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**Compliance Risk Management and Financial Performance of
Commercial Government-Owned Entities in Kenya**



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Compliance Risk Management and Financial Performance of Commercial Government-Owned Entities in Kenya



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ABSTRACT

Purpose: Commercial Government-Owned Entities (GOEs) in Kenya are expected to generate revenue, support economic development and use public resources efficiently, yet about 60 per cent continue to record weak financial results. This study examined the influence of compliance risk management on their financial performance through regulatory compliance, compliance monitoring, internal control systems and compliance training.

Methodology: The study adopted a positivist philosophy and descriptive correlational design. A census targeted 102 finance and risk or compliance managers in 51 commercial GOEs; 91 questionnaires were returned and 46 complete entity-level pairs were analyzed. Primary questionnaire data were combined with audited financial statements for 2021 to 2025, using the composite Net Operating Surplus Ratio as the performance measure. Descriptive statistics, Pearson correlation and multiple regression were applied in SPSS version 27.

Findings: The model was significant ($R^2 = 0.549$, $F = 9.594$, $p < 0.001$). Internal control systems ($\beta = 0.394$, $p = 0.004$) and regulatory compliance ($\beta = 0.317$, $p = 0.014$) were significant, while monitoring and training were not. The study concluded that structural compliance controls are the principal compliance-related drivers of financial performance.

Unique Contribution to Theory, Policy and Practice: The study recommended that the National Treasury and the State Corporations Advisory Committee should develop a composite compliance risk management index weighted to the financial materiality of the four dimensions and use it to guide oversight and the conditions attaching to exchequer support.

Keywords: *Compliance risk management, Regulatory compliance, Internal control systems, Financial performance, Net Operating Surplus Ratio, Government-owned entities, Kenya*

1. Background of the Study

Financial performance indicates an organization's capacity to use resources efficiently, meet obligations and sustain operations over time. In public commercial entities, it also reflects how effectively public resources are converted into viable institutional outcomes. Evidence from state-owned enterprises shows that governance weaknesses, weak internal controls and ineffective accountability can undermine profitability and operational efficiency (Nguyen et al. 2023; Cuervo-Cazurra et al. 2022; African Development Bank 2021).

In Kenya, commercial Government-Owned Entities (GOEs) are mandated to generate revenue and support national development. Nevertheless, about 60 per cent have continued to perform poorly, with combined debts of Kes 1.19 trillion and an average net loss of Kes 58.6 billion between 2022 and 2024 (National Treasury Kenya 2024; Office of the Auditor-General 2023). Continued underperformance increases pressure for exchequer support and weakens the entities' contribution to public value (OECD 2022).

Compliance risk management may address this problem through regulatory adherence, continuous monitoring, internal control systems and staff capability. Weaknesses in these areas expose entities to penalties, financial leakage, reporting failures and operational disruption (Efunniyi et al. 2024; Kuola and Obasan 2025). However, existing studies commonly treat compliance as a governance outcome, focus on non-commercial or private organisations, or rely on perceptual rather than audited financial measures (Lenz and Hahn 2023; Murithi et al. 2020).

The study therefore asked whether regulatory compliance, compliance monitoring, internal control systems and compliance training significantly influence the financial performance of commercial GOEs in Kenya. It tested the four dimensions jointly and individually against an audited Net Operating Surplus Ratio, thereby addressing conceptual, contextual and methodological gaps in the available evidence.

Statement of the Problem

Commercial GOEs are set up in Kenya to create revenue streams, stimulate economic growth and for effective usage of public funds. Yet almost 60% of commercial GOEs remain poor with a combined debt of Kes 1.19 trillion and an average net loss of Kes 58.6 billion from 2022 to 2024 (National Treasury Kenya, 2024; Office of the Auditor-General, 2024). Such continuous underperformance has led to greater government bailouts and a reallocation of scarce public funds away from other important priorities like health, education, and infrastructure (OECD, 2022). Although several factors have been linked to the poor financial performance of commercial GOEs, emerging evidence indicates that compliance risk management weaknesses, such as non-compliance with regulations, a weak monitoring system, inadequate internal control system, and staff capacity constraints, can lead to financial inefficiencies, penalties and sanctions, poor

governance, and operational disruptions, which collectively have a significant impact on the performance of commercial GOEs (Efunniyi et al., 2024; Kuola & Obasan, 2025). Without these issues being resolved, it is possible that commercial GOEs may continue to be affected by the challenges, thus jeopardizing Kenya's Vision 2030 economic transformation and sustainable development agenda.

