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**INFLUENCE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)
PRACTICES ON EMPLOYEE ENGAGEMENT IN COMPANIES LISTED ON
NAIROBI SECURITIES EXCHANGE IN KENYA**

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ADMISSION NUMBER: 171411**

**A RESEARCH THESIS TO BE SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE DEGREE OF MASTER OF COMMERCE OF STRATHMORE
UNIVERSITY**

JUNE, 2025

DECLARATION

I hereby declare that this research thesis has not been previously submitted for the award of a degree at this or any other university. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person, except where proper citation is made within the dissertation.

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DEDICATION

I dedicate this research to my parents for whose wisdom and support have been my guiding light. To my wife, whose love and encouragement inspired me throughout this journey. To my professors for all the knowledge passed to me and to classmates for all the teamwork and resource sharing. You made this possible, thank you.

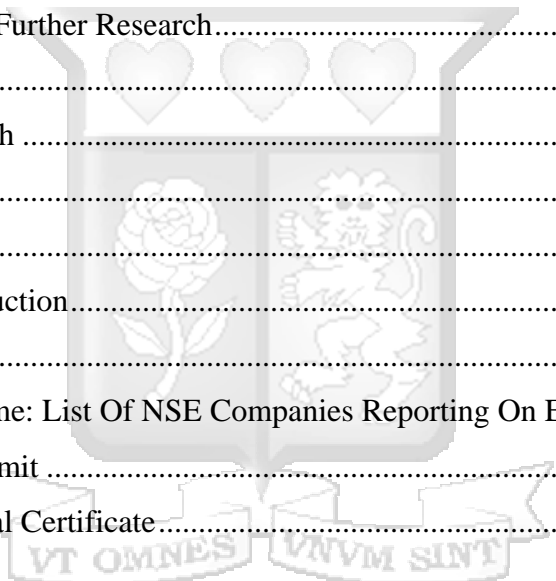


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ABBREVIATIONS AND ACRONYMS

CMA: Capital Markets Authority

CSR: Corporate Social Responsibility

D&I: Diversity and Inclusion

eNPS: Employee Net Promoter Score

ESG: Environmental, Social, and Governance

GRI: Global Reporting Initiative

HR: Human Resources

IFRS: International Financial Reporting Standards

KEPSA: Kenya Private Sector Alliance

NSE: Nairobi Securities Exchange

SDGs: Sustainable Development Goals

UNFCCC: United Nations Framework Convention on Climate Change



DEFINITION OF TERMS

Corporate Social Responsibility (CSR): Business practices that involve initiatives to benefit society and contribute positively to social, economic, and environmental sustainability (Albdour & Altarawneh, 2017).

Diversity and Inclusion (D&I): Organizational practices and policies aimed at creating a workplace that values diversity and fosters a culture of inclusion (Chaudhary, 2019).

Employee Net Promoter Score (eNPS): A metric used to measure employee loyalty and their likelihood of recommending their workplace to others (Raza et al. 2021).

Environmental, Social, and Governance (ESG): A framework used to evaluate a company's commitment to sustainability and ethical practices in environmental stewardship, social responsibility, and governance transparency (Al Amosh & Khatib, 2023).

Employee Engagement: The level of psychological investment, motivation, and commitment employees have towards their organization, often linked to productivity and job satisfaction (Clack, 2021).

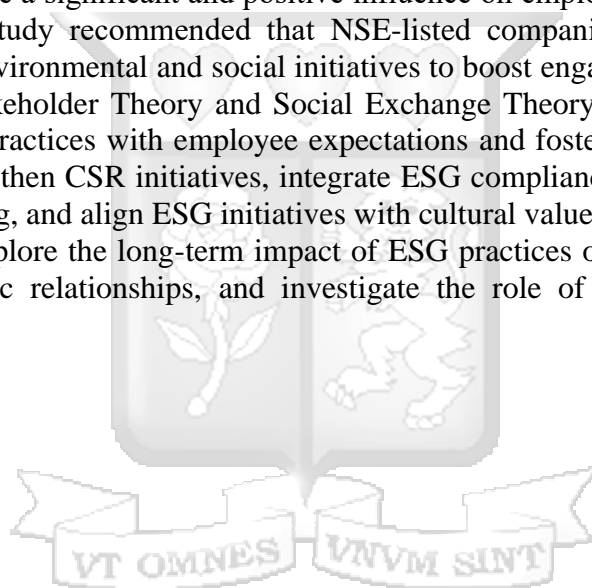
Global Reporting Initiative (GRI): International standards designed to help organizations disclose their ESG performance in a standardized and transparent manner (UNFCC, 2016).

Nairobi Securities Exchange (NSE): Kenya's principal stock exchange where publicly listed companies trade their shares (NSE, 2023).

Sustainable Development Goals (SDGs): A collection of 17 global goals set by the United Nations to address social, economic, and environmental challenges for sustainable development (United Nations, 2004).

ABSTRACT

This research sought to determine the influence of Environmental, Social, and Governance (ESG) practices on employee engagement in companies listed on the Nairobi Securities Exchange in Kenya. This study was guided by the following research objectives: to analyse the influence of environmental practices on employee engagement in NSE-listed companies, to establish the influence of social practices on employee engagement in NSE-listed companies, and to determine the influence of governance practices on employee engagement in NSE-listed companies. This study was grounded in stakeholder theory and social exchange theory. This study was based on the positivist research philosophy. This study adopted a descriptive cross-sectional research design. The study assumed a census approach. The study adopted a quantitative approach in data analysis. To analyze all three objectives of the study, descriptive statistics and inferential statistics were employed. The findings showed that the regression model was statistically significant, and the analysis confirms that environmental, social and governance practices have a significant and positive influence on employee engagement. The study concluded that environmental, social and governance practices have a significant and positive influence on employee engagement in NSE-listed companies. The study recommended that NSE-listed companies should enhance ESG practices, focusing on environmental and social initiatives to boost engagement. Further research should explore how Stakeholder Theory and Social Exchange Theory apply to ESG practices, particularly in aligning practices with employee expectations and fostering greater engagement. Companies should strengthen CSR initiatives, integrate ESG compliance into policies, prioritize inclusive decision-making, and align ESG initiatives with cultural values to enhance engagement. Future studies should explore the long-term impact of ESG practices on employee engagement, examine industry-specific relationships, and investigate the role of cultural factors in ESG effectiveness.



CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Environmental, Social and Governance (ESG) practices have recently attracted a lot of attention as more companies' stakeholders strive for sustainable business practices in the market. ESG refers to a vast contrary of corporate activities for sustainability about environment, social responsibility, and corporate governance. Around the world, ESG standards are now viewed as essential for future-oriented business success as more companies begin to implement elements of sustainability in observance of the new expectations and directions from various stakeholders, including investors, customers, and legislators (Chams & García-Blandón, 2019). Velte (2017) pointed out that there was a positive relationship between the level of ESG performance and changes in the financial outcomes in Germany. Nevertheless, the work also revealed that there was emerging research interest in how ESG impacted other factors such as employee satisfaction and engagement.

ESG standards have featured more attention given the fact that companies globally adopt sustainable business processes owing to the evolvement of stakeholder expectations and the development of environmental conservation legislation (Chams & García-Blandón, 2019). At the global level, ESG started as a result of increasing consciousness of challenges facing the world such as environmental deterioration, social injustice and bad governance whose impacts are reflected in the economic systems. Global accords like the Paris Climate Agreement and the UN Sustainable Development Goals provided the corporate sustainability global blueprint (UNFCCC, 2016). All these frameworks provided direction of how organizations must run their operations in a manner that has a minimal impact on the environment offers socially fair results, and is ethically sound.

Over the past decade, institutional investors have demanded more stringent compliance of companies with ESG policies to meet not only the current laws but customer expectations in the market as well. For instance, in 2023 BlackRock, one of the largest asset management companies globally, declared that it would start integrating ESG into its investment process, which hints at the increasing importance of sustainability for world financial markets (RAO, 2023). This has gone

through a cycle affecting almost every industry in the world where various companies are encouraged to adopt ESG to sustain themselves in the global economy.

Thus, as ESG practices become more widely discussed globally, they have begun to appear at the corporate level more often. ESG factors are no longer being applied merely to support corporate objectives of sustainability and risk minimization, but also as a determinant of attracting investment and as a step toward reputational building. However, the internal benefits including; better employee engagement, satisfaction, and retention are further rising as inherent outcomes of exemplary ESG performance. Velte (2017) established that there is a positive relationship between manufacturing companies' ESG performance and their financial performance in Germany which means that organizations with good sustainable business practices are also good performers in terms of their financial status. It is not the preserve of developed nations alone, but also many organizations in developing economies have started adopting ESG practices to be relevant in the global market.

At the corporate level, ESG is reflected in outcomes that are concrete business initiatives to enhance environmental responsibility (carbon footprint, energy usage), social responsiveness (labour relations, diversity and stakeholder engagement), and strong governance structures (transparency, accountability, and ethical standards). Such actions not only improve the company's reputation to the public but at the same time create a sense of purpose and engagement among employees. Employees from U.S. organizations showed higher job satisfaction when their companies maintained strong environmental and social initiatives (Raza et al. 2021). According to Zhang et al. (2024) studied China and determined that social aspects of ESG which deal with employee and community management proved superior at both motivating staff and retaining labor compared to environmental and governance issues.

Global awareness of ESG does not address the distinct research and performance patterns of developed nations compared to emerging market economies (Velte, 2017; RAO, 2023;Raza et al. 2021;Zhang et al. 2024). Kenya presents one of many developing economies where ESG practices remain underdeveloped due to insufficient research about their implementation outcomes from a regional perspective. ESG implementation in Kenya has distinct hurdles and prospects to

overcome and achieve. The implementation of ESG practices by listed companies on the Nairobi Securities Exchange (NSE) has started despite the fact that employee engagement remains an unclear organizational outcome (Karanja, 2023).

The focus of this study is to explore how ESG practices influence employment within companies listed on the NSE, specifically in the context of employee engagement. As the Kenyan market becomes more integrated with global standards, it is crucial to understand how global ESG trends can be adapted and implemented in the Kenyan business environment. The study also examined the key ESG-related factors that drive employee engagement, offering insights into how these practices can be optimized to meet global sustainability standards. By investigating the impact of ESG on employee engagement, this research aims to fill a critical gap in both local and global ESG literature, ultimately contributing to the development of more sustainable business practices in Kenya.

1.1.1 ESG Practices

The term ESG was formally introduced in 2004 with the release of the UN Global Compact Initiative's report, *Who Cares Wins: Connecting Financial Markets to a Changing World*. The initiative aimed to integrate three core ethical pillars: environmental, social, and governance into financial and investment decision-making. The report was a collaborative effort by the United Nations Global Compact, involving major financial institutions to explore how these non-financial factors could be integrated into capital markets. ESG serves as a framework that bridges traditional financial analysis with the growing recognition of sustainability issues in corporate performance (United Nations, 2004).

ESG has emerged as a crucial determinant in investment decisions globally, with increasing awareness that sustainability and governance influence both financial outcomes and corporate reputation. Studies indicate that companies with high ESG performance tend to attract greater investor confidence. For instance, Rewachanda (2022) found that South African firms with high ESG scores experienced increased investor trust due to their lower perceived risks. This demonstrates that ESG practices are not just ethical imperatives but also strategic business considerations that enhance long-term financial stability. Despite the extensive research on ESG and financial performance, there remains a gap in understanding its internal benefits, such as its

impact on employee engagement. While financial returns are well-documented, the link between ESG practices and employee motivation, satisfaction, and productivity remains underexplored (Puriwat & Tripopsakul, 2022).

In Kenya, ESG frameworks are still evolving, with regulatory requirements in their infancy. However, listed companies on the Nairobi Securities Exchange (NSE) are increasingly integrating ESG principles into their strategic models (Karanja, 2023). ESG practices adoption in Kenyan firms is becoming essential not only for investor relations but also for operational efficiency and employee engagement (Nyamongo & Temesgen, 2018).

In this study, ESG is conceptualized as a three-dimensional construct. The environmental dimension includes practices like waste reduction and energy efficiency. It is operationalized through employee awareness of such initiatives, their perceived impact on engagement, and their effect on job satisfaction. The social dimension encompasses diversity, inclusion, and wellness programs, measured by employee awareness, perceived impact on engagement, and sense of belonging. The governance dimension involves ethical conduct, transparency, and accountability, assessed through awareness of governance practices, trust in leadership, and perceived influence on engagement and loyalty. These dimensions are measured using a structured Likert-scale questionnaire designed to capture employee perceptions. This approach is justified by the need to address a key methodological gap in existing ESG research, which often overlooks internal stakeholder perspectives.

