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Abstract

Purpose: The study examined whether strategic innovation mediates the relationship between ethical leadership practices and organizational performance among health-sector non-profit organizations in Nairobi County, Kenya. Ethical leadership practices comprised leadership integrity, leadership fairness, and leadership assurance.

Methodology: The study was guided by a positivist research underpinning, which used descriptive and explanatory cross-sectional designs. The sampling frame was 394 active registered organizations with 682 eligible senior managers. With the use of Yamane's formula at a 3% margin of error, 423 respondents were determined. However, after data collection, only 366 respondents provided valid questionnaires for data analysis.

Findings: Hierarchical regression results provided evidence that strategic innovation

moderately mediated the relationship between ethical leadership and organizational performance. The study concluded that strategic innovation has a statistically significant partial mediating effect on the relationship between ethical leadership and organizational performance.

Recommendation: Drawing on the Innovation Diffusion Theory that was used as a foundation of this study, the mediation result suggests that the Theory should distinguish willingness to adopt innovation from institutional capacity for implementation. The trend emerging from this analysis shows that favorable attitudes toward innovation do not instantly produce organizational capability.

Keywords: *Ethical Leadership; Strategic Innovation; Organizational Performance; Non-Profit Organizations; Kenya*

JEL Classification: *M19; M14; L31; O31*

INTRODUCTION

Ethical leadership practices play a pivotal role in shaping non-profit organizations by promoting shared values, integrity, and responsible behavior. Leaders who model ethical conduct influence their teams to act with fairness and accountability, fostering trust and cohesion within the organization (Ashfaq et al., 2021; Haque & Yamoah, 2021). This leadership practice sets the example for organizational behavior and decision-making, laying the foundation for a strong ethical climate. Ethical leadership can also support innovative behavior and favorable organizational outcomes (Wen et al., 2021).

Strategic innovation enables non-profit organizations to remain relevant and effective in dynamic environments by fostering creativity and the adoption of new approaches. Through strategic innovation, health sector non-profits can develop novel responses to social challenges, improve service delivery, strengthen competitiveness, and enhance their adaptability and long-term sustainability (Bonacci et al., 2020; Oke et al., 2012).

Organizational performance denotes the extent to which an organization achieves its strategic objectives efficiently and effectively by using human, financial, and technological resources to deliver stakeholder value, maintain operational excellence, and adapt to environmental change. It is commonly assessed through indicators such as productivity, service quality, financial health, employee engagement, adaptability, and stakeholder satisfaction (Richard et al., 2009). Ethical leadership may influence organizational performance both directly and indirectly through strategic innovation. By strengthening trust, accountability, and ethical decision-making, ethical leadership creates conditions that support innovative strategic thinking and responsible experimentation. Strategic innovation can then translate these conditions into improved services, processes, partnerships, and organizational adaptability. Understanding this mediating pathway is therefore important for non-profit organizations seeking to strengthen their performance and long-term sustainability (Ayça, 2023).

Problem Statement

Non-profit organizations (NPOs) are important to the socio-economic development and well-being of communities. In Kenya's health sector, NPOs support the achievement of national health objectives through community health, primary health care, maternal and child health, HIV, tuberculosis, malaria, health workforce development, research, social accountability, and services for vulnerable populations. Despite their importance, Kenyan NPOs continue to face organizational performance challenges arising from funding uncertainty and competing stakeholder expectations (Banks et al., 2015; Hung, 2021). Specifically, the health-sector NPOs have reported project delays, budget overruns, quality gaps, staffing and funding shortages, as well as service interruptions, with donor transition significantly affecting performance and service delivery (Gitari & Ondara, 2025). This shows performance extends beyond financial outcomes to programme efficiency, service quality and reach, sustainability, stakeholder satisfaction, employee retention, accountability, learning, and mission achievement (Enkel, 2025).

Creative implementation is also relevant because new service models, digital tools, and innovation-support initiatives can improve programme reach and operational efficiency (Nair et al., 2021). Existing studies have identified several determinants of organizational performance among non-profit organizations (NPOs). For instance, strategic innovation has been described as a transformative approach that enhances organizational performance by enabling organizations to create, deliver, and appropriate value in novel ways (AlQershi et al., 2021). In Kenya, strategic planning dimensions, including organizational purpose, internal appraisal, external appraisal, and strategic options, have been found to significantly influence the performance of national health NGOs (Gitari & Ondara, 2025; Orenge et al., 2024). Other studies conducted among NPOs in Nairobi County have associated organizational performance with factors such as competency development, stakeholder involvement, strategic direction, human-capital development, strategic control, and ethical practices (Kitonga, 2017; Mwajuma & Kihara, 2025; Orenge et al., 2024). Furthermore, empirical evidence suggests positive relationships among ethical leadership practices, strategic innovation, and organizational performance (Alkhadra et al., 2023; Brown & Treviño, 2006; Brown et al., 2005). However, limited empirical evidence, particularly within the Kenyan non-profit sector, has examined how these variables interact and whether strategic innovation explains the mechanism through which ethical leadership influences organizational performance. This study addresses this theoretical and contextual gap by examining the mediating role of strategic innovation in the relationship between ethical leadership practices and organizational performance.

Objective of the Study

To investigate the mediating effect of strategic innovation on the relationship between ethical leadership practices and organizational performance among health-sector non-profit organizations in Nairobi County, Kenya.