In this regard, the majority of the literature considers compliance risk management as a governance tool, and the compliance-performance nexus is considered underdeveloped, on a theoretical basis, in CPEs (Lenz & Hahn, 2023). Empirical evidence available is sourced primarily from private sector organisations or from publicly available institutions in developed and middle-income economies, with limited relevance to/commercial orientation of GOEs in a developing country context like Kenya (African Development Bank, 2021). Few studies have investigated the combined effects of regulatory compliance, compliance monitoring, internal control systems, and compliance training on financial performance by objective financial indicators like the Net Operating Surplus Ratio (Murithi et al., 2020). This study aimed at addressing these gaps, therefore, in an attempt to fill these gaps in a conceptual, contextual and methodological perspective, an empirical study on the effects of compliance risk management on the financial performance of commercial GOEs in Kenya was conducted

Research Objectives

- i. To assess the influence of regulatory compliance on the financial performance of commercial government-owned entities in Kenya
- ii. To determine the influence of compliance monitoring on the financial performance of commercial government-owned entities in Kenya
- iii. To assess the influence of internal control systems on the financial performance of commercial government-owned entities in Kenya
- iv. To determine the influence of compliance training on the financial performance of commercial government-owned entities in Kenya

2. Literature Review

Theoretical Review

Stakeholder Theory

Stakeholder theory explains why external regulatory expectations matter, dynamic capabilities theory explains how organisations detect and respond to changing obligations, agency theory clarifies why internal controls are needed where ownership and management are separated, and human capital theory explains why employees require knowledge and skills to execute compliance processes. Taken together, they position compliance risk management as a system in which legitimacy, adaptation, control and capability interact. This integrated perspective is important in

commercial GOEs because financial performance depends not on the existence of any single compliance mechanism, but on whether the mechanisms reinforce one another and convert regulatory obligations into disciplined operational practice.

Stakeholder theory, introduced by Freeman (1984), holds that organisations must create value for the parties affected by their activities rather than for owners alone. Long-term success therefore depends on balancing stakeholder interests through ethical management and accountability (Donaldson and Preston 1995). The theory frames regulatory compliance because adherence to statutory and governance standards enables commercial GOEs to meet the expectations of regulators, oversight institutions and citizens, sustain legitimacy and reduce exposure to penalties and reputational damage (Akinsola 2025). Its limitation is that it gives limited guidance on prioritizing competing stakeholder claims when resources are constrained.

In commercial GOEs, stakeholder expectations are unusually broad because the entities must remain commercially viable while also satisfying public accountability obligations. Regulators expect legal conformity, the National Treasury expects financial discipline, citizens expect prudent use of public resources, and employees require workable procedures. Regulatory breaches can therefore create both direct costs, such as penalties and interrupted operations, and indirect costs through weakened legitimacy. Stakeholder theory consequently supports the expectation that sustained regulatory compliance should be associated with better financial outcomes, although the strength of that relationship depends on whether compliance is implemented substantively rather than treated as a formal reporting exercise (Donaldson and Preston 1995; Akinsola 2025).

Dynamic Capabilities Theory

Dynamic capabilities theory (Teece et al. 1997) explains long-run performance through the capacity to integrate, build and reconfigure competencies as conditions change. Its sensing, seizing and reconfiguring processes are relevant to compliance monitoring because entities must detect regulatory change, absorb feedback and adapt monitoring systems before irregularities become financial losses (Wilden et al. 2023; Eisenhardt and Martin 2000). The theory is useful for explaining adaptive monitoring, although its concepts can be difficult to operationalize consistently in empirical research. The dynamic capabilities perspective also distinguishes routine compliance administration from adaptive compliance management. A routine system may record obligations and submit reports, yet still fail when regulations, risks or operating conditions change. An adaptive system detects emerging requirements, interprets their implications and modifies processes before a breach occurs. For commercial GOEs, this means that monitoring is financially useful when it operates as an early-warning capability rather than a retrospective documentation mechanism. The theory therefore predicts that monitoring should contribute most strongly where information generated by the monitoring function is connected to timely decisions, process redesign and corrective action (Eisenhardt and Martin 2000; Wilden et al. 2023).