1.1.2 Employee Engagement

Employee engagement refers to the level of emotional and psychological commitment employees have toward their organization, often reflected in their enthusiasm, loyalty, and willingness to advocate for their workplace (Turner, 2020). It goes beyond job satisfaction to encompass a deeper sense of purpose and connection, which directly influences employee retention, productivity, and overall organizational performance (Clack, 2021). Engaged employees are more likely to stay with the company, speak positively about their experiences, and invest discretionary effort into their roles. In this study, employee engagement is examined using four key indicators: employee satisfaction, employee retention rate, employee net promoter score (eNPS), and the availability of employee well-being programs.

Leadership, organizational culture, and corporate social responsibility (CSR) play a critical role in shaping employee engagement, as they influence how connected and valued employees feel in their workplace (Yasir et al., 2020). In recent years, the scope of engagement has expanded to include Environmental, Social, and Governance (ESG) factors. Employees increasingly align their personal values with organizations that prioritize sustainable and ethical practices, which strengthens their commitment and motivation (Grewatsch & Kleindienst, 2021). As such, ESG has become a strategic lever for organizations to enhance engagement by fostering an environment of purpose, inclusivity, and accountability.

Globally, companies that adopt ESG initiatives have reported higher engagement levels. For instance, in developed countries, sustainable practices and employee wellness programs have been linked to greater morale and job satisfaction. In Ghana, organizations that invest in community-focused CSR and inclusive workplace initiatives have seen improved engagement outcomes (Baffoe, 2018). Similarly, in Kenya, employee engagement is increasingly driven by green initiatives, equity and inclusion strategies, and social investments in local communities (Kangure, 2014; Rauf et al., 2023). These programs not only address environmental and social challenges but also reinforce employees' sense of pride and belonging within the organization.

Moreover, employee engagement has become integral to ESG strategies, as it reflects how well an organization integrates ethical and sustainable values into its internal culture. When employees perceive their organization as socially responsible and aligned with broader societal goals, they are more likely to experience a sense of purpose and fulfillment in their roles (Albdour & Altarawneh, 2017). This relationship between ESG practices and engagement is particularly relevant in Kenya's unique socio-economic context, where regulatory, cultural, and economic dynamics shape how employees connect with their work. By aligning ESG efforts with employee values and expectations, organizations can foster a more committed and productive workforce.

1.1.3 Companies in the Nairobi Stock Exchange

Established in 1954 as the Nairobi Stock Exchange, The Nairobi Stock Exchange (NSE) is the leading stock exchange in East Africa. It is based in Nairobi, the capital of Kenya, and operates under the jurisdiction of the Capital Markets Authority of Kenya. It has listed 61 publicly traded companies across diverse sectors such as finance, energy, telecommunications, manufacturing, and agriculture. These companies contribute significantly to Kenya's GDP, employment, and innovation. By raising capital and fostering sustainable development, NSE-listed firms have a profound impact on both economic growth and social progress. Out of the 61 publicly traded companies, only thirty-one companies listed on the NSE reported on ESG as of 2023 (NSE, 2023).

With the increasing adoption of ESG practices worldwide, more Kenyan listed companies are expected to embrace this practice, given its significance. The uptake of ESG reporting by companies listed on the NSE has been increasing in recent years, driven by investor demand for more comprehensive information beyond just financial performance (Mumo, 2022). According to a report by The Capital Markets Authority (CMA, 2023), the NSE is collaborating with listed companies to implement ESG frameworks. CMA has expressed support for the publication of standards for Sustainability-related Financial Information (IFRS S1) and Climate-related (IFRS S2) Disclosures by the International Sustainability Standards Board (ISSB), which have set globally acceptable benchmarks in reporting (CMA, 2023).

The NSE's ESG Disclosures Guidance Manual aims to further promote and standardize ESG reporting practices among listed companies in Kenya. This enabled investors and the public to understand and compare the ESG performance of different companies. ESG factors have become key considerations for investors seeking sustainable and socially responsible investment opportunities. According to the NSE report, the Global Reporting Initiative (GRI) Standards have been recommended as the standard for ESG reporting by listed companies in Kenya. The GRI Standards are the most widely used standards for ESG reporting globally (NSE, 2023).

ESG reporting is currently voluntary for listed companies in Kenya, with thirty-one companies having adopted the practice thus far. Through the ESG reporting process, the majority of the listed Kenyan companies are demonstrating their contribution to the Sustainable Development Goals

(SDGs) by aligning their material ESG topics with the targets contained in SDGs. The uptake of ESG reporting by NSE-listed companies is increasing, driven by investor demand and the potential benefits it offers in terms of company value, stock returns, and sustainability (Mumo, 2023). According to Mwenda (2023), only 15 out of the 61 companies listed on the Nairobi Securities Exchange (NSE) had adopted ESG disclosures by December 2021. This number rose to 31 companies by December 2023 (NSE, 2023), reflecting a growing recognition of sustainable business practices among Kenyan firms.

The integration of ESG practices is seen as both a necessity for corporate responsibility and a strategic imperative for long-term success. According to a KEPSA report (2024), companies are encouraged to conduct self-audits on their ESG matters, align with investor expectations, and continuously monitor their practices to adapt to emerging challenges. The report goes on to state that despite the positive correlation between good ESG performance and financial success, the journey towards comprehensive ESG maturity faces obstacles such as limited awareness and initial implementation difficulties among companies.

In Kenya, to the best of my knowledge, no prior research work has investigated the relationship between ESG practices and employee engagement. To meet this goal, this research study aims to investigate the effect of ESG practices on employee engagement in companies listed on the NSE. In this way, the study identified particular ESG-related factors stimulating engagement through the investigation of Kenyan employees' perceptions of their company's activities in this area.

This study conceptualized the influence of ESG practices comprising environmental, social, and governance practices on employee engagement. The research sought to investigate how each of these ESG practices influences employee engagement (Karanja, 2023; Razaqat, 2023; Baffoe, 2018; Torelli, 2021). Although prior literature has focused on the external value of ESG investment, namely investors' confidence and the company's reputation, the impact of ESG on internal, specifically employee, levels has not been thoroughly investigated (Bode et al., 2022). In addition, more of this research has been done in developed countries with little contribution from emerging economies such as Kenya (Albdour & Altarawneh, 2017; Cole, 2023; Zhang et al. 2024; Rewachanda, 2022; Grewatsch & Kleindienst, 2021). To fill these gaps, this study focused on

NSE-listed companies and explored how ESG standards influence employee engagement in a developing market environment. The insights not only extend the academic literature but also present practical suggestions for companies and their desire to boost both their sustainability activities and workers' satisfaction.

1.2 Problem Statement

ESG reporting in Kenya remains largely voluntary, but its adoption is gaining momentum. According to Mwenda (2023), only 15 out of the 61 companies listed on the Nairobi Securities Exchange (NSE) had adopted ESG disclosures by December 2021. This number rose to 31 companies by December 2023 (NSE, 2023), reflecting a growing recognition of sustainable business practices among Kenyan firms. Despite this progress, there is a limited empirical understanding of how ESG practices influence internal organizational outcomes specifically employee engagement in the Kenyan context. Most companies are implementing ESG strategies without clear evidence of how these efforts affect their human capital, which remains an underexplored yet critical aspect of ESG success.

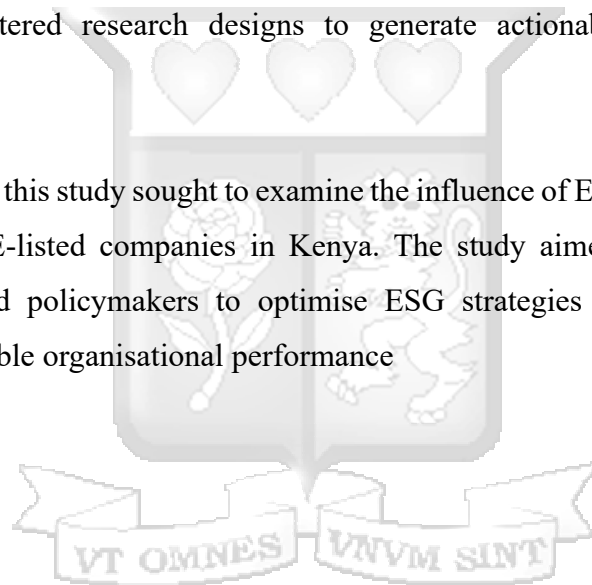
The conceptual gap highlights the need for extensive exploration of ESG's impact on employee engagement, particularly within the unique organizational and socio-economic contexts of Kenya. This is because the previous studies have mainly examined the mediated relationship of ESG on financial performance, corporate reputation and external stakeholders in developed countries (Velte, 2021; Chams & García-Blandón, 2019). Current studies often prioritize financial metrics, leaving the critical role of human capital in realizing ESG benefits underexplored (Mumo, 2022; Karanja, 2023). Bode et al. (2022) argue that employees are central to an organization's operational success, yet the literature inadequately conceptualizes how ESG practices influence key aspects such as motivation, commitment, and productivity.

The contextual research gap exists where the connection between ESG practices and employee engagement remains largely unexplored in Kenya. Prior literature has established employee engagement's role as a productivity driver which leads to improved performance and sustainability outcomes (Clack, 2021) but existing research about ESG initiative effectiveness in this area is limited within Kenyan workplaces. The current understanding deficit is substantial since Kenya operates under its own distinct socio-economic system with separate regulatory conditions when

compared to developed countries. The Kenya Institute of Management (2022) finds that 60% of investors believe ESG performance drives organizational sustainability but managers currently lack proof about how these practices affect their internal workforce. Due to this limitation, they lack effectiveness in using ESG initiatives to boost workforce performance and increase workplace efficiency.

The methodological research gaps is evident where the methodologies employed in previous research have predominantly focused on financial metrics and external stakeholder perceptions, with limited use of qualitative or mixed-method approaches to capture employee perspectives comprehensively. This methodological oversight underscores the need for studies that adopt localized, employee-centered research designs to generate actionable insights for Kenyan companies.

In response to these gaps, this study sought to examine the influence of ESG practices on employee engagement among NSE-listed companies in Kenya. The study aimed to generate actionable insights for practice and policymakers to optimise ESG strategies for improved workforce engagement and sustainable organisational performance



1.3 Objectives of the Study

1.3.1 Broad Objective

To determine the influence of ESG practices on employee engagement in companies listed on the Nairobi Securities Exchange in Kenya.

1.3.2 Specific Objective

1. To analyse the influence of environmental practices on employee engagement in NSE-listed companies.
2. To establish the influence of social practices on employee engagement in NSE-listed companies.
3. To determine the influence of governance practices on employee engagement in NSE-listed companies.

1.4 Research Questions

1. What is the influence of environmental practices on employee engagement in NSE-listed companies?
2. How do social practices influence employee engagement in NSE-listed companies?
3. What is the influence of governance practices on employee engagement in NSE-listed companies?

1.5 Scope of the Study

The conceptual scope was confined to exploring the influence of Environmental, Social, and Governance (ESG) practices on Employee Engagement.

The contextual scope was limited to companies listed on the Nairobi Securities Exchange (NSE) that publicly disclose ESG information. As of 2023, there were thirty-one such companies. These firms formed the population of interest due to their regulatory obligations and visibility in ESG reporting, which made them suitable for analyzing the study objectives.

On the methodological scope, the study adopted a census approach due to the small population size, engaging all thirty-one eligible companies. The unit of analysis was the company, and data

were gathered through primary data collection using a structured questionnaire administered to relevant respondents within the firms. The data were analyzed quantitatively to meet the stated objectives.

The time scope covered the period from February 2025 to March 2025, during which data collection was conducted. The study reflects ESG practices and employee engagement levels as observed during this specific timeframe.

1.6 Significance of the Study

The study on the impact of ESG practices on the engagement levels of employees in the companies that are listed in the NSE holds much significance to policy, practice and theory.

To policy: This research provided certain insights into how ESG practices influence employee engagement. As ESG rules remain dynamic in each country, this research was drawn to learners' attention to the innate value of ESG practices beyond the financial aspects, focusing on positive impacts on workforce motivation and retention. The results was useful for creating policy incentives for companies to integrate and report on ESG activities. Further, the study helped government bodies, stock exchanges, and other regulators fine-tune ESG reporting guidelines to reflect not only environmental or governance outcomes but also the impact on employees.