Research Hypothesis

- I. *Strategic innovation does not mediate the relationship between ethical leadership practices and organizational performance of health sector non-profit organizations in Nairobi County, Kenya.*

Scope of the Study

The study examined the influence of ethical leadership practices on organizational performance and the mediating role of strategic innovation among registered and active health-sector non-profit organizations operating in Nairobi County, Kenya. Ethical leadership practices were conceptualized as a multidimensional construct comprising leadership integrity, leadership fairness, and leadership assurance. Strategic innovation was operationalized through creative implementation, business-model reconfiguration, and organizational adaptability, while organizational performance was assessed through financial sustainability, stakeholder satisfaction, and learning and growth. The organizational sampling frame comprised 394 health-sector NPOs, and the accessible population consisted of 682 eligible senior-management personnel. The study

covered the 2024–2026 period, with data collection and analysis conducted in 2026 using a cross-sectional design. It excluded for-profit enterprises, government agencies, unregistered or inactive organizations, and non-profit organizations without active health-sector operations in Nairobi County.

Significance of Study

The study is of significance to several stakeholders, including non-profit executives, policymakers, researchers, and donors. For non-profit executives and programme managers, the study is significant because it shows how leadership conduct can affect performance through innovative practices. Ethical leadership can improve internal trust, staff commitment, accountability, and confidence in organizational systems, while strategic innovation can improve programme design, service delivery, donor responsiveness, and adaptation to changing stakeholder needs.

Theoretical Framework

Ethical Leadership Theory

Ethical Leadership Theory provided the anchor framework for the study. The theory explains ethical leadership through the moral-person and moral-manager dimensions: the moral person demonstrates honesty, integrity, fairness, trustworthiness, and concern for others, while the moral manager actively communicates ethical standards, models appropriate conduct, reinforces accountability, and uses rewards and discipline consistently (Treviño et al., 2000; Brown et al., 2005; Brown & Treviño, 2006). This framework directly supported the operationalization of ethical leadership practices through leadership integrity, leadership fairness, and leadership assurance. Integrity captured congruence between values and conduct; fairness captured impartial and equitable treatment; and assurance captured dependable ethical guidance, role modelling, confidence building, and reinforcement of expected standards.

Ethical Leadership Theory also explains why ethical leadership may influence strategic innovation and organizational performance. Through social learning, employees observe credible leaders and learn which behaviors are expected, rewarded, or sanctioned; through social exchange, fair, respectful, and supportive treatment is reciprocated through trust, commitment, cooperation, and responsible performance. These mechanisms create psychological safety, openness, accountability, and confidence in organizational change, thereby providing conditions under which innovations can be proposed, tested, implemented, and institutionalized. The theory therefore supports both the direct relationship between ethical leadership practices and organizational performance and the indirect pathway operating through strategic innovation.

The Dynamic Multidimensional Performance Measurement Model complemented the theoretical framework by explaining why performance in non-profit organizations cannot be assessed through financial indicators alone. Consistent with Maltz et al. (2003), the study treated organizational performance as a multidimensional outcome comprising financial sustainability, stakeholder satisfaction, and learning and growth. Together, Ethical Leadership Theory, Innovation Diffusion

Theory, and the Dynamic Multidimensional Performance Measurement Model establish a coherent sequence: ethical leadership creates the moral and governance conditions for responsible adaptation; strategic innovation converts those conditions into organizational practices and capabilities; and multidimensional performance captures the resulting financial, stakeholder, and learning outcomes.

Innovation Diffusion Theory

Innovation Diffusion Theory, introduced by Rogers (1962), provides a foundational framework for understanding how new ideas, technologies, and practices spread within societies and organizations. The theory identifies four elements that shape diffusion: the innovation itself, communication channels, time, and the social system. Rogers (2003) further described the innovation-decision process as comprising five stages: knowledge, persuasion, decision, implementation, and confirmation. The theory also classifies adopters as innovators, early adopters, the early majority, the late majority, and laggards, thereby explaining why innovations are adopted at different rates across contexts and populations.

This study employed Innovation Diffusion Theory (IDT) to explain how strategic innovation transmits the influence of ethical leadership practices to organizational performance in Kenyan non-profit organizations. In resource-constrained and dynamic environments characterized by fluctuating donor funding, evolving regulatory requirements, and diverse stakeholder expectations, ethical leadership establishes a foundation of trust, fairness, transparency, and accountability that supports innovation adoption and organizational adaptation. Within multi-stakeholder non-profit settings, innovation diffusion occurs not only among individual employees but also across organizational units, boards, donors, beneficiaries, community groups, government agencies, and partner organizations. The theory's communication channel dimension explains how ethical leaders facilitate the flow of innovation-related information through formal structures such as meetings, training programs, strategic forums, and policy guidelines, as well as informal interactions that encourage knowledge sharing and collaboration. These communication processes enhance awareness and acceptance of innovative practices throughout the organization and its stakeholder network.

Furthermore, Rogers' adopter categories can be interpreted at the organizational level, where different stakeholder groups vary in their readiness to embrace change. For example, program managers and innovation-oriented staff may act as innovators and early adopters by championing new technologies, service-delivery approaches, or partnership models, while other employees, governing boards, donors, or community beneficiaries may represent the early majority, late majority, or laggards who require additional evidence, support, and reassurance before accepting change. Ethical leadership plays an important role in reducing resistance and building legitimacy for innovation among these diverse stakeholder categories, thereby accelerating diffusion across the organization.