Agency Theory

Agency theory (Jensen and Meckling 1976) explains conflicts between principals and managers arising from divergent interests and information asymmetry. It frames internal control systems because commercial GOEs are state-owned but managerially controlled, making audit committees, financial reporting systems, risk assessment and performance controls important mechanisms for constraining discretion and aligning conduct with institutional objectives (Eisenhardt 1989; Chen et al. 2016). Its principal limitation is the assumption of predominantly self-interested behaviour, which gives less attention to trust, intrinsic motivation and organisational culture. The public ownership structure of commercial GOEs intensifies the relevance of agency theory. Citizens are the ultimate owners, ownership rights are exercised through the state, boards provide oversight, and managers control day-to-day resources. These multiple layers can widen information asymmetry and weaken the direct link between ownership and managerial action. Internal control systems help close that gap by defining authorization limits, safeguarding assets, improving financial reporting and creating review mechanisms through which deviations can be detected. The theory therefore anticipates a positive relationship between effective controls and financial performance, particularly where controls are implemented consistently and audit findings are corrected rather than merely recorded (Jensen and Meckling 1976; Chen et al. 2016).

Human Capital Theory

Human capital theory (Becker 1964) treats investment in employee knowledge, skills and abilities as productive capital capable of generating organisational returns. It frames compliance training because effective training should improve understanding of regulatory requirements, strengthen procedural accuracy and reduce compliance failures that erode financial performance (Jacobs and Park 2020). The theory is nevertheless criticized for privileging measurable economic returns while giving insufficient attention to organisational culture and structural constraints (Moodie and Wheelahan 2023). For compliance training, the critical issue is not attendance but productive capability. Training creates value when employees understand the applicable obligations, recognize risk signals, apply procedures correctly and retain the competence required to respond to change. A programme may therefore satisfy a formal training requirement without producing human capital if content is outdated, irregular or disconnected from work tasks. This distinction is central to the present study because the financial effect of training is expected to arise indirectly through fewer errors, stronger regulatory adherence and more effective use of control procedures. The human capital mechanism consequently depends on transfer of learning into practice rather than on the number of training events alone (Jacobs and Park 2020; Moodie and Wheelahan 2023).