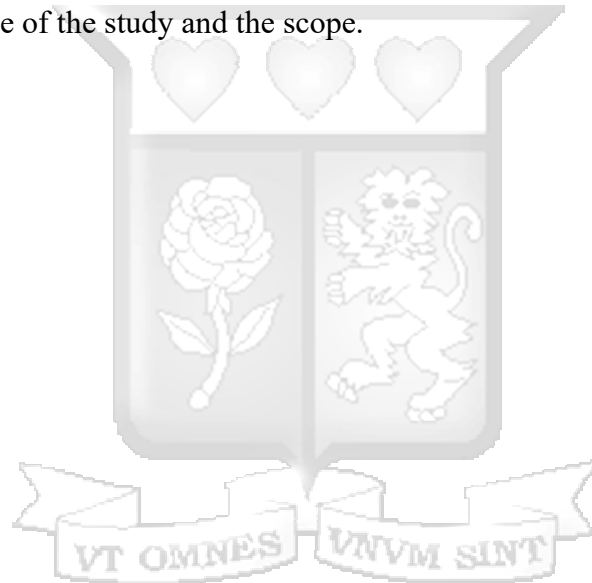
To practice, this research was of great importance to corporate stakeholders such as corporate executives, managers, and investors. Research gaps derived from previous studies indicate that there is a need for organizations to deepen their understanding of some of the non-financial benefits derived from ESG commitment, specifically relating to employees' engagement for productivity, innovation and retention. In this regard, ESG factors that contribute to employees' engagement were prioritized by the HR managers. The compliance of ESG standards was supplemented by the study, which investors have a better understanding of in terms of human capital management.

To theory, the study was to help supplement literature in the field of sustainability and human resource management. Previous studies have established a positive relationship between the implementation of ESG practices and organizational financial returns and companies' reputations,

but a lack of information is available concerning the effects of ESG practices on employees' engagement, especially in developing countries like Kenya. Moreover, the study provides a basis for further investigation and the development of more detailed theoretical frameworks regarding sustainability and human capital management in organizations, especially in emergent economies, about the effects of ESG on organizational performance.

1.7 Chapter Summary

Chapter One has provided the background to the study, the chapter has also provided a highlight of ESG practices and employee engagement concluding with a conceptualizing of the study variables and a brief highlight of the research gaps, the problem statement, research objectives and questions, the significance of the study and the scope.



CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter contains the theoretical foundation, empirical literature review, summary of knowledge gaps, conceptual framework, operationalization of study variables, and chapter summary.

2.1 Theoretical Foundation

This study was grounded in stakeholder theory and social exchange theory.

2.1.1 Stakeholder Theory

Stakeholder Theory was initially developed by Edward Freeman in 1984. Freeman stated that achieving the highest possible return on company investments should not be the only shareholders' interest. The company should have regard for the effects that any management decisions might have on any of the stakeholders. Based on this theory, organisations bear a duty to various stakeholders, and not merely concentrate on profits for shareholders (Freeman, 1984). In the context of ESG practices, Stakeholder Theory is highly applicable. ESG practices can be seen as a company's commitment to meeting the needs of diverse stakeholders beyond shareholders (Rezaee, 2017). For companies listed on the NSE, embracing ESG practices aligns corporate actions with the well-being of both internal and external stakeholders. According to Stakeholder Theory, when firms act responsibly towards diverse stakeholders by showing concern towards sustainability and ethical values employee motivation and, therefore, engagement improves (Habib & Mourad, 2024).

This theory directly supports the study's objectives by explaining how companies that embrace ESG practices align their corporate actions with the welfare of their stakeholders, especially employees. Specifically, Stakeholder Theory addresses all the objectives of this study. It supports examining the influence of environmental, social, and governance dimensions of ESG on employee engagement, each aligning with stakeholder interests. For example, by ensuring fair labour practices and community support, organizations meet employee needs, enhancing engagement (Chaudhary, 2019).

Empirical evidence supports the use of Stakeholder Theory in analyzing ESG practices and employee engagement. For example, Harrison et al. (2023) found that stakeholder-centered ESG practices positively affect employee morale and loyalty. However, the theory's limitations include its assumption of equal stakeholder importance, which can challenge the prioritization of specific ESG dimensions in practice (McGahan, 2023). For instance, NSE-listed firms may prioritize shareholder needs over environmental concerns, which can impact how employees engage with ESG initiatives (Mumo, 2022; Velte, 2017; Razaqat, 2023; Karanja, 2023).

Therefore, this theory provides a basis for affirming the proposition that ESG practices in NSE-listed companies enhance employees' engagement as the organizations' goals are made responsive to the wider stakeholders' interests. For example, the Social dimension of ESG, which includes fair labor practices and community engagement, directly benefits employees and local communities. When companies uphold high standards in governance and environmental responsibility, they contribute to a positive corporate reputation, leading to improved employee morale, reduced turnover, and enhanced engagement (Baffoe, 2018; Clack, 2021).

Although the stakeholder theory is acclaimed as progressive in guiding the ethical system of corporate governance, it has been criticized and has some limitations. The theory fails to provide sufficient advice on how to integrate stakeholder claims or accommodate competing interests, which might pose operational issues to management (Harrison et al. 2023). For instance, choices that are in the best interest of the workforce may be contradictory to shareholders' wealth enhancement objective, thus endemic hostility.

Furthermore, critics such as Gersel & Johnsen (2020) have argued that Stakeholder Theory does not offer a tool for evaluating the consequences of stakeholder management policies which would help managers to assess whether their concerted actions are actually efficient. Another drawback of the theory is that it uses an assumption that all the stakeholders of equal significance (McGahan, 2023). It emerged that some of the stakeholders named (shareholders, regulatory authorities, etc.) may exert much more power and control over corporate matters than others do. For example, when ESG is applied some listed firms may have more interest in shareholders or investors than the

environment or in certain years when it is evident that ESG constraints the stocks' performance (Chams & García-Blandón, 2019).

Stakeholder Theory is highly applicable to the study of ESG practices and employee engagement within NSE-listed companies. The theory's emphasis on the ethical and balanced treatment of all stakeholders aligns well with the foundational principles of ESG, where the environmental, social, and governance dimensions cater to different stakeholder groups. Companies that demonstrate a commitment to sustainability and transparency in their ESG practices align with the welfare of their stakeholders, including employees. This approach not only benefits employees by creating a positive workplace but also enhances the company's reputation and social capital.

2.1.2 Social Exchange Theory

Social Exchange Theory (SET) was developed by George Homans in 1958, who proposed that human behavior in social contexts is driven by an exchange process where people sought to maximize benefits while minimizing costs. Later, Peter Blau (1964) expanded this theory to include relationships within organisational contexts. In a workplace setting, Social Exchange Theory suggests that when employees enjoy positive effect of ESG compliance such as through ethical and sustainable practices they are more likely to respond with loyalty and increased engagement (Abdou et al. 2022).

The theory of Social Exchange is quite relevant in analyzing the influence of ESG practice and employee engagement in NSE-listed companies in Kenya. According to the theory, the actions of organizations towards sustainability and ethicality translate into positive change being made to benefit society and take ethical action. This belief creates loyalty, and commitment from employees who, in return, involve themselves more with the businesses of the organization (Torelli, 2021).

Social Exchange Theory is particularly relevant in explaining how positive organizational behaviours like ESG initiatives create a reciprocal positive effect where employees feel valued and engage more deeply with the organization. Social Exchange Theory contributes to all the Objectives of the study It explains how the effect of ESG practices influence employee

engagement. When employees observe their organization engaging in socially and environmentally responsible actions, they are more likely to respond with commitment and enthusiasm. Research supports the application of Social Exchange Theory to ESG and employee engagement. Torelli (2021) found that ESG compliance generate heightened employee loyalty and a deeper sense of belonging. However, Social Exchange Theory limitation lies in its assumption that all employees value reciprocity equally, overlooking individual differences in motivations and responses to ESG practices (Kilroy et al., 2023).

While Social Exchange Theory provides valuable insights, it is not without limitations. According to Kilroy et al. (2023), all people are thought to react the same to positive effect that ignores the variety of human motivations. Another limitation is the theory's emphasis on reciprocity without accounting for individual differences in values and motivations. Some employees may respond positively to the effects of ESG factors, while others may not view these as sufficient grounds for increased engagement, especially if they do not align with their values or goals. Additionally, Social Exchange Theory has been criticized by Gottfredson et al. (2020) for not addressing how to measure the perceived value of ESG practices across different employee groups, making it challenging to predict engagement outcomes consistently.

In studying the effect of ESG practices on employee engagement within NSE-listed companies in Kenya, Social Exchange Theory is highly relevant as it provides a framework to understand how employees might respond to organizational commitments to ESG practices. By implementing strong ESG practices, companies enhance engagement levels. The social aspect of ESG, such as ethical labor practices and community involvement, is particularly relevant to employee engagement, as these actions signal the organization's dedication to social values that employees may identify with.

2.2 Empirical Review

This study sought to determine the effect of environmental, social & governance practices on employee engagement of companies listed on the Nairobi Securities Exchange. The empirical review is organised according to the study objectives.

2.2.1 Environmental Practices and Employee Engagement

Research indicates that the environmental dimension of ESG impacts engagement indirectly, primarily through organizational reputation and alignment with employees' personal values. Globally, Anwer et al. (2023) found that employee stock ownership plans linked to environmental initiatives boosted engagement by instilling a sense of corporate responsibility among employees in Pakistan. However, findings by Piao et al. (2022) suggest that while environmental initiatives enhance an organization's reputation, their direct impact on engagement is often limited unless they align with employees' personal values on sustainability.

Environmental factors also influence engagement, albeit indirectly. Habib and Mourad (2023) argue that employees in firms with sustainable practices experience improved job satisfaction, particularly when such practices are visible and authentic. However, the impact of environmental factors tends to vary by sector, with employees in high-impact industries like manufacturing and energy showing stronger engagement due to alignment with personal values on sustainability.

Studies on environmental impacts in Kenya reveal similar patterns. Chege and Wang (2020) investigated the influence of environmental sustainability practices on small and medium enterprises (SMEs) in Kenya and found that engagement is enhanced when employees perceive a positive social impact from their organization's environmental efforts. However, the impact on engagement varies significantly across industries, with higher engagement reported in sectors more directly related to environmental initiatives, such as agriculture and manufacturing. These findings suggest a need for further research on sector-specific environmental initiatives and how they can be optimized to foster engagement.

Several studies, including those by and Nyamongo and Temesgen (2018), recommend further exploration into the specific social and governance aspects that resonate most with employees,

particularly in emerging economies. Additionally, Tauetsile (2021) suggests that cultural factors such as the Ubuntu philosophy could moderate the effectiveness of ESG practices in fostering engagement. This aligns with Kangure's (2014) findings in Kenya, highlighting the importance of understanding regional cultural nuances in the application of ESG practices to maximize engagement. Liu et al. (2022) advocate for comparative studies across high-impact industries to better understand sector-based engagement drivers. Similarly, Piao et al. (2022) emphasize the need for research on how environmental factors influence engagement in Kenya.

2.2.2 Social Practices and Employee Engagement

The social dimension of ESG, which includes fair labor practices, workplace safety, diversity, and community engagement, has been widely recognized as a significant contributor to employee engagement. Globally, Zimand Sheiner et al. (2021) found that congruent social messaging in organizations enhances employees' psychological attachment and commitment. This is corroborated by Liu et al. (2022), who observed that employees in organizations with inclusive labor policies are more engaged and dedicated, suggesting that the social aspects of ESG directly resonate with employees' work-life quality.

Albdour and Altarawneh (2017) suggest that employees tend to value ESG practices that directly impact their communities. This perspective is especially important for NSE-listed companies as it underscores the role of corporate social responsibility in improving employee perceptions and overall engagement. The literature indicates both convergences and divergences in how various ESG dimensions drive employee engagement globally and regionally. A notable difference in Kenya is the high value placed on social contributions to local communities.

In Kenya, studies have shown that social factors such as work-life balance and workplace culture positively influence employee engagement. Kangure (2014) found that supportive work policies and corporate culture in Kenyan state corporations increased employee morale, a key indicator of engagement. The study emphasizes the importance of social factors in enhancing employee engagement and recommends that further research explore how specific social initiatives, such as community involvement, could impact engagement across different sectors in Kenya.

A study by Chege and Wang (2020) highlighted that Kenyan firms prioritizing community engagement, ethical labor practices, and social welfare initiatives see increased employee commitment and reduced turnover. The emphasis on social impact is particularly notable in emerging markets, where employees often value tangible community benefits from corporate ESG efforts. Additionally, Chege and Wang (2020) recommend exploring the cultural underpinnings of social responsibility perceptions in African countries. Understanding how regional cultural values, such as communalism and social cohesion, influence the impact of ESG on engagement could yield valuable insights for companies tailoring their ESG practices to local contexts.