Strategic innovation serves as the mechanism through which leadership-induced trust and ethical values are translated into new service-delivery methods, technologies, processes, partnerships, and adaptive resource utilization practices. This relationship can be further explained through the concepts of psychological safety and social exchange. Ethical leaders who demonstrate integrity, consistency, fairness, and concern for stakeholders create psychologically safe environments where employees feel secure in expressing ideas, experimenting with new approaches, and learning from mistakes without fear of punishment or reputational harm. Such leadership assurance encourages creativity, knowledge sharing, and the generation of innovative solutions. Simultaneously, Social Exchange Theory suggests that when employees perceive leaders as fair, supportive, and trustworthy, they develop feelings of obligation and reciprocity that motivate them to contribute beyond formal job requirements. These reciprocal behaviours promote active engagement in creative implementation, organizational learning, and business-model reconfiguration, enabling the organization to adapt to changing environmental conditions and stakeholder needs.

Consistent with Rogers' innovation-decision process, strategic innovations progress through the stages of knowledge, persuasion, decision, implementation, and confirmation. Ethical leadership influences each stage by encouraging open communication, stakeholder participation, and responsible decision-making, thereby increasing the likelihood that innovations will be successfully adopted, implemented, and institutionalized. Prior studies have further shown that ethical leadership positively influences strategic innovation and innovation outcomes through intermediate knowledge-sharing, capability-development, and organizational learning mechanisms (Amin & Wali, 2022; Ullah et al., 2021). Consequently, Innovation Diffusion Theory provides a robust explanation for the mediating role of strategic innovation by demonstrating how ethical leadership fosters the psychological and relational conditions necessary for innovation diffusion, while strategic innovation converts these conditions into improved efficiency, stakeholder engagement, organizational adaptability, and sustainable performance in Kenyan non-profit organizations.

Empirical Review

Ethical Leadership Practices

Ethical leadership practices have been defined as the demonstration of normatively appropriate conduct through personal actions, interpersonal relationships, communication, reinforcement, and decision-making. Brown et al. (2005) associated ethical leadership with role modelling and moral management, while Treviño et al. (2000) distinguished between the ethical leader as a moral person and as a moral manager. Fuller (2021) further positioned ethical leadership as a foundation for relational trust, values alignment, and responsible influence, and Alkhadra et al. (2022) linked it to organizational culture, corporate social responsibility, and organizational performance. Accordingly, this study examined ethical leadership practices through leadership integrity, leadership fairness, and leadership assurance, representing the moral consistency, justice

orientation, and confidence-building behavior through which leaders may influence organizational performance.

Ethical leadership practices significantly influence organizational performance, ethical culture, and corporate social responsibility initiatives (Alkhadra et al., 2022). Such practices are characterized by integrity, fairness, concern for others, and the consistent reinforcement of ethical standards. They can promote employee engagement, strengthen organizational character, reduce legal and ethical risks, and thereby contribute to trust, long-term sustainability, and organizational performance (Alkhadra et al., 2022; Ughulu, 2024). The researcher contends that leadership assurance represents a distinct yet underexplored dimension of ethical leadership. While integrity and fairness establish the moral foundations of leadership, assurance reinforces employees' confidence that leaders will provide ethical guidance, support responsible action, and maintain consistency in decision-making.

Organizational Performance

Organizational performance was conceptualized as a multifaceted construct encompassing financial outcomes, operational efficiency, stakeholder engagement, learning and growth, and strategic adaptability. In this study, it was measured through financial sustainability, stakeholder satisfaction, and learning and growth. Financial sustainability captured donor accountability, satisfaction with programme results, revenue growth, funding stability, continuity of key activities during funding interruptions, expenditure on budgeted activities, and control of over-expenditure. Maltz et al. (2003) argued that organizational performance should be assessed across multiple dimensions, while Moxham (2009) and Epstein and McFarlan (2011) emphasized the need for non-profit performance measures to integrate financial responsibility, mission delivery, and stakeholder accountability. This measurement approach was suitable because Kenyan non-profit organizations operate under donor dependence, compliance requirements, and pressure to sustain service delivery despite resource constraints.

Stakeholder satisfaction and learning and growth are also important because nonprofit performance depends on beneficiary value, staff capability, and organizational continuity. Kaplan and Norton (1996) positioned learning and growth as a foundation for long-term performance, whereas Richard et al. (2009) emphasized that performance should reflect broader organizational performance parameters. LeRoux and Wright (2010) noted that nonprofit performance assessment is often weakened when organizations fail to integrate mission and strategic indicators. Stakeholder satisfaction in this study was reflected in donor and beneficiary satisfaction, with learning and growth reflected in staff training needs assessment, improvement of staff skills, employee capability development, retention of competent employees, and a work environment that minimizes staff turnover. Organizational performance in this study was measured through financial sustainability, stakeholder satisfaction, and learning and growth. This multidimensional approach reflects the distinctive accountability of non-profit organizations, whose performance cannot be inferred from financial stability alone.

Ethical Leadership, Strategic Innovation and Organizational Performance

Ashari et al. (2024) examined the effect of ethical leadership practices on organizational performance, with innovative employee performance as a mediating variable in village-owned enterprises in the tourism sector. Using a quantitative design, the study found that ethical leadership positively influenced organizational performance and that innovative employee performance mediated this relationship. The study supports the proposition that innovation-related mechanisms can transmit the influence of ethical leadership to performance. However, its mediator operated at the employee-behavior level rather than the broader strategic-organizational level, and its sectoral context differs from Kenyan health-sector non-profit organizations. The present study therefore extends this evidence by examining strategic innovation as an organizational-level mediator between ethical leadership practices and organizational performance in Kenya's non-profit health sector and geared to addressing the geographical gap as well as the contextual gap.