Conceptual Framework

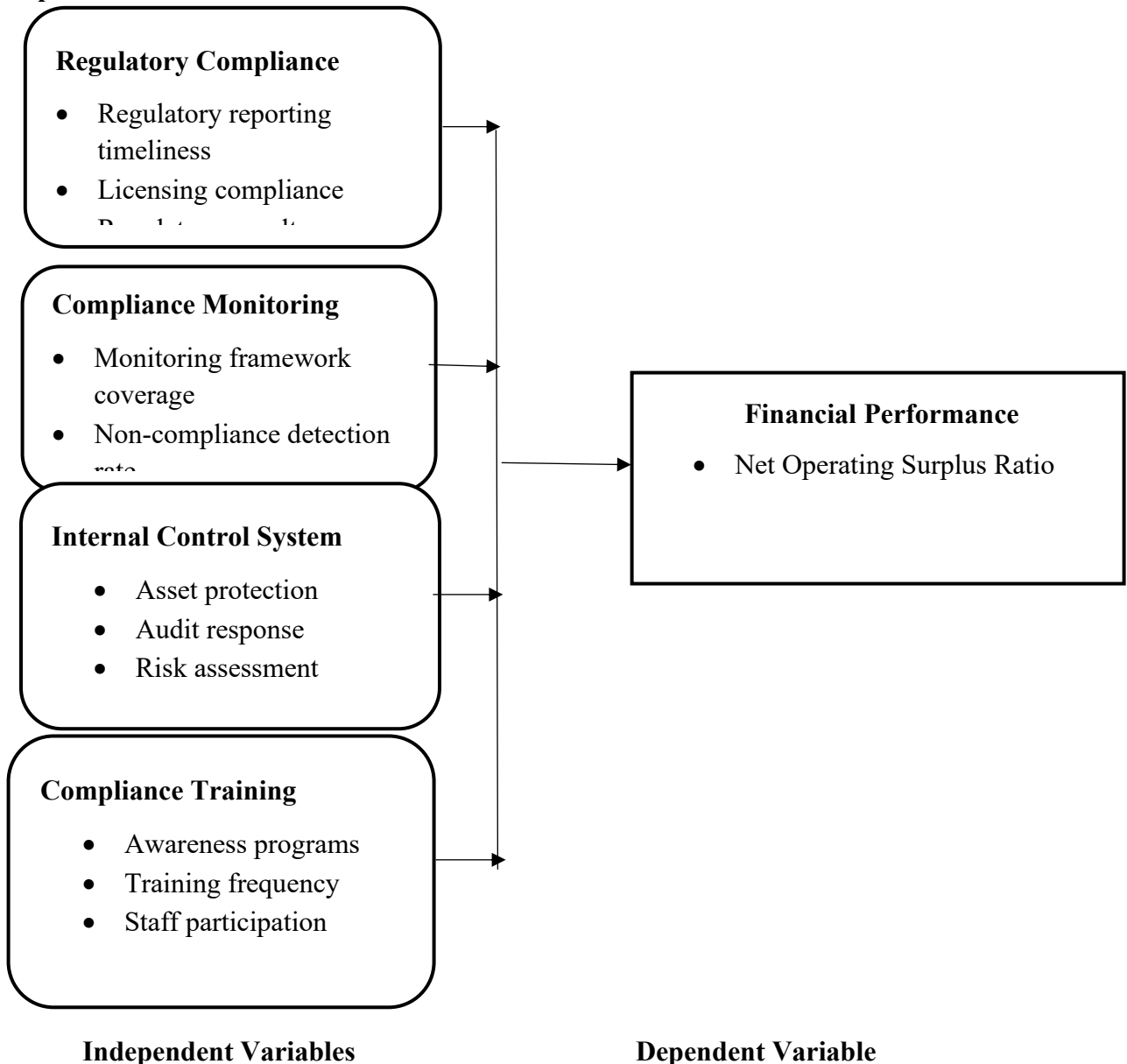


Figure 1: Conceptual Framework

3. Research Methodology

The study adopted a positivist research philosophy, which treats reality as objective, measurable and suitable for structured hypothesis testing (Saunders et al. 2019). A descriptive correlational research design was employed. The descriptive component profiled the state of compliance risk management practices in commercial GOEs, while the correlational component established the direction and strength of the relationship between those practices and financial performance.

The target population comprised all 51 commercial GOEs in Kenya identified by the National Treasury Kenya (2024) as entities mandated to operate profitably across strategic economic sectors. A census was employed. Two respondents were targeted in each entity, namely the finance manager and the risk or compliance manager, giving 102 individual respondents. The dual-informant approach was adopted to reduce common method bias (Podsakoff et al. 2003). The unit of observation was the individual respondent and the unit of analysis was the commercial GOE.

The census approach was appropriate because the number of commercial GOEs was manageable and the study sought sector-wide evidence rather than estimates derived from a sample of entities. The two informants were selected because the risk or compliance manager was positioned to report on compliance practices, while the finance manager was positioned to provide financial and organisational information. Using two respondents also reduced dependence on a single individual's perception of the organisation. Because the inferential model was specified at entity level, usable analysis required paired responses that could be aggregated after agreement had been established. This distinction between respondent-level data collection and entity-level inference was maintained throughout the analysis to avoid treating two respondents from one organisation as independent institutional observations (Podsakoff et al. 2003).

Primary data on the four independent variables were collected using a structured questionnaire of 34 items measured on a five-point Likert scale, with the finance manager completing the financial performance section and the risk or compliance manager completing the compliance sections. Secondary data on financial performance were extracted from the audited financial statements of the entities for 2021 to 2025 using a structured data collection matrix. The five annual Net Operating Surplus Ratio values obtained for each entity were averaged into a single composite score, so that the series was collapsed into one value per entity and the dataset submitted to inferential analysis was cross-sectional in structure.