2.2.3 Governance Practices and Employee Engagement

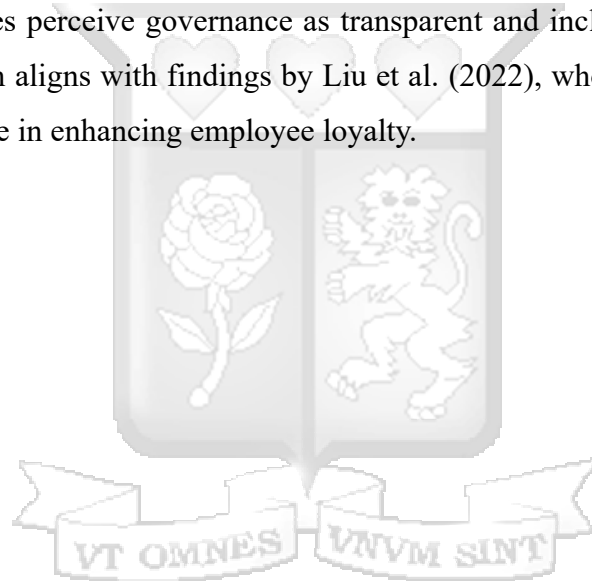
The governance aspect of ESG, encompassing transparency, accountability, and ethical leadership, has a strong positive impact on employee engagement by fostering trust and loyalty. Luo & Jiang (2018) assert that employees are more engaged when they perceive organisational governance as fair and ethical. This finding aligns with Nyamongo and Temesgen's (2018) study in Kenya, which revealed that governance practices, particularly the presence of independent board members and ethical management in commercial banks, enhance organisational performance and employee satisfaction. Their findings support the argument that ethical governance creates an environment where employees feel secure and engaged.

Habib and Mourad (2023) emphasise that companies with a structured compliance approach to ESG enjoy better employee commitment and loyalty. However, Wang et al. (2023) argue that compliance alone may not suffice if employees perceive it as a mere regulatory formality without tangible impact on their work environment. They call for more integrated ESG strategies that communicate the value of compliance to employees in meaningful ways.

According to Chaudhary (2019), perceptions of CSR initiatives as fair, relevant, and socially impactful strongly influence employees' psychological sense of safety, leading to enhanced engagement. Governance practices, especially ethical leadership and transparent communication, are also recognized as pivotal. Piao et al. (2022) found that companies with strong governance frameworks increase employee trust and engagement by aligning corporate and individual values.

A comparative analysis with global studies shows that governance may have a heightened impact in regions where corporate transparency and accountability are critical concerns, as is the case in Kenya. Albdour and Altarawneh (2017) also suggest further research into how regional differences in governance standards affect employee engagement, especially in countries with evolving corporate regulatory environments.

Additionally, governance practices such as ethical leadership and transparent communication have been found to improve engagement levels. Governance is another significant factor in Kenya and Sub-Saharan Africa. Nyamongo and Temesgen (2018) examined governance in Kenyan banks, finding that ethical leadership and inclusive decision-making significantly boost employee morale. In firms where employees perceive governance as transparent and inclusive, engagement levels are notably higher, which aligns with findings by Liu et al. (2022), who emphasise the universal importance of governance in enhancing employee loyalty.



2.2.4 Employee Engagement

Employee engagement is a vital organizational factor linked to multiple positive outcomes, including satisfaction, retention, net promoter scores, and well-being. Recent studies have increasingly emphasized these indicators, supporting the view that engaged employees contribute significantly to an organization's success. According to Karkoulian et al. (2020), motivation means that employees dedicate themselves to their work, and this depends on satisfaction in the employee-organization relations such as communication, management support and career advancement. Additionally, Rofcanin et al. (2019) point out that satisfied employees do more than perform better; they incur additional behaviors that go beyond the call of duty. Some of these proactive engagements are seen as a result of the positive organizational culture, which fosters employees' commitment towards organizational objectives.

Engagement has a strong connection with retention strategies as engaged employees do not search for a new job. Rafaqat (2023), shows that organizations with greater engagement levels have employees with lower turnover more often. About retention, Rafaqat's study revealed that organizational work environment, job importance and career advancement opportunities are the variables that influence retention directly as the employee feels linked to the organisation. Another advantage is that lower turnover ratios also lower recruitment and training costs, which give a firm substantial monetary gain where they engage employees.

The Employee Net Promoter Score (eNPS) is the modern form of the engagement index since it measures the propensity of the employees to recommend the firm to others. More specifically, research, including that of Tamara et al. (2021), recognizes that employees with higher eNPS are also more loyal, satisfied and motivated. eNPS positive ratings are characterized by strong employee advocacy where workers market the organization to other potential employees and customers. They are also linked to higher internal culture since recommending organization employees are always committed and engaged (Tamara et al. 2021).

For social well-being of employees, organizations have in recent past considered featuring engagement programs that meet the overall well-being of the workers. According to a report by the British Council (2023) companies investing in integrated well-being initiatives show increased

engagement because people feel valued across their work-life and personal lives. Mental and physical health, prevention have an impact on decreasing burnout rates and increasing engagement which equals job satisfaction, as long as it is supported by well-being programs. They promote positive employer-employee relations with increased loyalty and organizational culture pride (British Council, 2023).

Some of the key highlights of empirical evidence also point to the fact that employee engagement is complex and has multiple dimensions; where satisfaction, retention, eNPS, and well-being are very important factors that can inform organisations today. In particular, satisfaction can be encouraged, retention promoted, eNPS rating improved, and different well-being programs implemented to achieve higher engagement levels for organizations. Technicians' satisfaction thus, is accompanied by enhanced performance and lower turnover, and a reinforced organizational culture that orients workers to organizational goals and sustainability.



2.2 Summary of Knowledge Gaps Table

The empirical literature on the effect of environmental, social & governance practices on employee engagement of companies listed on the Nairobi Securities Exchange reveals several critical gaps that need addressing. Table 2.1 shows the summary of the knowledge gaps.

Table 2.1: Summary of Knowledge Gaps

Author	Topic	Findings	Research Gap	Focus of Your Study
Zimand Sheiner et al. (2021)	Social dimension of ESG and employee engagement	Congruent social messaging enhances psychological attachment and commitment.	Lack of focus on sector-specific social initiatives and their impacts on employee engagement in Kenya.	Examine how specific social initiatives in NSE-listed companies impact employee engagement.
Liu et al. (2022)	Inclusive labor policies and employee engagement	Employees in organizations with inclusive policies show higher engagement.	Need for comparative studies across sectors to determine specific drivers of engagement within ESG practices.	Assess sector-specific ESG practices and their impact on employee engagement.
Kangure (2014)	Social factors influencing employee engagement in Kenya	Supportive work policies and corporate culture improve employee morale.	Limited exploration of community involvement as a factor influencing engagement in Kenyan sectors beyond state corporations.	Investigate the impact of community involvement on employee engagement in NSE-listed companies.
Nyamongo & Temesgen (2018)	Governance practices and employee engagement	Ethical governance and independent board members enhance satisfaction and performance.	Limited research on regional and industry-specific governance practices' impact on engagement.	Explore governance practices in NSE-listed companies and their influence on employee engagement.
Chege & Wang (2020)	Environmental sustainability and employee engagement in Kenyan SMEs	Positive perceptions of environmental efforts enhance engagement, especially in high-impact industries.	Lack of sector-specific studies to determine how environmental initiatives influence engagement across different industries.	Analyze the impact of environmental initiatives on engagement in NSE-listed companies by sector.
Chen et al. (2023)	ESG compliance and employee morale	Strong ESG compliance frameworks improve morale and reduce turnover.	Insufficient investigation of how compliance is communicated to employees and its direct impact on engagement in different Kenyan industries.	Examine how ESG practices affects employee engagement in NSE-listed companies.

Wang et al. (2023)	ESG compliance across regions	Transparent compliance reporting increases trust, but perceived formality reduces impact.	Need for research on challenges NSE-listed companies face in implementing ESG compliance and how these affect employee engagement.	Identify challenges in ESG practices affects engagement in NSE-listed companies.
Tamara et al. (2021)	Employee Net Promoter Score (eNPS)	Higher eNPS correlates with loyalty, satisfaction, and employee advocacy.	Lack of focus on the link between ESG practices and improvements in eNPS ratings in the Kenyan context.	Explore the influence of ESG practices on eNPS ratings in NSE-listed companies.
British Council (2023)	Well-being initiatives and employee engagement	Integrated well-being initiatives reduce burnout and improve satisfaction and loyalty.	Limited understanding of how ESG well-being programs influence engagement in specific industries in Kenya.	Investigate the role of ESG well-being programs in enhancing employee engagement in NSE-listed companies.
Rafaqat (2023)	Retention strategies linked to employee engagement	Engagement correlates with lower turnover, job importance, and career advancement.	Lack of emphasis on the interplay between retention strategies and ESG practices in fostering engagement.	Analyze the interplay between retention strategies and ESG practices in NSE-listed companies.

Source: Researcher (2025)



2.4 Conceptual Framework

This section shows how the independent variables (Environmental, Social and Governance practices) instigate change in the dependent variable(Employee Engagement).

Independent Variables

Environmental Practices

- Waste reduction
- Energy efficiency

Social Practices

- Diversity
- Inclusion,
- Employee wellness programs
- Fairness

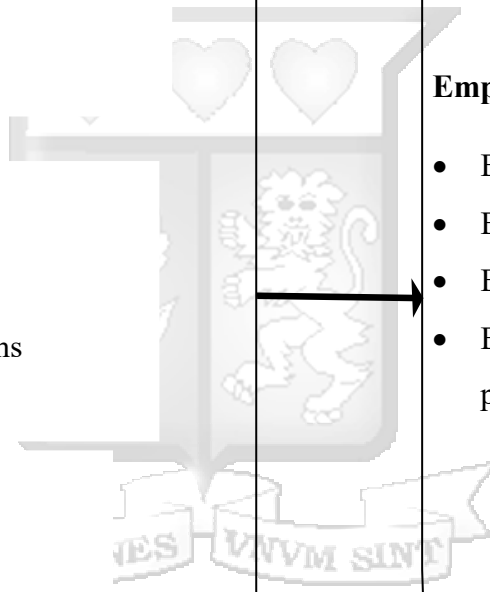
Governance Practices

- Ethical guidelines
- Transparency in decision-making
- Accountability
- Trust in Leadership

Dependent Variable

Employee Engagement

- Employee satisfaction
- Employee retention rate
- Employee net promoter score
- Employees' well-being programs



2.5 Operationalization of Study Variables

Table 2.2: Operationalization of Study Variables

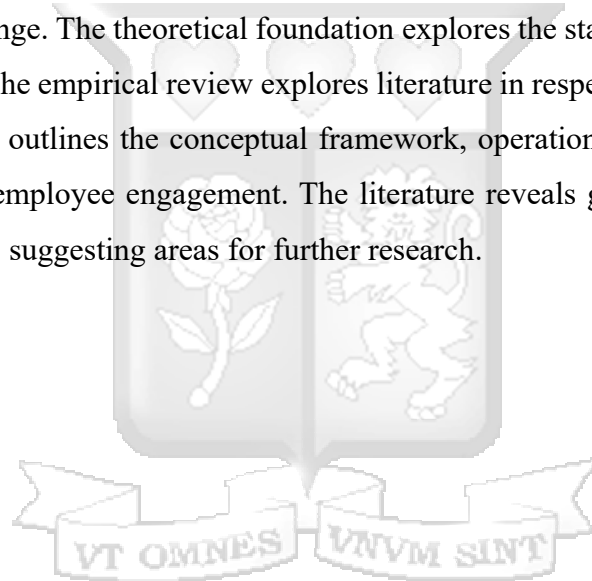
Variable	Measurement (Variable Indicators)	Measurement Scale	Source	Supporting Theories
Independent Variables Environmental Practices	Waste reduction Energy efficiency	Five-point Likert scale(1-5)	Nyamongo & Temesgen (2018),	Stakeholder Theory
Social Practices	Diversity Inclusion, Employee wellness programs Fairness	Five-point Likert scale(1-5)	Nyamongo & Temesgen (2018)	Stakeholder Theory
Governance Dimension	Ethical guidelines Transparency in decision-making Accountability Trust in Leadership	Five-point Likert scale(1-5)	Chen et al. (2023)	Stakeholder Theory
Dependent Variable Employee Engagements	Employee satisfaction	Five-point Likert scale(1-5)	Clack (2021)	Stakeholder Theory
	Employee retention rate	Five-point Likert scale(1-5)	Grewatsch & Kleindienst (2021)	Stakeholder Theory
	Employees' well-being programs	Five-point Likert scale(1-5)	Turner (2020)	Social Exchange Theory

	Employee net promoter score	Five-point Likert scale(1-5)	Habib & Mourad (2024)	Social Exchange Theory

Source: Researcher (2025)

2.6 Chapter Summary

This chapter delves into the theoretical foundations and empirical studies to explore the effect of environmental, social & governance practices on employee engagement of companies listed on the Nairobi Securities Exchange. The theoretical foundation explores the stakeholder's theory and the social exchange theory. The empirical review explores literature in respect to the study objectives. Additionally, the chapter outlines the conceptual framework, operationalizing these variables to examine their effect on employee engagement. The literature reveals gaps in understanding the interplay of these factors, suggesting areas for further research.



CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology, providing a framework for systematically addressing the research problem. It details the research philosophy, design, target population, sampling strategy, data collection, analysis methods, and ethical considerations. Guided by the positivist paradigm and a descriptive research design, the study uses a census approach and structured questionnaires. This methodology lays the foundation for rigorous analysis, aligning with the study's objectives.

3.2 Research Philosophy

When selecting a research philosophy, four approaches are typically considered: pragmatism, interpretivism, post-positivism and positivism. The paradigm of research used in this research was pragmatist philosophy. Creswell (2013) explains that pragmatic researchers are interested in both "what" and "how" to examine, guided by what they want to attain with their research. Pragmatism is not devoted to any single system of reality, and therefore, mixed-methods researchers are free to take on both quantitative and qualitative worldviews (Christensen, 2022).

Interpretivism focuses on understanding the subjective reality, particularly in social environments. This approach emphasizes the importance of human perception and the meaning individuals attach to what they experience (Pervin & Mokhtar, 2022). Post-positivism, however, is a philosophy that borrows elements from both positivism and interpretivism. Post-positivism calls for the adoption of both quantitative and qualitative approaches, with the understanding that diverse sources of information and methods can result in a more comprehensive explanation of a phenomenon (Alharahsheh & Pius, 2020).

Positivism is grounded in the belief of an objective reality, often relying on numerical data. It is based on the premise that reality is objective and can be observed and measured through empirical data. This approach emphasizes the use of quantitative methods, particularly numerical data, to identify patterns, test hypotheses, and establish generalizable findings (Ryan, 2018). This study was based on the positivist research philosophy. Positivism is based on the corpus of 'objective' reality and uses quantitative data (Ryan, 2018). This research philosophy was favourable for this study

because it supported the use of quantitative data collected by questionnaires with predominantly closed-ended questions, is designed to accumulate quantitative data.

3.3 Research Design

According to Gikenye (2018), research design provides a framework for the collection and analysis of data. This study is quantitative by nature, and based on the research questions, this study adopted a descriptive cross-sectional research design. The descriptive cross-sectional research design was appropriate for this study as it enables the systematic collection of quantifiable data to describe the relationships between ESG practices and employee engagement at a specific point in time. To achieve this, the study utilised structured questionnaires as the primary data collection instrument, allowing for the efficient gathering of numeric data from a broad sample of employees within the targeted companies (Pandey & Pandey, 2021). This approach aligns with Creswell et al., (2018) assertion that descriptive cross-sectional research designs support the use of standardized tools, such as questionnaires, to capture and analyze data for pattern identification and detailed description.

3.4 Target Population

According to Nyakundi (2023), a population refers to the collection of elements that possess information sought by the researcher. The target population for this study was thirty-one companies listed on the NSE that reported on ESG as of 2023 (NSE, 2023).

3.5 Sampling

The study used a census approach since the study population is small; therefore, there was no sample size determination (Lohr, 2021). Since the study population is relatively small (31 companies), a census approach was applied at the company level. However, within each company, purposive sampling was used to select key respondents, ensuring one respondent from the corporate affairs/sustainability department, one respondent from the human resource department, and three employee representatives, thus targeting a total of 155 respondents. Further, judgmental sampling was employed in the choice of employees with access to the right information on the research topic (Pandey & Pandey, 2021).

Therefore, the unit of analysis is the company, as ESG practices and employee engagement are evaluated at the corporate level. The choice of the respondents is because the corporate affairs/sustainability department plays a key role in developing strategies on ESG practices and overseeing sustainability efforts within the organization. Their insights can help understand the impact of environmental practices on employee engagement and corporate culture. The human resource department is key in maintaining employee engagement and is directly involved in employee engagement strategies and can provide insights into how ESG practices influence employee morale, retention, and overall engagement levels. Employee representatives offer a grassroots perspective on employee sentiment regarding ESG initiatives and their effects on engagement.

3.6 Data Collection Methods

The study used primary data collected using structured questionnaires. Franker (2006) asserts that questionnaires are less expensive and require less time to collect data. The questionnaire was predominantly designed with closed-ended questions in a Likert scale format to collect quantitative data. The questionnaire was subdivided into five sections. Section 1 of the questionnaire captures the demographic details of the respondents, Section 2 covers employee engagement, Section 3 covers the influence of environmental practices on employee engagement, Section 4 covers the influence of social practices on employee engagement, and Section 6 covers the influence of governance practices on employee engagement. The questionnaire was administered online using Google Forms accessed via an invite link shared with the email addresses of the respondents. Data collection took one month, from February 2025 to March 2025.

3.7 Research Quality

3.7.1 Reliability

Cronbach's alpha, a statistical measure for reliability of a set of items, especially with multiple Likert-scale questions, was used to ensure reliability. This measures how closely the questions asked are related. According to Cooper and Chindelr (2016), a Cronbach's alpha coefficient ranging between 0.7 and 0.9 is regarded as good. For this study, a coefficient of 0.7 was regarded as acceptable. Table 3.3 shows the reliability test results

Table 3.3: Reliability Test Results

Variable Component	Cronbach's Alpha Coefficient	Interpretation of the Study
Influence of environmental practices on employee engagement	0.791	Reliable
Influence of social practices on employee engagement	0.783	Reliable
Influence of governance practices on employee engagement	0.774	Reliable

Source: Researcher (2025)

The reliability test results in Table 3.3 show that the variables in the study are highly reliable, as indicated by the Cronbach's Alpha coefficients. The influence of environmental practices on employee engagement has a coefficient of 0.791, which is considered reliable, suggesting that the items used for measurement are internally consistent and provide stable results. The influence of social practices on employee engagement has a coefficient of 0.783, demonstrating good reliability and internal consistency for the data collection tools. Similarly, the influence of governance practices on employee engagement has a Cronbach's Alpha of 0.774, indicating strong reliability.

3.7.2 Internal Validity

Internal validity is the confidence that we have in whether or not the results of the research study reflect the connection between variables (Mohajan, 2020). To obtain internal validity, the researcher made sure that all the research questions effectively cover what is intended in the study. The research supervisor reviewed the research questions to ascertain whether they adequately respond to the research topic of study.

3.7.3 External Validity

To ensure external validity, the researcher ensured participants possessed relevant experience and knowledge about the research. In this research, the respondent possesses relevant experience and knowledge. The corporate affairs department plays a key role in developing strategies for environmental, social & governance practices, while the human resource department is key in maintaining employee engagement.

3.8 Data Analysis

The data collected was coded and classified appropriately to ensure responses were processed correctly. The study adopted a quantitative approach in data analysis and utilised statistical tools, which included MS Excel software and SPSS v27 software. To analyze all three objectives of the study, descriptive statistics and inferential statistics were employed. Descriptive statistics, including Mean, frequencies, and standard deviations, were used in analyzing. Inferential statistics were also conducted using multiple linear regression analysis with the regression equation of;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \alpha$$

Where: Y is the dependent variable (Employee Engagement)

β_1 , β_2 , β_3 and β_4 are the slopes of the regression equations,

X1 is the Environmental practices

X2 is the Social practices

X3 is the Governance practices

3.9 Ethical Considerations

Ethics in research is important in enhancing the aims of the study. More often than not, research involves learning and getting information from people independent of the researcher and the researcher's affiliation (University). The researcher remained keen on ethical considerations such as confidentiality, anonymity, privacy, and informed consent in carrying out this study. Further, the conduct of the study was guided by Strathmore University's code of ethics. Permission to carry out the research, code of ethics approval and NACOSTI permit was obtained before the commencement of the study. Lastly, published and unpublished materials used in the study were fully acknowledged by referencing to avoid chances of plagiarism.

CHAPTER FOUR: PRESENTATION OF FINDINGS/RESULTS

4.1 Introduction

This study sought to determine the influence of Environmental, Social, and Governance (ESG) practices on employee engagement in companies listed on the Nairobi Securities Exchange in Kenya.

4.2 Response Rate

The study respondents returned 144 out of 155 distributed questionnaires, leading to a response rate of 92.90%. This excellent response rate agrees with Mugenda and Mugenda's (2003) prescription for a significant response rate for statistical analysis, which they established at a minimal value of 50%. The high response rate of 92.90% indicates strong employee interest in the survey, enhancing the reliability of the results.

4.3 Demographic Information

Table 4.4 shows the demographic information of the respondents.

Table 4.4: Demographic Information

Demographic Variable	Category	Frequency (n)	Percentage (%)
1. Age	18–24	22	15.3%
	25–34	38	26.4%
	35–44	34	23.6%
	45–54	28	19.4%
	55 and above	22	15.3%
2. Gender	Male	66	45.8%
	Female	74	51.4%
	Other	4	2.8%
3. Department	Corporate Affairs	80	55.6%
	Human Resources	64	44.4%
4. Years of Service	Less than 1 year	18	12.5%
	1–3 years	44	30.6%
	4–6 years	52	36.1%
	More than 6 years	30	20.8%

Source: Researcher (2025)

The age distribution among the 144 respondents highlights a diverse workforce, with a notable leaning toward younger professionals. The largest group, comprising 26.4% of participants, falls within the 25–34 age bracket, representing a significant portion of early-career individuals. This

demographic may reflect recent recruitment efforts aimed at attracting younger talent, potentially drawn by the company's focus on modern practices like sustainability and innovation. The second-largest age group, at 23.6%, is the 35–44 range, which includes mid-career employees who bring a blend of experience and adaptability. Meanwhile, 15.3% of respondents fall within the youngest category (18–24), representing new entrants, as well as the oldest category (55 and above), which includes employees nearing retirement. The 45–54 age group accounts for 19.4%, bridging mid-career and late-career stages. This distribution illustrates a balanced mix of youthful energy, seasoned expertise, and diverse generational perspectives, fostering a dynamic and collaborative workplace environment.

Gender representation in the study was relatively even, with females constituting 51.4% of respondents and males accounting for 45.8%. An additional 2.8% identified as “Other,” reflecting inclusivity in gender identity. This gender balance is indicative of an equitable workplace that values representation across all roles, from entry-level positions to leadership. Gender diversity within the workforce can enhance decision-making and innovation by incorporating varied perspectives and experiences. Moreover, the presence of inclusive policies likely supports a culture of equity and respect, contributing to greater employee satisfaction and engagement.

Departmental representation was divided between Corporate Affairs and Human Resources, with 55.6% of respondents working in Corporate Affairs and 44.4% in Human Resources. The slight predominance of Corporate Affairs participants may suggest a larger or more actively engaged team within this department, which typically handles external communication, corporate branding, and stakeholder engagement. Human Resources, on the other hand, focuses on employee welfare and organisational development. The balanced representation of these two key departments provides a comprehensive view of employee perspectives on ESG initiatives, as both play pivotal roles in implementing and supporting these practices.

The findings also reveal a workforce with a significant level of tenure. The largest segment of respondents (36.1%) reported having worked in the organisation for 4–6 years, followed by 30.6% with 1–3 years of service. Those with over six years of experience made up 20.8%, indicating strong retention and institutional knowledge. Meanwhile, 12.5% of respondents were relatively

new, having joined the company within the past year. This mix of tenure reflects a stable workforce with opportunities for mentorship, continuity, and the gradual integration of new ideas. The high retention rates suggest that employees find value and satisfaction in their roles, possibly influenced by the organisation’s ESG practices and inclusive workplace culture.

Generally, the demographic findings underscore the significance of aligning ESG initiatives with the diverse needs and values of the workforce. The younger demographic, in particular, may be drawn to sustainability and social responsibility, which are increasingly important for attracting and retaining top talent. Gender inclusivity and departmental representation further highlight the company’s commitment to fostering an equitable and collaborative environment. With a stable and experienced workforce, the organisation is well-positioned to leverage its human capital to enhance employee engagement, drive ESG initiatives, and achieve long-term success.

4.4 Descriptive Statistics

4.4.1 Influence of Environmental Practices on Employee Engagement

Table 4.5 shows the influence of environmental practices on employee engagement in NSE-listed companies. Each statement was evaluated across a Likert scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree, with a mean Likert score indicating the distribution of responses for the statement.

Table 4.5: Influence of environmental practices on employee engagement.

<i>Statement</i>	<i>Number of Respondents</i>	<i>Mean Likert Score</i>	<i>Standard Deviation</i>
<i>Awareness of Environmental Initiatives: Are you aware of any environmental practices or policies (e.g., waste reduction, energy efficiency) in place at your company?</i>	144	4.62	0.12
<i>Impact of Environmental Practices on Engagement: "The company's environmental initiatives increase my level of engagement."</i>	144	4.34	0.14
<i>Perception of Environmental Efforts: "The company's commitment to environmental sustainability enhances my job satisfaction."</i>	144	4.29	0.11
<i>Overall</i>	144	4.42	0.18

Source: Researcher (2025)

The findings in Table 4.5 highlight the influence of environmental practices on employee engagement. Employees appear to have a strong awareness of the environmental initiatives at their companies, with a mean score of 4.62 indicating that sustainability efforts such as waste reduction and energy efficiency are well communicated and recognised. This awareness is closely linked to engagement, as indicated by the mean score of 4.34, which reflects that employees feel more engaged due to their company's environmental practices. Furthermore, the perception of environmental efforts significantly enhances job satisfaction, with a mean score of 4.29, suggesting that employees find greater satisfaction in their roles when they believe their company is committed to environmental sustainability.