Amin and Wali (2022) investigated the role of ethical leadership style in enhancing strategic innovation among faculty board members in selected private universities in Erbil City. The study adopted a quantitative research design and used a survey questionnaire to collect data from 120 respondents, which was then analyzed using the Statistical Package for the Social Sciences (SPSS). The findings showed that ethical leadership style had a strong and significant influence on strategic innovation. The study further established that the availability of ethical behavior practices was strongly associated with higher levels of strategic innovation in the universities studied. This study provided direct empirical support for the argument that ethical leadership practices can stimulate strategic innovation. Even so, the study did not extend the model to organizational performance and therefore stopped at the first part of the mediation chain. Still, the study was conducted in private universities, which differ from non-profit organizations in purpose, governance, and stakeholder demands. Therefore, this study extended this discussion by addressing the sectoral gap by linking ethical leadership practices and strategic innovation to organizational performance within non-profit organizations in Kenya, providing deeper insights into the mediation effect.

Ullah et al. (2021) examined the influence of ethical leadership on innovative performance by modeling the mediating role of intellectual capital, specifically human capital and social capital (proxies of strategic orientation). The study used a questionnaire to survey managerial employees working in manufacturing firms, particularly those in research and development departments, and analyzed the data quantitatively. The findings revealed that ethical leadership positively influenced employees' innovative performance. The study further established that human capital and social capital mediated the relationship between ethical leadership and innovative performance. This study is useful to the current research because it conceptualizes that ethical leadership practices do not merely shape performance directly but can do so through important knowledge and innovation mechanisms. However, the focus was on innovative performance rather than organizational performance, while the mediators were proxies rather than strategic innovation. As such, the study provides important support for mediation logic but does not fully capture the specific pathway of

ethical leadership practices, strategic innovation, and organizational performance. Therefore, this study addressed this methodological gap by focusing specifically on strategic innovation as the mediating variable and organizational performance as the outcome in non-profit organizations in Kenya.

Zhu et al. (2025) examined the influence of ethical leadership on corporate Environmental, Social, and Governance (ESG) performance, with organizational learning acting as a mediating variable and internal social capital serving as a moderator. The study was guided by social learning theory and stakeholder theory and used survey data from 205 leaders of small and medium-sized enterprises in China. The findings revealed that ethical leadership positively influenced environmental, social, and governance performance, while organizational learning partially mediated this relationship. The study further found that internal social capital strengthened both the direct relationship between ethical leadership and organizational learning and the indirect effect on ESG performance. This study demonstrates that ethical leadership practices can affect organizational performance through an intermediate organizational capability (learning). However, the mediating variable was organizational learning rather than strategic innovation, and the dependent variable focused on ESG performance as opposed to broader organizational performance. Consequently, although the study strengthens the argument for a mediation relationship, it leaves a geographical gap and contextual gap regarding whether strategic innovation can mediate the influence of ethical leadership practices on organizational performance in non-profit organizations, a gap that was filled by this study in Kenya.

Methodology

Research Philosophy

The study was underpinned by positivist philosophy, a long-established paradigm in the natural and social sciences that assumes reality is objective, observable, and measurable. Positivism supports systematic inquiry through structured quantitative methods, including surveys and statistical analysis (Pretorius, 2024). It was appropriate for this study because ethical leadership, strategic innovation, and organizational performance were treated as measurable constructs, enabling the testing of hypothesized relationships and the generation of findings that may inform non-profit policy and practice (Saunders et al., 2019).

Scholars argue that it can overlook the subjective and socially constructed dimensions of organizational life, such as non-verbal cues, contextual meanings, and lived experiences that shape behavior (Ryan, 2018; Pawlikowski et al., 2018). Its emphasis on quantification and generalizability may also limit the depth of understanding, particularly in complex social settings where interpretive insights are crucial (Bryman & Bell, 2015). Despite these limitations, positivism remains highly relevant in non-profit research because it provides empirical rigor and allows for the testing of hypotheses about organizational dynamics. Ethical leadership practices and strategic innovation were treated as measurable constructs, and their influence on organizational performance was assessed using structured questionnaires and statistical techniques.

Research Design

This study examined the statistical associations among ethical leadership practices, organizational performance, and strategic innovation and examined whether the observed pattern was consistent with partial mediation. Because the data were collected at one point in time from the same respondents, temporal ordering and causality cannot be established. The findings should therefore be interpreted as evidence of an indirect association rather than as proof that ethical leadership causes strategic innovation or organizational performance.

Target Population

The unit of analysis was the health-sector non-profit organization, while the unit of observation was the individual senior-management respondent. The organizational sampling frame was derived from the register of active health-sector organizations operating in Nairobi County and cross-checked against the relevant sector report, producing 394 registered and active health-sector NPOs. From verified organizational records, 682 eligible senior-management personnel were identified. Eligible respondents included chief executive officers, executive managers, programme managers, directors, founders, administrators, and coordinators because these positions possessed sufficient knowledge of leadership practices, innovation processes, programme implementation, and organizational performance.

Sampling Techniques and Criteria

The target sample was determined from the accessible population of 682 eligible senior managers using Yamane's (1967) formula, $n = N/[1 + N(e^2)]$, at a 3% margin of error. Substituting $N = 682$ and $e = .03$ produced $n = 422.605$, which was rounded to a target sample of 423 respondents.

$$n = 682/[1 + 682(.03^2)] = 682/1.6138 = 422.605 \approx 423 \text{ respondents.}$$

The target sample of 423 was allocated proportionately across seven senior-management strata using the verified category totals: chief executive officers, executive managers, programme managers, directors, founders, administrators, and coordinators. The proportional targets were 40, 127, 73, 66, 40, 42, and 35 respondents, respectively. This allocation preserved the composition of the accessible population and strengthened representation across management categories.