The use of both primary and secondary data separated the measurement of compliance practices from the principal financial outcome. Questionnaire items captured the extent to which the four compliance dimensions were implemented, whereas audited statements supplied the Net Operating Surplus Ratio. For each entity, the annual ratios from 2021 to 2025 were averaged to obtain a single composite value. This procedure reduced the influence of one unusually strong or weak year and produced an outcome aligned with the entity-level cross-sectional model. It also addressed the methodological gap identified in the literature by avoiding exclusive reliance on managers' perceptions of financial performance. The perceptual financial items were retained for descriptive comparison, but the audited composite ratio was used as the dependent variable in correlation and regression analysis.

Content validity was assessed through expert review and returned a Content Validity Index of 0.91, indicating strong agreement on item relevance. Internal consistency was assessed using

Cronbach's Alpha on pilot data. Because the responses of the two informants in each entity were aggregated into a single organisational score, inter-rater reliability was established before aggregation using the intraclass correlation coefficients ICC (1) and ICC (2) and the within-group agreement index rwg. Following LeBreton and Senter (2008), and rwg value of 0.70 and above indicates acceptable within-group agreement, an ICC (1) value of 0.05 and above indicates a meaningful group effect, and an ICC (2) value approaching or exceeding 0.60 indicates that aggregated group means are reliable. The results are presented in Table 1.

Aggregation was undertaken only after the agreement statistics supported the treatment of the paired responses as representing a shared organisational condition. Cronbach's Alpha addressed internal consistency of the scales, while rwg assessed within-entity agreement and the intraclass correlations assessed the extent to which responses were attributable to entity membership. This sequence was necessary because reliability of questionnaire items alone does not establish that two informants may legitimately be combined into one organisational score. The resulting agreement statistics therefore served a methodological function beyond conventional scale reliability: they justified the transition from the individual unit of observation to the commercial GOE as the unit of analysis (LeBreton and Senter 2008).

Table 1: Reliability and Inter-Rater Agreement Statistics

Construct	Items	Cronbach's α	ICC(1)	ICC(2)	Mean rwg
Regulatory compliance	7	0.841	0.412	0.583	0.84
Compliance monitoring	6	0.827	0.438	0.609	0.86
Internal control systems	7	0.869	0.451	0.622	0.87
Compliance training	7	0.854	0.396	0.567	0.82
Financial performance (perceptual)	7	0.812	0.427	0.598	0.83
Overall instrument	34	0.883			

Pilot and Field Data (2026). Criteria: $\alpha \geq 0.70$; $\text{rwg} \geq 0.70$; $\text{ICC}(1) \geq 0.05$; $\text{ICC}(2)$ approaching 0.60.

All five constructs returned Alpha coefficients above 0.70 and the overall instrument returned 0.883, confirming internal consistency. The mean rwg values ranged from 0.82 to 0.87 and the ICC(1) values from 0.396 to 0.451, substantially exceeding their thresholds, while ICC(2) values ranged from 0.567 to 0.622. The responses of the two informants in each entity were therefore averaged into a single institutional score for each variable.

Data were analyzed using SPSS version 27. Descriptive statistics summarised compliance risk management practices, Pearson correlation established the strength and direction of bivariate

relationships, and multiple linear regression estimated the individual and combined influence of the four dimensions while controlling for sector. The model was specified as:

$$FP = \beta_0 + \beta_1 RC + \beta_2 CM + \beta_3 ICS + \beta_4 CT + \beta_5 SECTOR + \varepsilon$$

where FP is financial performance measured by the composite Net Operating Surplus Ratio, RC is regulatory compliance, CM is compliance monitoring, ICS is internal control systems, CT is compliance training and SECTOR is a dummy variable controlling for sectoral heterogeneity across the entities. Because the entities operate across agriculture, energy, financial services, hospitality, transport, manufacturing, education and media, sector was introduced as a control with financial services as the reference category to isolate the influence of compliance risk management more accurately (Hair et al. 2019). Diagnostic tests covered normality, multicollinearity, homoscedasticity and linearity. Ethical approval and research permits were obtained from the university and NACOSTI, participation was voluntary and anonymous, and secondary financial data were drawn from published audited statements.

4. Results

Response Rate and Respondent Characteristics

Of the 102 questionnaires distributed, 91 were correctly completed and returned, giving a response rate of 89.2 per cent, and 46 entities returned complete paired responses that formed the entity-level dataset used in the inferential analysis. The 46 institutional observations satisfied the minimum ratio of ten observations per predictor recommended by Hair et al. (2019). The characteristics of the 91 respondents are summarised in Table 2.