The overall mean for the environmental practice dimension of ESG about employee engagement is approximately 4.42. This indicates that, on average, respondents generally agree with the statements about the company's environmental initiatives and their impact on employee engagement. The relatively high mean score suggests that employees perceive environmental sustainability efforts as positively influencing their engagement, job satisfaction, and awareness of company initiatives.

The overall standard deviation for the environmental practice dimension of ESG in relation to employee engagement is approximately 0.18. This indicates that there is some variation in the responses, but the data is relatively consistent around the mean, with most respondents agreeing that environmental practices positively affect their engagement. The relatively low standard deviation suggests a strong consensus among participants regarding the influence of environmental initiatives on their job satisfaction and engagement.

4.4.2 Influence of Social Practices on Employee Engagement

Table 4.6 shows the influence of social practices on employee engagement in NSE-listed companies. Each statement was evaluated across a Likert scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree, with a mean Likert score indicating the distribution of responses for the statement.

Table 4.6: The influence of social practices on employee engagement

<i>Statement</i>	<i>Number of Respondents</i>	<i>Mean Likert Score</i>	<i>Standard Deviation</i>
<i>There is awareness of social initiatives (e.g., diversity and inclusion, employee wellness programs) at the company</i>	144	4.36	0.19
<i>Impact of Social Practices on Engagement: "The company's social responsibility efforts make me feel more engaged and committed to my work."</i>	144	4.44	0.10
<i>Perception of Inclusivity and Fairness: "The company's commitment to inclusivity and fairness enhances my sense of belonging."</i>	144	4.10	0.021
<i>Overall</i>	144	4.3	0.14

Source: Researcher (2025)

The findings in Table 4.6 indicate that awareness of social initiatives has a mean score of 4.36, suggesting that employees are highly aware of the company's social initiatives, such as diversity and inclusion programs and employee wellness efforts. This indicates that the company effectively communicates its social responsibility efforts to its employees. On the impact of social practices on engagement, with a mean score of 4.44, employees indicate that the company's social responsibility initiatives positively affect their level of engagement and commitment to their work. This suggests that employees feel more motivated and involved when they perceive their employer as socially responsible. On the perception of inclusivity fairness, the mean score of 4.10 reflects that employees believe the company's commitment to inclusivity and fairness fosters a strong sense of belonging. This shows that employees value a work environment that promotes equality and inclusiveness, which in turn strengthens their connection to the company.

The overall mean for the social practice dimension of ESG about employee engagement is 4.3, indicating that, on average, respondents agree with the statements about the company's social

initiatives and their impact on engagement. This suggests that employees recognise and appreciate social practices like diversity and inclusion, wellness programs, and fairness in the workplace, all of which enhance their engagement and sense of belonging.

The overall standard deviation is approximately 0.14, which reflects a relatively low level of variation in the responses. This indicates that most respondents share similar views on the positive impact of the company's social practices on their engagement, suggesting a strong consensus among employees.

4.4.3 Influence of Governance Practice on Employee Engagement

Table 4.7 shows the Influence of Governance Practice on Employee Engagement in NSE-listed companies. Each statement was evaluated across a Likert scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree, with a mean Likert score indicating the distribution of responses for the statement.

Table 4.7: The influence of governance practice on employee engagement

<i>Statement</i>	<i>Number of Respondents</i>	<i>Mean Likert Score</i>	<i>Standard Deviation</i>
<i>There is awareness of governance practices (e.g., ethical guidelines, transparency in decision-making) at your company.</i>	144	4.18	0.18
<i>Impact of Governance on Engagement: "The company's governance practices (ethical conduct, transparency, and accountability) make me more engaged and loyal."</i>	144	4.14	0.16
<i>Trust in Leadership: "I trust that the company's leadership acts with integrity and transparency."</i>	144	4.19	0.11
<i>Overall</i>	144	4.17	0.15

Source: Researcher (2025)

The findings in Table 4.7 highlight the influence of governance practice on employee engagement in NSE-listed companies. The results suggest that employees are generally aware of their company's governance practices, with a mean score of 4.18 indicating strong recognition of ethical guidelines and transparency in decision-making processes. This high level of awareness suggests that governance practices are well-communicated and considered an important aspect of the company's operations by its employees.

Additionally, the study shows that governance practices have a positive effect on employee engagement. With a mean score of 4.14, employees reported that ethical conduct, transparency, and accountability in the company's operations significantly contribute to their level of engagement and loyalty. This indicates that when employees perceive their organisation to uphold strong governance practices, they feel more motivated and committed to their work. Furthermore, employees' trust in leadership is a key factor in enhancing engagement, as reflected by the mean score of 4.19 for the statement regarding trust in leadership. This score suggests that employees have confidence in their company's leadership to act with integrity and transparency.

The overall mean of 4.17 demonstrates that, on average, employees agree that the governance practices implemented by their companies specifically ethical conduct, transparency in decision-making, and leadership integrity have a positive impact on their level of engagement and loyalty. This relatively high score underscores the perceived importance of sound governance in shaping employee attitudes and organisational commitment.

Furthermore, the standard deviation of 0.15 reflects a low degree of variability in responses, indicating that there is a strong consensus among employees regarding this view. The tight clustering of responses around the mean suggests that perceptions of governance practices are consistently positive. Such uniformity may be reflective of standardised governance policies or a shared organisational culture emphasizing ethical standards and transparency.

4.5 Correlation Analysis

The correlation analysis was undertaken for the study to determine on whether the independent variables had a correlation relationship with the dependent variable. The results are presented in Table 4.8 below.

Table 4.8: Correlation Analysis

		Environmental Practices	Social Practices	Governance Practices
Employee Engagement	Pearson	.727**	.717**	.726**
	Correlation	.000	.000	.000
	Sig.(2-tailed)			
N		100	100	100

(p < 0.001)

The findings in Table 4.8 indicate a strong and statistically significant positive relationship between environmental practices and employee engagement. The Pearson correlation coefficient of 0.727 suggests that as organisations improve their environmental practices, such as sustainability initiatives and energy efficiency measures, employee engagement increases correspondingly. The p-value of 0.000 confirms that this relationship is not due to chance, highlighting the importance of environmental efforts in fostering a motivated and engaged workforce.

Similarly, social practices exhibit a significant positive impact on employee engagement, with a correlation coefficient of 0.717. This indicates that initiatives like diversity and inclusion programs and employee wellness efforts contribute substantially to higher levels of engagement. The statistical significance (p = 0.000) underscores the importance of creating a socially responsible and inclusive workplace in enhancing employees' connection to their organization.

Governance practices also show a strong positive correlation with employee engagement, as evidenced by a coefficient of 0.726. This relationship suggests that transparent decision-making, ethical guidelines, and accountability in leadership significantly enhance employees' motivation and commitment to their work. The statistical significance (p = 0.000) reaffirms the critical role of governance in shaping employee attitudes and fostering engagement.

4.6 Regression Analysis

The study undertook a multiple linear regression analysis to determine the influence of Environmental, Social, and Governance (ESG) practices on employee engagement in companies listed on the Nairobi Securities Exchange in Kenya. The regression model is presented in Table 4.9 below:

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.813	.728	.691	0.206

a Predictors: (Constant), Environmental. Social and Governance Practices

The regression analysis presented in Table 4.10 reveals a strong and significant relationship between Environmental, Social, and Governance practices and employee engagement in companies listed on the Nairobi Securities Exchange (NSE) in Kenya. The R value of 0.813 indicates a strong positive correlation, suggesting that the combination of ESG factors significantly influences employee engagement. The R Square value of 0.728 means that 72.8% of the variation in employee engagement can be explained by ESG practices, highlighting their substantial role in driving engagement. The Adjusted R Square value of 0.691, while slightly lower, accounts for the number of predictors in the model, ensuring that the model remains reliable without overfitting. Table 4.10 shows the analysis of the variance (ANOVA) for the model.

Table 4.10 : ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	68.92	3	7.110	10.121	.008 ^b
1	Residual	23.167	141	.230		
	Total	92.087	144			

Dependent Variable: Employee Engagement

Predictors: (Constant), Environmental. Social and Governance Practices

The ANOVA table 4.10 provides an analysis of the relationship between the predictors (Environmental. Social and Governance Practices) and the dependent variable (Employee

Engagement). The ANOVA table shows that the regression model, which examines the influence of ESG practices on employee engagement, is statistically significant. The F-statistic of 10.121 with a p-value of 0.008 indicates that the model explains a meaningful portion of the variation in employee engagement. The Sum of Squares for regression (68.92) shows that Environmental, Social and Governance Practices account for a significant portion of the variation, while the residual sum of squares (23.167) represents the unexplained variation. Overall, the results confirm that Environmental, Social and Governance Practices significantly influence employee engagement in NSE-listed companies. Table 4.11 shows the coefficients of Determination of the regression analysis.

Table 4.11: Coefficient of Determination

Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B		Beta		
	(Constant)	.803	.113	1.013	.271
	Environmental Practice	.630	.160	3.938	.000
1	Social Practice	.528	.105	5.029	.000
	Governance Practice	.532	.113	4.708	.000

a. Dependent Variable: Employee Engagement

Multiple regression analysis was conducted to determine the extent to which each independent variable influences the Employee Engagement. Table 4.1 shows that all the independent variables (Environmental, Social and Governance Practices) were significant predictors of the employee engagement at $p < 0.05$. , the regression equation is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \alpha$$

becomes:

$$\text{Employee Engagement} = 0.803 + 0.630X_1 + 0.528X_2 + 0.532X_3 + \alpha$$

The Coefficient of Determination table (Table 4.11) shows that the constant value of 0.803 represents the baseline level of employee engagement when all ESG practices are absent. However, its lack of statistical significance ($p = 0.271$) suggests that it does not have a meaningful impact on its own and that engagement is primarily driven by the independent variables.

Environmental practices exhibit a significant positive influence on employee engagement. The unstandardized coefficient ($B = 0.630$) indicates that for every unit increase in environmental practices, employee engagement rises by 0.630 units, holding other factors constant. The standardized coefficient ($Beta = 0.230$) highlights that environmental practices have the strongest relative influence among the three dimensions. This relationship is statistically significant, with a t-value of 3.938 and a p-value of 0.000, underscoring the importance of sustainability efforts in fostering employee motivation and commitment.

Social practices also significantly influence employee engagement. The unstandardized coefficient ($B = 0.528$) suggests that a unit increase in social practices results in a 0.528-unit rise in engagement, controlling for other variables. Although the standardised coefficient ($Beta = 0.118$) is lower compared to the other factors, it confirms a positive effect. The t-value of 5.029 and p-value of 0.000 indicate that social initiatives, such as diversity, inclusion, and employee wellness programs, are critical for creating a supportive and engaging workplace environment.

Governance practices similarly show a significant and positive influence on employee engagement. The unstandardized coefficient ($B = 0.532$) reflects that a unit increase in governance practices leads to a 0.532-unit increase in engagement. The standardised coefficient ($Beta = 0.218$) suggests governance practices have a strong influence, second only to environmental initiatives. With a t-value of 4.708 and a p-value of 0.000, the results confirm that ethical guidelines, transparency, and accountability in leadership play a crucial role in shaping employee attitudes.

The regression analysis highlights that environmental, social, and governance practices all significantly and positively influence employee engagement, with environmental practices having the strongest relative influence. These findings emphasise the importance of ESG initiatives in fostering a motivated, loyal, and engaged workforce. Organisations should strategically prioritise and invest in these areas to enhance employee commitment and overall performance.

CHAPTER FIVE: DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains the summary of findings, the study's discussion, conclusion, and recommendations, presented according to the study objectives.

5.2 Summary of Findings

The regression model was statistically significant, and the analysis confirms that environmental, social and governance practices have a significant and positive influence on employee engagement. The ANOVA analysis further supports these findings, showing that the regression model explains a meaningful portion of the variation in employee engagement. Multiple regression analysis was conducted to determine the extent to which each independent variable influences Employee Engagement. The model shows that all the independent variables (Environmental, Social and Governance Practices) were significant and positive predictors of employee engagement.

5.3 Discussions

5.3.1 The influence of environmental practices on employee engagement in NSE-listed companies.

The descriptive findings highlight that employees demonstrate a strong awareness of their companies' sustainability initiatives, such as waste reduction and energy efficiency, which are well communicated and widely recognized. This awareness is closely linked to higher engagement levels, as employees feel more connected to their work due to their companies' environmental efforts. Additionally, these initiatives significantly enhance job satisfaction, as employees derive greater fulfillment from their roles when they perceive their companies as committed to sustainability.