The study employed proportionate stratified sampling followed by simple random sampling. First, the accessible population was stratified by senior-management position to ensure adequate representation of the seven respondent categories. The target sample was then allocated proportionately to each stratum, after which individual respondents were selected randomly within each category, giving every eligible respondent an equal probability of selection and minimizing selection bias. Eligibility was restricted to senior managers in registered and active health-sector NPOs operating in Nairobi County who possessed adequate knowledge of ethical leadership practices, strategic innovation, and organizational performance.

Measurement validity and reliability. Measurement quality was assessed before hypothesis testing. The instrument sources and adaptation procedures, pretesting process, item-retention criteria,

construct-validity results, and reliability coefficients for leadership integrity, leadership fairness, leadership assurance, strategic innovation, and organizational performance were examined to establish whether the composite variables used in the mediation models measured the intended constructs consistently.

Data Analytical Models

The traditional hierarchical regression approach developed by Baron and Kenny (1986) remains a widely recognized and theoretically grounded method for establishing preliminary evidence of mediation, particularly in studies where the primary objective is to assess the existence and direction of mediated relationships rather than estimate complex latent-variable models. The choice of hierarchical regression in this study was guided by several considerations. First, the study sought to examine the sequential relationships among ethical leadership practices, strategic innovation, and organizational performance. Because the study used observed variables, regression analysis was an appropriate and parsimonious analytical technique. Second, the approach enabled assessment of the reduction in the direct effect of ethical leadership on organizational performance after strategic innovation was introduced, thereby providing evidence of mediation consistent with the framework proposed by Baron and Kenny (1986). Third, similar mediation studies in management and organizational research continue to employ hierarchical regression as an accepted analytical procedure, particularly when the sample size and model complexity do not necessitate structural equation modelling.

Furthermore, Baron and Kenny's procedure should not be viewed as a definitive test of mediation; however, it remains valuable for identifying potential mediating mechanisms when interpreted alongside theoretical justification and supporting statistical evidence. The present study therefore used the coefficient-change approach as an initial test of mediation, while recognizing that future research could strengthen the findings by applying bootstrapping techniques, such as Hayes' PROCESS macro, or structural equation modelling to estimate and validate indirect effects through bias-corrected confidence intervals. Accordingly, the findings should be interpreted as evidence of mediation based on changes in the magnitude and significance of regression coefficients rather than as a direct estimate of the indirect effect. The method was therefore suitable for providing an initial understanding of mediation mechanisms within the under-researched context of Kenyan non-profit organizations, although the cross-sectional design does not establish causality.

Model 1: The direct-effect model tested the effect of ethical leadership practices on organizational performance to determine whether the relationship was statistically significant.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$; Where: Y = Organizational Performance; X_1 = Leadership Integrity; X_2 = Leadership Fairness; X_3 = Leadership Assurance; β_0 = Constant; β_1 - β_3 = Regression coefficients; ϵ = Error term.

Model 2: Tested the effect of ethical leadership practices composite on strategic innovation to determine whether ethical leadership predicted strategic innovation.

$M = \beta_0 + \beta_1 X + \varepsilon$; Where: M = strategic innovation; X = composite ethical leadership; β_0 = constant; β_1 = regression coefficient; ε = error term.

Model 3: tested the mediation effect of strategic innovation on the relationship between the ethical leadership practices composite and organizational performance to test mediation and its nature.

$Y = \beta_0 + \beta_1 X + \beta_2 M + \varepsilon$; Where: Y = organizational performance; X = composite ethical leadership; M = strategic innovation; β_1 = direct effect of ethical leadership after including strategic innovation; β_2 = effect of strategic innovation on organizational performance; ε = error term.

Diagnostic Tests

Diagnostic tests were conducted before inferential analysis to assess the regression assumptions. Multicollinearity was examined using tolerance and variance inflation factor values, with tolerance values above .20 and VIF values below 5 indicating acceptable collinearity. Normality was assessed through graphical inspection of model residuals and the Shapiro–Wilk test, while homoscedasticity was evaluated using residual plots and the Breusch–Pagan test. Influential observations were screened using Cook’s distance, leverage, standardized residuals, and studentized deleted residuals. VIF values ranged from 1.295 to 1.566, the Breusch–Pagan test was not significant, $\chi^2(4) = 8.483$, $p = .075$, and the residual diagnostics did not indicate material violations. The data were therefore considered suitable for correlation and regression analyses.

Results and Findings

Questionnaire Response Rate

The study targeted 423 respondents. Of the questionnaires distributed electronically and physically, 366 were correctly completed and usable for analysis, yielding an 86.6% response rate. Fifty-seven questionnaires, representing 13.4%, were either not returned or were unusable. The achieved response rate was adequate for the planned statistical analyses and provided a substantial analytical sample.

Table 1: Rate of Response

Return Rate	Frequency	Percent
Returned and usable questionnaires	366	86.6%
Not returned or unusable questionnaires	57	13.4%
Total	423	100%

The response rate was considered adequate for the planned analyses and provided a substantial analytical sample for examining the study objective. The study proceeded with data screening, validity assessment, reliability testing, descriptive analysis, diagnostic testing, correlation analysis, regression analysis, mediation testing, and data verification (Creswell & Creswell, 2018).

Ethical Leadership Practices

Ethical leadership was operationalized as a composite predictor comprising leadership integrity, leadership fairness, and leadership assurance for the mediation analysis. Each construct was measured using six Likert-type items. For each respondent, composite means and standard deviations were calculated from the relevant measurement items. Table 2 presents the results.

