guided by fundamental values, ensures a business achieves its vision through positive interactions (Bourne, 2016).

Alwan and Al-Zubi (2016) propose a successful stakeholder management process involving identification, analysis, stakeholder matrix, engagement, and communication of outcomes. The management must balance business needs with stakeholder interests for sustained operations and relationships (Alwan & Al-Zubi, 2016). Kane (2015) stresses the importance of understanding stakeholders' expectations and assessing their influence on organizational decisions for significant commercial resolutions. The impact of such influence on the overall operation of the organization is crucial to consider.

### **2.1 Theoretical Framework**

Stakeholder theory, pioneered by Freeman (1984), expands the corporate purpose beyond shareholder wealth maximization, emphasizing the consideration of all stakeholders in organizational decisions. This theoretical framework underscores the importance of engaging and balancing the interests of various stakeholders, including employees, customers, suppliers, and the environment (Freeman, 2010). Prioritizing employee welfare and open communication creates a positive culture, enhancing satisfaction and productivity (Jones et al., 2017). Stakeholder theory influences corporate governance, proposing boards act as stewards considering all stakeholders for accountability and long-term value creation. Diverse boards, incorporating stakeholder perspectives, lead to sustainable practices and improved financial performance (Harrison & Wicks, 2013; Freeman, 1984). This theory links to organizational performance, as effective stakeholder management enhances reputation, builds trust, and boosts customer loyalty. Prioritizing stakeholder engagement and considering social and environmental impacts contributes to sustainable growth and long-term profitability (Jones & Wicks, 2012; Freeman, 2010). Adopting a stakeholder-oriented approach enables organizations to cultivate positive cultures, ensure effective governance, and achieve superior performance outcomes.

#### **2.1.1 Reviews Interactions and Interdependencies between Stakeholders Engagement, Stakeholders Theory and Organizational Performance**

Understanding the intricate relationship among stakeholder engagement, stakeholder theory, and organizational performance is crucial for effective stakeholder management. Stakeholder engagement involves active collaboration between organizations and stakeholders, encompassing various entities like employees, customers,

suppliers, communities, and investors (Freeman, 2010; Freeman et al., 2010). Stakeholder theory emphasizes the need for organizations to consider and balance stakeholders' interests for long-term success (Freeman, 1984; Harrison & Wicks, 2013). Positive stakeholder relationships, trust, and mutual value, achieved through stakeholder engagement, contribute to improved organizational performance (Jones et al., 2017).

Research indicates that organizations prioritizing stakeholder engagement experience enhanced financial performance, innovation, and reputation (Clarkson, 1995; Freeman, 2010; Jones et al., 2017). Companies with robust stakeholder engagement tend to exhibit greater profitability and market value (Bansal & Roth, 2000; Jones, 1995; Jones et al., 2017). Stakeholder engagement and stakeholder theory are inherently intertwined, with effective engagement reflecting the practical application of stakeholder theory (Kaptein, 2018). Organizations adopting stakeholder theory are more likely to implement strong engagement strategies that address stakeholder concerns (Kaptein, 2018).

The success of stakeholder engagement serves as evidence of stakeholder theory's application, signalling an organization's commitment to creating value beyond shareholder interests (Miles et al., 2019). As stakeholders perceive their voices being heard in organizational decision-making, it leads to support for the organization's objectives, enhancing overall organizational performance (Donaldson & Preston, 1995). Improved stakeholder relationships positively impact financial performance, customer loyalty, employee commitment, and social impact (O'Reilly & Tushman, 2008; Harrison & Freeman, 1999).

### 3. Methodology

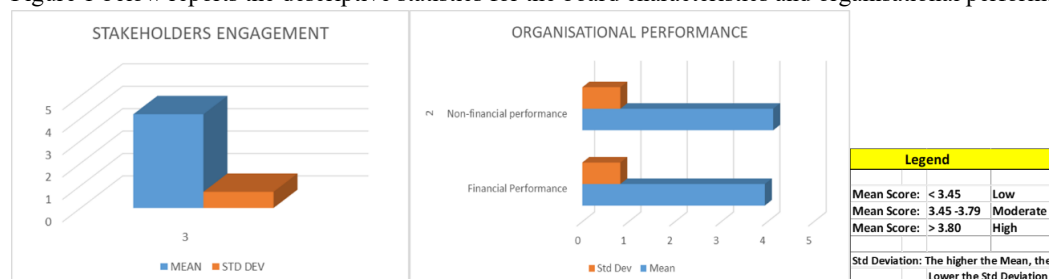
The study embraced a Quantitative Research Design. The study collected primary data through the administration of questionnaires. The study had a total of 555 respondents from C-level managers of the 295 selected ICT companies in Nigeria. A simple random sampling method was used to select the companies for the study. The study analyzed the data into a descriptive and inferential statistic with the help of SPSS software version 21 where measures of central tendencies such as mean and standard deviation were calculated. Panel regression and collinearity analysis were applied the test the given hypothesis. The results are presented and charts and tables.