Regression findings show that environmental practices have a significant and positive influence on employee engagement. As environmental practices increase, employee engagement also rises. This relationship highlights the importance of environmental practices in influencing how engaged employees feel in their work. The findings of this study are in agreement with the findings of Liu et al. (2022), who observed that employees in organizations with inclusive labor policies are more

engaged and dedicated, suggesting that the environmental aspects of ESG directly resonate with employees' work-life quality.

Similarly, the findings of this study are in agreement with the findings of Anwer et al. (2023) found that employee stock ownership plans linked to environmental initiatives boosted engagement by instilling a sense of corporate responsibility among employees in Pakistan. However, findings by Piao et al. (2022) suggest that while environmental initiatives enhance an organization's reputation, their direct impact on engagement is often limited unless they align with employees' values on sustainability. Additionally, the findings of this study are in agreement with the findings of Tauetsile (2021) suggests that cultural factors such as the Ubuntu philosophy could moderate the effectiveness of ESG practices in fostering engagement.

Furthermore, the findings of this study provide strong support for both Stakeholder Theory and Social Exchange Theory by illustrating the significant and positive influence of environmental practices on employee engagement. According to Stakeholder Theory, organizations are expected to consider the interests and expectations of all their stakeholders, including employees. The positive relationship between environmental practices and employee engagement underscores the importance of meeting employee expectations through responsible ESG actions. When companies demonstrate a genuine commitment to environmental practices, they strengthen their relationship with employees, who are an essential stakeholder in the organisation's success (McGahan, 2023). This alignment between company practices and employee values not only fulfils the ethical obligations of the organisation but also builds trust and loyalty, leading to enhanced engagement.

From the perspective of Social Exchange Theory, the significant and positive influence of environmental practices on employee engagement suggests that employees are likely to reciprocate the company's commitment to environmental practices. According to Kilroy et al. (2023), Social Exchange Theory emphasizes that employees engage in a give-and-take relationship with their employer. When employees perceive that their organization is dedicated to environmental practices and aligned with their values, they are more likely to respond with higher levels of involvement, satisfaction, and loyalty. This reciprocity enhances their engagement, as employees feel more connected to an organization that demonstrates care for environmental issues, which they value personally.

Together, these theories highlight how aligning company practices with employee values creates a mutually beneficial relationship. When organisations adopt responsible environmental practices, employees are more likely to reciprocate by demonstrating greater engagement and satisfaction in their roles. This mutual benefit ultimately drives organisational success by fostering a committed, motivated, and loyal workforce, reinforcing the importance of environmental dimension as a key driver of employee engagement.

5.3.2 The influence of social practices on employee engagement in NSE-listed companies.

Descriptive findings highlight the positive influence of social initiatives on employee engagement. Employees show high awareness of their company's efforts, such as diversity programs and wellness initiatives, indicating effective communication of social responsibility. These practices enhance engagement and commitment, as employees feel more motivated when their employer is socially responsible. Inclusivity and fairness also play a key role, fostering a sense of belonging and strengthening employees' connection to the company. Overall, employees widely recognize and value social practices like diversity, wellness, and fairness, which positively influence their engagement. The low variability in responses reflects strong consensus on the benefits of these initiatives.

Regression findings show that social practices have a significant and positive influence on employee engagement. As social practices increase, employee engagement tends to rise as well. The findings of this study are in agreement with the findings of Chaudhary (2019), perceptions of CSR initiatives as fair, relevant, and socially impactful strongly influence employees' psychological sense of safety, leading to enhanced engagement. Governance practices, especially ethical leadership and transparent communication, are also recognized as pivotal. Similarly, the findings of this study are in agreement with the findings of Piao et al. (2022) found that companies with strong social initiatives increase employee trust and engagement by aligning corporate and individual values.

Additionally, the findings of this study are in agreement with the findings of Chege and Wang (2020) highlighted that Kenyan firms prioritizing community engagement, ethical labor practices, and social welfare initiatives see increased employee commitment and reduced turnover. The emphasis on social impact is particularly notable in emerging markets, where employees often

value tangible community benefits from corporate ESG efforts. Further, the findings of this study are in agreement with the findings of Kangure (2014) found that supportive work policies and corporate culture in Kenyan state corporations increased employee morale, a key indicator of engagement. The study emphasizes the importance of social factors in enhancing employee engagement and recommends that further research explore how specific social initiatives, such as community involvement, could impact engagement across different sectors in Kenya.

Further the findings of these study align with Chege and Wang (2020) who highlighted that Kenyan firms prioritizing community engagement, ethical labor practices, and social welfare initiatives see increased employee commitment and reduced turnover. The emphasis on social impact is particularly notable in emerging markets, where employees often value tangible community benefits from corporate ESG efforts.

Lastly, the findings align with both Stakeholder Theory and Social Exchange Theory by demonstrating that social practices have a significant and positive influence on employee engagement. Stakeholder Theory emphasizes that organizations should consider the interests and well-being of all their stakeholders, including employees, when making business decisions. The significant and positive influence of social practices suggests that companies strengthen their relationship with employees by actively prioritising corporate social responsibility (CSR) and ethical practices. This aligns with McGahan's (2023) assertion that organizations focused on ethical and responsible practices are more likely to build trust and loyalty among their stakeholders, including employees.

From the perspective of Social Exchange Theory, the results further illustrate that employees tend to reciprocate the company's commitment to their values and well-being by showing higher levels of engagement. According to Clack (2021), Social Exchange Theory posits that when employees perceive a company's actions as supportive of their personal and professional values, they are more likely to contribute positively in return, fostering a cycle of mutual benefit. This approach not only enhances engagement but also helps create a positive, reciprocal relationship between employees and their organization, promoting long-term loyalty and motivation. Thus, the findings emphasize

that social practices are vital for building sustainable and mutually beneficial relationships between companies and their employees.

5.3.3 The influence of governance practices on employee engagement in NSE-listed companies.

The descriptive findings highlights the positive influence of governance practices on employee engagement in NSE-listed companies. Employees demonstrate strong awareness of ethical guidelines and transparent decision-making, reflecting that governance practices are well-communicated and valued. These practices significantly enhance engagement and loyalty, as employees feel more motivated and committed when their organizations uphold ethical conduct, transparency, and accountability. Trust in leadership also plays a crucial role, with employees expressing confidence in their leaders' integrity and transparency. Overall, employees agree that sound governance positively influences their engagement and loyalty, with responses showing strong consensus. The low variability in responses suggests consistent perceptions, likely due to standardised governance policies and a shared culture of ethical standards.

Regression findings show that governance practices have a significant and positive influence on employee engagement. As governance practices increase, employee engagement tends to rise as well. These findings of this study are in agreement with the findings of Chen et al. (2023), who observed that firms with strong governance compliance frameworks enhance employee morale and reduce turnover intentions, as employees tend to view compliance as a reflection of the organisation's ethical commitment. Similarly, the findings of this study are in agreement with the findings of Amosh and Khatib (2023), who found that companies actively complying with governance standards experienced heightened employee satisfaction and engagement due to perceived stability, especially during uncertain periods, such as the COVID-19 pandemic.

Additionally, the findings of this study agree with the findings of Wang et al. (2023) argue that governance practices alone may not suffice if employees perceive it as a mere regulatory formality without tangible impact on their work environment. They call for more integrated governance practices that communicate the value of compliance to employees in meaningful ways. Further, the findings of this study are in agreement with the findings of Chege and Wang (2020) found that Kenyan companies that emphasize good governance practices not only benefit from enhanced corporate reputation but also experience increased employee engagement. Their study highlights

that in Kenya, good governance practices are perceived as a commitment to ethical business practices, which are critical factors in fostering employee trust and loyalty.

Conversely, the findings of this study align with the findings of Nyamongo and Temesgen (2018) revealed that in the Kenyan banking sector, companies that adhere to strong governance practices under ESG standards experience higher levels of employee morale and reduced turnover. Employees in NSE-listed companies perceive compliance as a sign of stability and fairness, making them more inclined to stay committed to the organisation.

The findings of the study provide strong support for both Stakeholder Theory and Social Exchange Theory by highlighting the significant role that governance practices plays in enhancing employee engagement. These theories underscore the importance of aligning organisational practices with stakeholder expectations, particularly those of employees, and the mutual benefits that arise from such alignment. From the perspective of Stakeholder Theory, the positive relationship between governance practices and employee engagement demonstrates that companies that effectively align their practices with the values and expectations of their stakeholders, especially employees, are better positioned to strengthen their relationships with them (Harrison et al., 2023).

From the perspective of Social Exchange Theory, the findings suggest that employees view governance practices not only as a reflection of organisational values but also as a sign of commitment to ethical practices and transparency. According to Baffoe (2018), Social Exchange Theory posits that employees tend to reciprocate the positive behaviours and values they perceive in their organisation. In this context, employees recognize good governance practices as an indicator of the company's investment in doing what is right, which strengthens their trust and emotional connection to the organisation. As a result, employees are more likely to increase their level of engagement, demonstrating greater loyalty, dedication, and involvement in their work.

5.4 Conclusion

The study made the following conclusions regarding the study objectives:

The study concluded that environmental practices have a significant and positive influence on employee engagement in NSE-listed companies. Employees demonstrated a strong awareness of their companies' sustainability initiatives, such as waste reduction and energy efficiency, which are well communicated and widely recognised. This awareness is closely linked to higher engagement levels, as employees feel more connected to their work due to their companies' environmental efforts. Additionally, these initiatives significantly enhance job satisfaction, as employees derive greater fulfilment from their roles when they perceive their companies as committed to sustainability.

The study concluded that social practices have a significant and positive influence on employee engagement in NSE-listed companies. Employees showed high awareness of their company's efforts, such as diversity programs and wellness initiatives, indicating effective communication of social responsibility. These practices enhance engagement and commitment, as employees feel more motivated when their employer is socially responsible. Inclusivity and fairness also play a key role, fostering a sense of belonging and strengthening employees' connection to the company.

The study concluded that governance practices have a significant and positive influence on employee engagement in NSE-listed companies. Employees demonstrated strong awareness of ethical guidelines and transparent decision-making, reflecting that governance practices are well-communicated and valued. These practices significantly enhance engagement and loyalty, as employees feel more motivated and committed when their organisations uphold ethical conduct, transparency, and accountability. Trust in leadership also plays a crucial role, with employees expressing confidence in their leaders' integrity and transparency.

5.5 Recommendation

5.5.1 Policy Recommendations

The study recommended that companies listed on the Nairobi Securities Exchange (NSE) should strengthen their ESG practices, particularly focusing on increasing awareness of environmental and social responsibility initiatives, as these significantly contribute to employee engagement.

The study recommended that companies should adopt inclusive decision-making processes to ensure that all employees feel valued and have their perspectives considered, further enhancing engagement.

The study recommended that corporate governance practices, particularly ethical guidelines, transparency, and accountability, be further integrated into company policies to foster trust and loyalty among employees.

The study recommended that companies should prioritize integrating ESG compliance into daily operations and policies, ensuring that these practices are not only theoretical but actively practiced, reinforcing employee engagement and organizational stability.

5.5.2 Recommendation for Theory

The study recommended further exploration of Stakeholder Theory to examine how aligning ESG practices with stakeholder expectations, particularly employees, can enhance long-term employee engagement and company performance.

The study recommended that Social Exchange Theory should be further examined to understand how employees reciprocate ethical governance, social responsibility, and environmental sustainability efforts by enhancing engagement, loyalty, and satisfaction. Research could focus on how these reciprocal exchanges vary across different sectors.

5.5.3 Recommendation for Practice

The study recommended that companies should improve their corporate social responsibility (CSR) initiatives, ensuring that these efforts have a tangible and meaningful impact on the community, which in turn can increase employee engagement.

The study recommended that organizations should focus on embedding ESG compliance more deeply into their workplace policies and daily operations to enhance engagement, satisfaction, and a sense of ownership among employees.

The study recommended that employers should make continuous efforts to improve inclusive decision-making, fostering an environment where diverse perspectives and employee inputs are valued, thus increasing commitment and engagement.

The study recommended that companies should align their ESG initiatives with the cultural values of their workforce to ensure greater connection and engagement, as employees are more likely to be motivated when their company's values resonate with their own.

5.5.4 Recommendations for Further Research

The study recommended that future studies should explore the relationship between ESG compliance and employee engagement in different industries to determine whether the findings in the context of NSE-listed companies are consistent across other sectors.