Table 2: Ethical Leadership Practices

Statements	SD	D	N	A	SA	Mean	Std. Dev.
Our leaders act honestly in their dealings with staff.	22	45	46	162	91	3.70	1.148
	6	12	13	44	25		
Our leaders keep their promises and commitments.	37	43	86	159	41	3.34	1.137
	10	12	23	43	11		
Our leaders make decisions that reflect clear ethical principles.	19	49	42	137	119	3.79	1.184
	5	13	11	37	33		
Our leaders take responsibility when their decisions lead to problems.	27	50	85	128	76	3.48	1.177
	7	14	23	35	21		
Our leaders provide truthful information about matters affecting staff.	32	44	50	149	91	3.61	1.227
	9	12	14	41	25		
Our leaders behave consistently with the values they promote.	30	38	54	109	135	3.77	1.273
	8	10	15	30	37		
Leadership Integrity Composite Mean and Standard Deviation (n=366)						3.61	1.087
Statements	SD	D	N	A	SA	Mean	Std. Dev.
Our leaders treat staff impartially in workplace matters.	31	50	86	164	35	3.33	1.095
	8	14	23	45	10		
Our leaders apply organizational rules consistently to all staff.	39	63	88	127	49	3.23	1.197
	11	17	24	35	13		
Decisions affecting staff are based on objective criteria.	34	53	93	151	35	3.27	1.114
	9	14	25	41	10		
Staff has equal access to opportunities regardless of personal closeness to leaders.	35	81	109	75	66	3.15	1.229
	10	22	30	20	18		
Complaints raised by staff are handled fairly by leadership.	32	45	65	140	87	3.56	1.223
	9	12	17	38	24		
Rewards and sanctions are administered consistently across staff.	35	71	96	95	69	3.25	1.237
	10	19	26	26	19		
Leadership Fairness Composite Mean and Standard Deviation (n=366)						3.30	1.078
Statements	SD	D	N	A	SA	Mean	Std. Dev.
Our leaders' behavior is consistent with our organizational values.	33	39	51	130	113	3.69	1.262
	9	11	14	36	31		
Our leaders serve as ethical role models whom employees emulate.	41	31	62	126	106	3.61	1.289
	11	8	17	34	29		
Leadership actions reinforce expected standards of conduct.	34	47	61	152	72	3.49	1.209
	9	13	17	42	20		
	33	44	57	112	120	3.66	1.291

Our leader inspires and builds confidence among employees.	9	12	16	31	33		
Our leaders provide reassurance during difficult situations.	32	49	53	118	114	3.64	1.285
Our leaders create confidence in employees' ability to perform their assignments.	33	42	60	162	69	3.52	1.184
	9	11	16	44	19		
Leadership Assurance Composite Mean and Standard Deviation (n=366)						3.60	1.143
Ethical Leadership Composite Mean and Standard Deviation (n=366)						3.51	1.069

Ethical Leadership practices recorded a composite mean of 3.51 (SD = 1.069), indicating a generally positive perception of ethical leadership practices among respondents in the sampled health sector non-profit organizations. Leadership integrity indicated the highest composite mean (M = 3.61, SD = 1.087), closely followed by leadership assurance (M = 3.60, SD = 1.143), with leadership fairness recording a comparatively lower mean (M = 3.30, SD = 1.078). The findings suggest that ethical leadership was strongly reflected in leaders' honesty, adherence to ethical principles, consistency with organizational values, ethical role modelling, and their ability to inspire confidence and provide reassurance to employees. Comparatively, perceptions concerning impartial treatment, consistent application of organizational rules, equal access to opportunities, and consistency in the administration of rewards and sanctions were relatively weaker. The overall composite nevertheless indicates that ethical leadership practices were reasonably established across these organizations, although the lower rating of leadership fairness points to an area where leadership practices could be strengthened.

Strategic Innovation

The study sought to determine the extent to which strategic innovation was a factor in the relationship between ethical leadership and organizational performance. Table 3 presents the results of the analysis.

Table 3: Strategic Innovation

Statements	SD	D	N	A	SA	Mean	Std. Dev.
Our organization regularly introduces new service delivery methods.	37	64	81	142	42	3.24	1.171
	10	17	22	39	11		
Innovation is encouraged in all departments.	35	48	79	157	47	3.36	1.152
	10	13	22	43	13		
Our organization tests improved methods of service delivery before adoption.	57	60	70	133	37	3.07	1.257
	16	19	19	36	10		
Our organization uses new technologies to improve operations.	45	92	81	86	62	3.08	1.286
	12	25	22	23	17		
Digital tools are integrated into key operational activities.	50	102	70	75	69	3.03	1.337
	14	28	19	20	19		
Innovative projects receive sufficient resources and support from our leaders.	54	93	79	95	45	2.96	1.264
	15	25	22	26	12		
	25	55	74	136	76	3.50	1.175

Our leaders actively support innovation in our operations and service delivery.	7	15	20	37	21		
Employees are open to adopting new processes and technologies.	30	38	59	173	66	3.57	1.144
	8	10	16	47	18		
Our organization develops new partnership arrangements to strengthen program delivery.	34	42	69	127	94	3.56	1.245
	9	11	19	35	26		
Collaborative arrangements in our organization change when existing ones no longer add value.	35	54	98	111	68	3.34	1.211
	10	15	27	30	19		
Our organization redesigns processes to improve value creation.	36	61	99	115	55	3.25	1.190
	10	17	27	31	15		
Stakeholder value is continuously improved.	36	47	85	129	69	3.40	1.212
	10	13	23	35	19		
Our organization responds quickly to changes in its environment.	27	60	78	122	79	3.45	1.206
	7	16	21	33	22		
Changes in the operating environment are reflected quickly in our organizational actions.	36	59	88	117	66	3.32	1.223
	10	16	24	32	18		
Our organization reallocates resources to meet emerging needs.	42	75	82	115	52	3.16	1.234
	11	20	22	31	14		
Our organization reorganizes internal resources to meet emerging needs.	29	63	100	110	64	3.32	1.179
	8	17	27	30	17		
Composite Mean and Standard Deviation (n=366)						3.29	1.065