### 4. Analysis and Discussions

The study provided two types of data analysis; namely descriptive analysis and inferential analysis.

#### 4.1 Descriptive Analysis

Figure 1 below reports the descriptive statistics for the board characteristics and organisational performance.



**Figure 1: Descriptive Statistics on Stakeholder Engagement and Organisational Performance**

The Stakeholders' Engagement score, with a mean of 4.18 (SD = 0.72), signifies a robust positive sentiment and consistent response pattern. Respondents widely support mechanisms for employee participation and stakeholder rights. Positive perceptions exist concerning effective communication processes for stakeholder engagement. Evaluating Organisational Performance in both financial and non-financial aspects, Financial Performance scores a mean of 3.94 (SD = 0.82), indicating mixed responses on Financial Growth but a more positive view on Profitability (mean = 4.05). Non-financial Performance, with a mean of 4.12 (SD = 0.82), reveals positive sentiments. In terms of Competitive Advantage, respondents exhibit a generally positive outlook, while assessments of Firm Reputation yield a high mean of 4.15, indicating a favourable perception in the industry.

## 4.2 Multicollinearity Analysis

Independent variable	Coefficients	
	Collinearity Statistics	
	Tolerance	VIF
Stakeholders' Engagement	0.171	5.861
<b>Control Variables</b>		
Gender	0.844	1.184
Job Position	0.935	1.07
Educational Level	0.68	1.47
Experience	0.956	1.046

Note: \*\*significant at the 0.01 level and \* significant at the 0.05 level

**Table 1: Results of the Multicollinearity Test**

While examining the impact of stakeholders' engagement on firm performance, it is important to evaluate the extent of association between the explanatory variables. The results from the Pearson correlation coefficients suggest that there is no multicollinearity problem among the variables in the multiple regression analysis as the coefficient values are low. Field (2005) suggests that multicollinearity becomes an issue only when the correlation coefficient exceeds 0.80.

## 4.3 Regression Analysis

This section of the study presents the results of the inferential statistics, which was used for hypotheses testing. In investigating the effect of stakeholders' engagement mechanisms on the financial and non-financial performance of ICT companies in Nigeria, the panel regression model was employed.

### 4.3.1 Hypothesis Testings

**H<sub>01</sub>:** Stakeholders engagement have no statistically significant impact on organizational performance in ICT Companies

**H<sub>1</sub>:** Stakeholders engagement have a statistically significant impact on organizational performance in ICT Companies

**H<sub>02</sub>:** Stakeholder engagement has no statistically significant impact on financial performance in ICT Companies

**H<sub>2</sub>:** Stakeholder engagement has a statistically significant impact on financial performance in ICT Companies

**H<sub>03</sub>:** Stakeholder engagement has no statistically significant impact on non-financial performance in ICT Companies

**H<sub>3</sub>:** Stakeholder engagement has a statistically significant impact on non-financial performance in ICT Companies

### 4.3.2 Regression Results

The hypothesis was to determine the effects of stakeholder engagement as an aspect of corporate governance measures on organisational performance (both financial and non-financial) in ICT companies in Nigeria. The results of the analysis are presented in Table 2.