5.6 Limitations of the Study

The study has several limitations that should be considered when interpreting its findings. Firstly, the research focuses solely on companies listed on the Nairobi Securities Exchange (NSE) in Kenya. This geographic limitation means that the results may not be easily generalizable to organizations in other countries or regions, where ESG practices and employee engagement dynamics could differ due to varying cultural, economic, and regulatory environments. Additionally, the study's focus on a single country limits its applicability to global or cross-national contexts.

Another limitation is that the study uses cross-sectional data, which captures a snapshot of the relationship between ESG practices and employee engagement at one point in time. While this approach provides valuable insights, it does not allow for an exploration of the long-term effects

of ESG practices on employee engagement. Over time, the impact of ESG initiatives on employee engagement may evolve, and a longitudinal study would be better suited to capture these dynamics.

The research also relies on self-reported data from employees, which introduces the possibility of bias. Employees may be inclined to respond in ways they believe are expected of them or may overstate their engagement levels or perceptions of ESG practices. This can lead to inaccuracies in the data, potentially affecting the validity of the study's conclusions.

While the study adopts a census approach due to the small sample size of 31 companies, this approach may still limit the diversity of the sample. A small sample size may not fully represent the broad range of organisational practices or employee engagement levels, which could affect the generalizability of the findings. Additionally, the study's reliance on quantitative data means that it does not explore qualitative factors, such as employees' personal experiences or deeper insights into their perceptions of ESG practices. Incorporating qualitative data could provide a more nuanced understanding of the relationship between ESG and employee engagement.

Furthermore, the study does not account for potential industry-specific variations in the impact of ESG practices on employee engagement. Different sectors may have varying levels of ESG maturity or unique employee engagement dynamics, which could influence the results. By not considering these variations, the study may overlook important contextual factors that could affect the relationship between ESG practices and employee engagement.

Lastly, theoretical limitations also exist, as the study is primarily grounded in Stakeholder Theory and Social Exchange Theory. Without exploring other relevant frameworks that could provide additional insights. Other theories, such as those focused on organisational culture or employee motivation, might offer valuable perspectives that could enhance the understanding of the interplay between ESG practices and employee engagement.

5.7 Areas of Further Research

Future research could explore the long-term impact of ESG practices on employee engagement through longitudinal studies. It could also examine industry-specific variations and incorporate qualitative data to gain deeper insights into employees' experiences and perceptions of ESG initiatives. Additionally, studies could investigate the role of cultural factors in shaping employee engagement, particularly in diverse settings, and apply other theoretical frameworks, such as those

focused on organizational culture or employee motivation, to broaden the understanding of ESG's influence on engagement.



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APPENDICES

Appendix I: Letter of Introduction

Dear Sir/Madam,

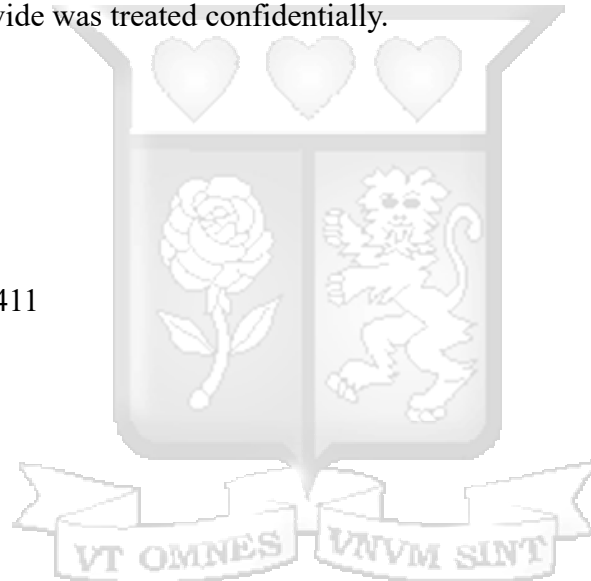
RE: Letter of Request for Permission to Collect Data

I am currently a student undertaking the Master of Science in Commerce at Strathmore University. I am kindly requesting for your support in providing data on for my research titled “THE INFLUENCE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) PRACTICES ON EMPLOYEE ENGAGEMENT IN COMPANIES LISTED ON NAIROBI SECURITIES EXCHANGE IN KENYA”. The data requested was used for academic purposes and any information that you provide was treated confidentially.

Yours Sincerely

Dickson Matata Kieti

Admission Number: 171411



Appendix II: Questionnaire

Instructions

Kindly complete the following questionnaire using the instruments provided for each set of questions. Please tick appropriately or write your answers in the spaces provided.

SECTION 1: DEMOGRAPHIC INFORMATION

1. Age:

- 18–24
- 25–34
- 35–44
- 45–54
- 55 and above

2. Gender:

- Male
- Female

3. Department:

- Corporate Affairs
- Human Resources



4. Years of Service in the Company:

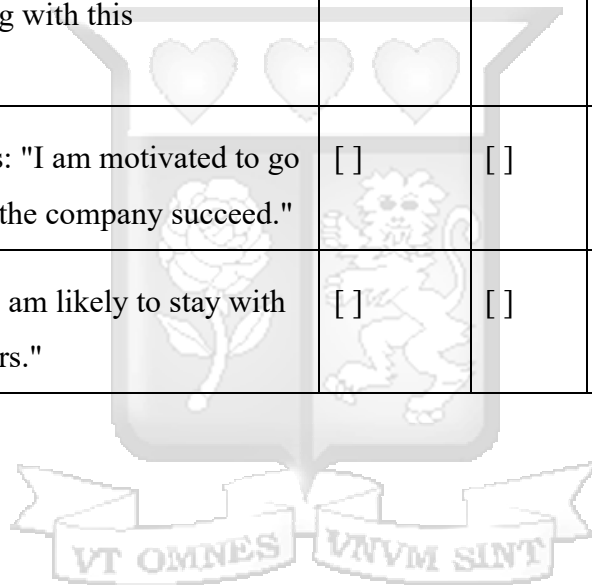
- Less than 1 year
- 1–3 years
- 4–6 years
- More than 6 years

SECTION 2: EMPLOYEE ENGAGEMENT

Please indicate your level of agreement with the following statements:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree,

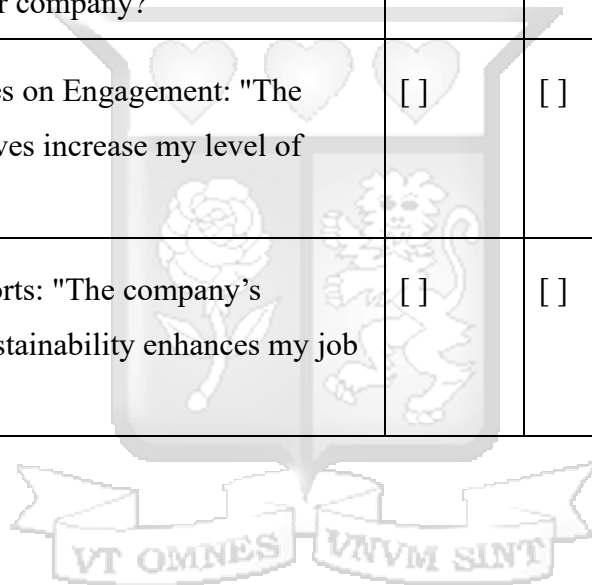
Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Employee Satisfaction: "I am satisfied with my current role and responsibilities at this company."	[]	[]	[]	[]	[]
Employee Retention Rate: "I feel a strong sense of loyalty and commitment to staying with this organization."	[]	[]	[]	[]	[]
Employees' Well-Being Programs: "I am motivated to go beyond my normal duties to help the company succeed."	[]	[]	[]	[]	[]
Employee Net Promoter Score: "I am likely to stay with this company for the next 2-3 years."	[]	[]	[]	[]	[]



SECTION 3: INFLUENCE OF ENVIRONMENTAL PRACTICES ON EMPLOYEE ENGAGEMENT IN NSE-LISTED COMPANIES.

Please indicate your level of agreement with the following statement: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree,

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Awareness of Environmental Initiatives: Are you aware of any environmental practices or policies (e.g., waste reduction, energy efficiency) in place at your company?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Impact of Environmental Practices on Engagement: "The company's environmental initiatives increase my level of engagement."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Perception of Environmental Efforts: "The company's commitment to environmental sustainability enhances my job satisfaction."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



SECTION 4: THE INFLUENCE OF SOCIAL PRACTICES ON EMPLOYEE ENGAGEMENT IN NSE-LISTED COMPANIES.

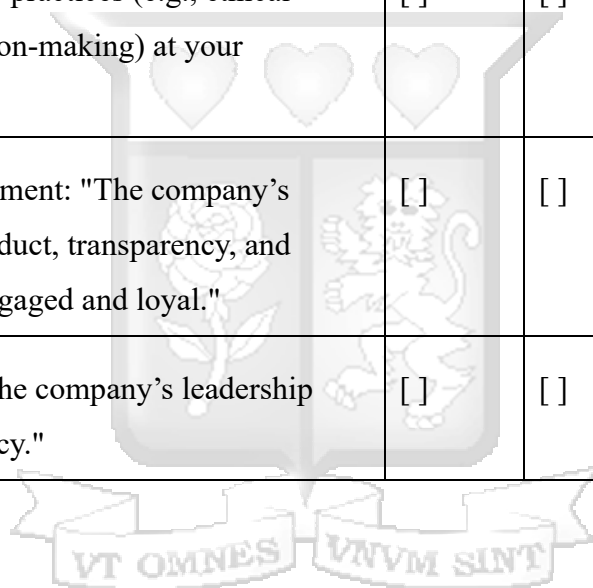
Please indicate your level of agreement with the following statements: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree,

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
There is awareness of social initiatives (e.g., diversity and inclusion, employee wellness programs) at the company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Impact of Social Practices on Engagement: "The company's social responsibility efforts make me feel more engaged and committed to my work."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Perception of Inclusivity and Fairness: "The company's commitment to inclusivity and fairness enhances my sense of belonging."	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION 5: THE INFLUENCE OF GOVERNANCE PRACTICES ON EMPLOYEE ENGAGEMENT IN NSE-LISTED COMPANIES

Please indicate your level of agreement with the following statements: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree,

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
There is awareness of governance practices (e.g., ethical guidelines, transparency in decision-making) at your company.	[]	[]	[]	[]	[]
Impact of Governance on Engagement: "The company's governance practices (ethical conduct, transparency, and accountability) make me more engaged and loyal."	[]	[]	[]	[]	[]
Trust in Leadership: "I trust that the company's leadership acts with integrity and transparency."	[]	[]	[]	[]	[]



Appendix III: Sampling Frame: List Of NSE Companies Reporting On ESG

	Company	Industry
1	Kakuzi Limited	Agriculture
2	Sasini	Agriculture
3	Car and General Limited	Automobile
4	ABSA Bank Kenya	Banking
5	Coop Bank	Banking
6	Diamond Trust Bank Kenya	Banking
7	Equity Bank	Banking
8	Housing Finance Group	Banking
9	Kenya Commercial Bank	Banking
10	National Commercial Bank of Kenya	Banking
11	Stanbic Holdings PLC	Banking
12	Standard Chartered	Banking
13	Nation Media Group	Commercial & Services
14	Bamburi Cement	Construction
15	Crown Paints	Construction
16	KenGen Ltd	Energy
17	Kenya Power and Lighting Company	Energy
18	Total Kenya Ltd	Energy
19	Britam	Insurance
20	CIC	Insurance
21	Jubilee Holdings Ltd	Insurance
22	Sanlam Kenya PLC	Insurance
23	Centum Investment Ltd	Investment
24	Transcentury Ltd	Investment
25	BOC Kenya Ltd	Manufacturing
26	British American Tobacco Ltd	Manufacturing
27	Carbacid Investment Ltd	Manufacturing
28	East African Breweries Ltd	Manufacturing
29	Flame Tree Group	Manufacturing
30	Unga Group Ltd	Manufacturing
31	Safaricom	Telecommunication

Appendix IV:NACOSTI Permit

Ref No: **478846**

RESEARCH LICENSE



This is to Certify that Mr. Dickson Matata of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: INFLUENCE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) PRACTICES ON EMPLOYEE ENGAGEMENT IN COMPANIES LISTED ON NAIROBI SECURITIES EXCHANGE IN KENYA for the period ending : 03/April/2026.

License No: **NACOSTI/P/25/41774**

Applicant Identification Number: **478846**

Director General
NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION

Verification QR Code



NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions

Appendix V: Ethics Approval Certificate



25th March 2025

Mr Kieti Dickson,
kieti.matata@strathmore.edu

Dear Mr Kieti,

RE: Influence of Environmental, Social, and Governance (ESG) Practices on Employee Engagement in Companies Listed on Nairobi Securities Exchange in Kenya

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** proposal. Your application reference number is **SU-ISERC2687/25**. The approval period is from **25th March 2025 to 24th March 2026**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
- iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

Mr Ambrose Rachier,
Chairperson; SU-ISERC