Table 3 shows that strategic innovation was moderately evident among the sampled non-profit organizations ($M = 3.29$, $SD = 1.065$). The strongest indicators were employees' openness to adopting new processes and technologies ($M = 3.57$), the development of new partnership arrangements to strengthen programme delivery ($M = 3.56$), and leadership support for innovation ($M = 3.50$). These results suggest that innovation was most visible in employee receptiveness, collaboration, and leadership engagement. Lower ratings were recorded for adequate resourcing of innovative projects ($M = 2.96$), integration of digital tools ($M = 3.03$), testing of improved service-delivery methods before adoption ($M = 3.07$), and use of new technologies ($M = 3.08$). Thus, although the organizations demonstrated willingness and capacity to innovate, innovation was more firmly embedded in human behavior and collaborative relationships than in technological adoption, formal experimentation, and adequately resourced innovation systems. Strengthening investment in technology, structured experimentation, and innovation resources may therefore deepen strategic innovation capacity and support improved organizational performance.

Organizational Performance

The study investigated several aspects of organizational performance among health sector non-profit organizations in Nairobi County, Kenya. Table 4 shows the results of the analysis.

Table 4: Organizational Performance

Statements	SD	D	N	A	SA	Mean	Std. Dev.
Our donors are satisfied with our accountability practices	33	43	61	151	78	3.54	1.206
	9	12	17	41	21		
Our donors are always satisfied with the results of our programs	33	50	88	162	33	3.31	1.100
	9	14	24	44	9		
Our beneficiaries are satisfied with the services we provide	32	32	44	170	88	3.68	1.183
	9	9	12	46	24		
Our beneficiaries feel that our services meet their needs	34	37	78	137	80	3.52	1.204
	9	10	21	37	22		
Our organization has shown consistent revenue growth	61	101	64	66	74	2.98	1.392
	17	28	17	18	20		
Our organization has stable funding for its operations	66	97	60	73	70	2.96	1.398
	18	27	16	20	19		
Interruptions in funding rarely threaten the continuation of our key activities	78	93	58	94	43	2.81	1.343
	21	25	16	26	12		
Our organization spends only on budgeted for activities	33	51	67	142	73	3.47	1.213
	9	14	18	39	20		
Organization minimizes over expenditure effectively	32	62	63	133	75	3.42	1.240
	9	17	17	36	20		
Our organization conducts annual staff training needs assessments to guide staff learning and development	56	78	75	89	68	3.10	1.344
	15	21	20	24	19		
Our organization improves staff skills through learning opportunities	39	55	79	114	79	3.38	1.269
	11	15	22	31	22		
Our organization supports the development of employee capabilities	39	56	76	126	69	3.36	1.247
	11	15	21	34	19		
It is our practice to only retain competent employees	31	58	70	140	67	3.42	1.200

	8	16	19	38	18		
Our environment fosters minimal staff turnover	49	72	81	95	69	3.17	3.312
	12	20	22	26	19		
Composite Mean and Standard Deviation (n=366)						3.29	1.068

Table 4 shows that organizational performance was equally averaged among the NPOs ($M = 3.29$, $SD = 1.068$), although considerable differences emerged across the performance indicators. Beneficiary satisfaction with services recorded the highest mean ($M = 3.68$), followed by donor satisfaction with accountability practices ($M = 3.54$) and the extent to which services met beneficiary needs ($M = 3.52$), indicating relatively strong performance in service delivery, accountability, and responsiveness to beneficiaries. On the other side, the weakest indicators concerned financial sustainability, particularly the ability to maintain key activities despite funding interruptions ($M = 2.81$), stable operational funding ($M = 2.96$), and consistent revenue growth ($M = 2.98$); staff training needs assessment and conditions supporting low staff turnover were also comparatively weak. The results therefore portray organizations that were relatively effective in fulfilling their service and accountability responsibilities but less secure in the financial and workforce systems required to sustain these achievements in the long run. Organizational performance appeared to be stronger overall in beneficiary and donor performance outcomes than in financial stability, continuity of operations, and systematic workforce development among the NPOs.

Hypothesis Testing

Hypothesis testing was done using hierarchical regression following a three-step model to assess the mediating effect of strategic innovation on the relationship between leadership assurance and organizational performance. Table 5 presents the coefficients of the findings under various models.

Table 5: Hierarchical Regression Coefficients

Model	Predictor	B	Std. Error	Beta	t	Sig.
1	Constant	.274	.097		2.819	.005
	Ethical leadership practices	.861	.027	.862	32.444	.000
2	Constant	.181	.088		2.061	.040
	Ethical leadership practices	.886	.024	.889	37.080	.000
3	Constant	.135	.071		1.916	.056
	Ethical leadership practices	.180	.042	.180	4.285	.000
	Strategic Innovation	.769	.042	.767	18.289	.000