**Table 2: Stakeholders Engagement and Organisational Performance in ICT Companies**

Independent Variable	Financial Performance			Non-Financial Performance		
	Coefficients		Sig	Coefficients		Sig
	Beta ( $\beta$ )	T-Stat		Beta ( $\beta$ )	T-Stat	
<i>Stakeholder Engagement</i>	0.587***	11.540	0.000	0.647***	13.180	0.000
<b>Control Variable</b>						
<i>Gender</i>	-0.145**	-2.290	0.022	-0.134**	-2.180	0.029
<i>Educational Level</i>	0.045	1.320	0.189	0.023	0.700	0.484
<i>Job Experience</i>	0.071	1.550	0.122	0.001	0.030	0.977
Constant	1.432***	5.000	0.000	1.518***	5.490	0.000
No. Observation	555			555		
R-squared	0.2671			0.3217		
Adj. R-squared	0.2617			0.3168		
F-Statistic	50.1			65.22		

Note: \*\*significant at the 0.01 level and \* significant at the 0.05 level

### 4.3. Discussions and Conclusions

Table 2 presents compelling findings from the analysis exploring the association between stakeholders' engagement and organizational performance, encompassing both financial and non-financial dimensions. The null hypothesis asserting no significant impact of stakeholder engagement on organizational performance is emphatically rejected. For financial performance, Stakeholder Engagement reveals a highly significant positive association ( $\beta = 0.587$ , T-Stat = 11.540, p-value = 0.000). Control variables, including Gender, Educational Level, and Job Experience, exhibit associations, with Gender indicating a negative impact. The model fit is robust (R-squared = 0.2671, Adj. R-squared = 0.2617, F-Statistic = 50.1). Non-financial performance demonstrates a highly significant positive impact on Stakeholder Engagement (coefficient = 0.647, T-Stat = 13.180, p-value = 0.000), alongside contributions from gender and the constant term. The model fit is compelling (R-squared = 0.3217, Adj. R-squared = 0.3168, F-Statistic = 65.22). These findings decisively reject the null hypotheses (H01, H02, and H03) and affirm the alternatives (H1, H2, and H3). The positive correlations resonate with studies by scholars like Freeman (2010) and Jones, Wicks, & Freeman (2017), suggesting that organizations prioritizing stakeholder engagement tend to enhance financial performance, innovation, and reputation. N-13.18.

## 5. Conceptual Framework Based on the Regression Analysis

**Table 3.0: Presentation of the Hypothesized Model and Results Summary**

Hypothesis	Null	Alternative	Coefficients	T-Stats	Result	Conclusion
SKE - OP	H01	H1	0.62	12.36	Positive/Significant	Accepted (H1)
SKE - FP	H02	H2	0.59	11.54	Positive/Significant	Accepted (H2)
SKE - NFP	H03	H3	0.65	13.18	Positive/Significant	Accepted (H3)

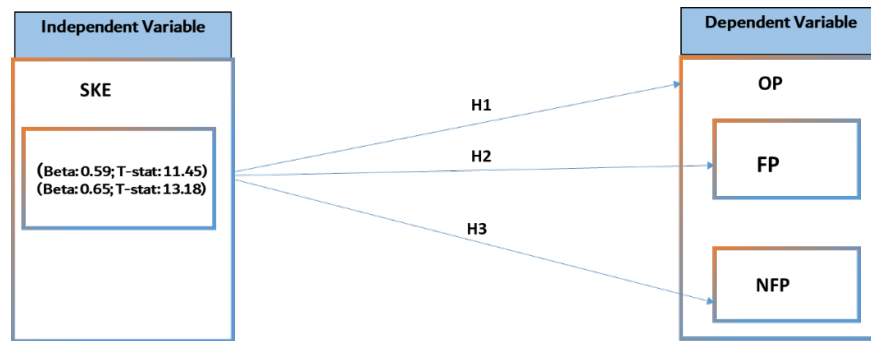


Figure 2: Hypothesised Model of the Interaction between Stakeholder Engagement and Organisational Performance.

## 6. Conclusions and Recommendations

The literature underscores the impact of stakeholder engagement on firm performance. Tables 2 and 3 reveal a significant, positive relationship between stakeholder engagement and both financial and non-financial metrics, aligning with Chen & Wang (2021). This suggests that prioritizing stakeholder interests creates lasting shareholder value and fosters trust. Companies emphasizing stakeholder concerns are more likely to manage risks effectively, comply with regulations, and operate ethically. These insights benefit stakeholders in Nigeria's ICT sector, guiding strategic planning amid dynamic governance-performance interplay. The study encourages optimizing stakeholder engagement for enhanced organizational performance. While contributing to knowledge on firm performance and corporate governance, focusing on stakeholder engagement, the results may lack generalizability beyond Lagos' registered ICT firms. Further research should explore external factors' influence on relationships and consider diverse samples across sectors and regions for a comprehensive understanding.

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