1. Dependent Variable: Organizational Performance; Predictor: Ethical Leadership

2. Dependent Variable: Strategic Innovation; Predictor: Ethical Leadership

3. Dependent Variable: Organizational Performance; Predictors: Ethical Leadership, Strategic Innovation

As per Table 5, hierarchical regression results provided evidence that strategic innovation moderately mediated the relationship between ethical leadership and organizational performance. In Model 1, ethical leadership had a strong positive and statistically significant effect on

organizational performance ($B = .861$, $\beta = .862$, $t = 32.444$, $p < .001$), establishing the total effect. In Model 2, ethical leadership significantly predicted strategic innovation ($B = .886$, $\beta = .889$, $t = 37.080$, $p < .001$), confirming the relationship between the predictor and the mediator. When both ethical leadership and strategic innovation were entered in Model 3, strategic innovation remained a strong and statistically significant predictor of organizational performance ($B = .769$, $\beta = .767$, $t = 18.289$, $p < .001$), while the effect of ethical leadership declined substantially from $\beta = .862$ to $\beta = .180$ but remained statistically significant ($B = .180$, $t = 4.285$, $p < .001$). The reduction in the ethical leadership coefficient after introducing strategic innovation indicates that a substantial proportion of its influence on organizational performance operated through strategic innovation, while the remaining significant direct effect confirms partial and not full mediation; the estimated indirect effect was approximately 68.1% ($.886 \times .769 \times 100$). Therefore, under the hierarchical regression mediation criteria according to Baron and Kenny (1986), the null hypothesis that *strategic innovation does not have a statistically significant mediating effect on the relationship between ethical leadership and organizational performance of non-profit organizations in Nairobi County, Kenya* was rejected. The study concluded that strategic innovation has a statistically significant partial mediating effect on the relationship between ethical leadership and organizational performance.

Health-sector non-profit organizations in Kenya face funding constraints, accountability demands, and pressure to sustain mission delivery, yet limited evidence explains whether strategic innovation is associated with the relationship between ethical leadership practices and multidimensional organizational performance. Existing studies have generally examined ethical leadership, innovation, and performance separately, have used employee-level innovation outcomes, or have focused on corporate and non-Kenyan settings. This study addresses that theoretical, construct-level, and contextual gap by testing strategic innovation as a mediator between ethical leadership practices and organizational performance among health-sector non-profit organizations in Nairobi County, Kenya.

The objective of the study was to investigate the mediating effect of strategic innovation on the relationship between ethical leadership practices and organizational performance. Descriptive findings showed that strategic innovation recorded a composite mean of mean = 3.29 and a standard deviation = 1.218, indicating a moderate agreement that strategic innovation practices existed in NPOs. The mediation analysis confirmed a statistically significant partial mediation effect where in Model 1, ethical leadership practices significantly predicted organizational performance, $B = .861$, $\beta = .862$, $p < .001$; Model 2, ethical leadership practices significantly predicted strategic innovation, $B = .886$, $\beta = .889$, $p < .001$ and Model 3, strategic innovation significantly predicted organizational performance after controlling for ethical leadership practices, $B = .769$, $\beta = .767$, $p < .001$. Ethical leadership practices also remained significant in Model 3, $B = .180$, $\beta = .180$, $p < .001$. The reduction in the ethical leadership practices coefficient from $\beta = .862$ in Model 1 to $\beta = .180$ in Model 3 showed that part of the effect of

ethical leadership practices on organizational performance was achieved through strategic innovation.

These findings are supported by Ashari et al. (2024), who found that ethical leadership practices influenced organizational performance through innovative employee performance, which supports the role of innovation mediation mechanisms in transmitting leadership effects to performance. Similarly, Amin and Wali (2022) established that ethical leadership practices significantly enhanced strategic innovation, supporting the path from ethical leadership to strategic innovation. Ethical leadership was also shown to influence innovative performance through knowledge and social capital mechanisms (Ullah et al., 2021), organizational learning operating between ethical leadership and ESG performance (Zhu et al., 2025), and a direct relationship between ethical leadership and innovative performance (Kılıç, 2022). These strengthen the assertions that ethical leadership affects performance both directly and through an intervening innovation capability. The present study extends this evidence and confirms that strategic innovation mediates the performance of health-sector non-profit organizations in Kenya.

Conclusion

The study concludes that strategic innovation is a statistically significant partial mediator of the relationship between ethical leadership practices and organizational performance. The partial mediation result means that ethical leadership practices affect organizational performance through two complementary pathways. The first is a direct mediation through which ethical leadership practices contribute to performance independently. The second is an indirect pathway through which ethical leadership practices strengthen strategic innovation, which then contributes to organizational performance. This distinction is consequential for performance because ethical leadership practices create a favorable basis for innovation, but leadership values produce stronger organizational outcomes when they are converted into concrete innovation capability. Ethical conduct can build trust, openness, and willingness to cooperate, but the full performance value of these conditions depends on the organization's capacity to redesign processes, adopt appropriate technologies, reallocate resources, form useful partnerships, and respond to environmental change. Strategic innovation, therefore, constitutes a transmission mechanism through which ethical leadership practices become operationally productive when accurately integrated into organizational processes.

Recommendations

Drawing on the assumptions of Innovation Diffusion Theory, the mediation result also suggests that the Theory should distinguish willingness to adopt innovation from institutional capacity for implementation. The trend emerging from this analysis shows that favorable attitudes toward innovation do not instantly produce organizational capability. Future theoretical applications should explicitly model the resource, leadership, learning, and governance mechanisms and how these convert adoption willingness into sustained strategic innovation among organizations.

Suggestions for Future Research

The strategic innovation mediator should be decomposed into distinct dimensions. Future research could separately assess service innovation, process innovation, digital innovation, partnership-model innovation, stakeholder-value innovation, environmental responsiveness, and resource reconfiguration. Parallel mediation models could then establish which constructs exert the strongest indirect effects of ethical leadership practices on organizational performance in the non-profit sector. Future studies should examine these relationships across different contexts using longitudinal research designs.

Ethical Approval and Informed Consent

The study received approval from the relevant institutional ethics review body and research authorization authorities. All participants provided informed consent before data collection.

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