Table 2: Demographic Characteristics of the Respondents

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	54	59.3
	Female	37	40.7
Age bracket	Below 30 years	6	6.6
	31 to 40 years	33	36.3
	41 to 50 years	38	41.7
	Above 50 years	14	15.4
Level of education	Diploma	4	4.4
	Bachelor's degree	36	39.6
	Master's degree	45	49.5
	Doctorate	6	6.6
Current position	Finance manager	47	51.6
	Risk or compliance manager	44	48.4
Years of experience	Below 5 years	17	18.7
	5 to 10 years	43	47.3
	Above 10 years	31	34.1

Field Data (2026). n = 91.

The respondents were predominantly male at 59.3 per cent, and 78.0 per cent were aged between 31 and 50 years. On qualifications, 95.7 per cent held a university degree, with 49.5 per cent holding a master's degree. The sample was almost evenly divided between the two informant categories, confirming that the dual-informant design was substantially achieved, and 81.4 per cent of respondents had at least five years of experience in their current role. The respondents were therefore sufficiently qualified and experienced to provide reliable information on the compliance and financial practices of their entities.

The distinction between the 91 respondents and the 46 institutional observations is important for interpreting the findings. Demographic statistics describe the individuals who supplied information, while correlations, diagnostics and regression estimates are based on the paired and aggregated entity-level dataset. The near balance between finance and risk or compliance respondents supported the intended dual-informant design, and the high level of education and role experience increased the likelihood that respondents understood the financial and compliance processes on which they reported. More importantly, the 46 complete entity pairs ensured that each inferential observation represented one commercial GOE rather than one manager, preserving alignment between the unit of analysis and the research objectives.

Descriptive Statistics

Responses were recorded on a five-point Likert scale and mean scores were interpreted as follows: 1.00 to 1.80 strong disagreement, 1.81 to 2.60 disagreement, 2.61 to 3.40 a neutral or moderate position, 3.41 to 4.20 agreement and 4.21 to 5.00 strong agreement. The construct level results are presented in Table 3.

Table 3: Descriptive Statistics for the Study Variables

Variable	Items	Mean	SD	Interpretation
Regulatory compliance	7	3.89	0.78	Agreement
Compliance monitoring	6	3.74	0.82	Agreement
Internal control systems	7	3.90	0.77	Agreement
Compliance training	7	3.55	0.90	Agreement
Financial performance (perceptual)	7	3.14	1.05	Neutral

Field Data (2026). n = 91. Scale: 1 = strongly disagree to 5 = strongly agree.

Internal control systems recorded the highest overall mean at 3.90 (SD = 0.77), followed closely by regulatory compliance at 3.89 (SD = 0.78), compliance monitoring at 3.74 (SD = 0.82) and compliance training at 3.55 (SD = 0.90). The item level pattern within each construct is more instructive than the construct means themselves. Within regulatory compliance, the highest-rated item was the holding of all required operational licenses at 4.31 and the lowest was the avoidance of regulatory penalties in the preceding three years at 3.28, with prompt remediation of detected non-compliance at 3.64. Entities therefore perform well on the procedural dimensions of compliance but markedly less well on the substantive dimensions of remediation and the avoidance of sanctions.

Within compliance monitoring, the existence of a formal monitoring framework recorded 3.98 and the regular submission of compliance reports to management 3.94, while the early detection of non-compliance recorded the lowest mean at 3.41 and the comprehensiveness of framework coverage 3.59. Monitoring structures therefore exist but function reactively rather than as an early warning mechanism.

Within internal control systems, the prevention of unauthorized access to financial resources recorded 4.16 and the contribution of controls to reporting accuracy 4.09, while the implementation of audit recommendations within the required timelines recorded the weakest mean at 3.52. Controls are therefore effective at the point of transaction but lose momentum at the remediation stage. Within compliance training, the formal recording of attendance recorded 3.87 while the updating of training content recorded 3.29, the regularity of training 3.34 and demonstrated improvement in understanding 3.46, all within the neutral band, indicating that

entities document that training occurred more reliably than they ensure that it is regular, current and effective.

The perceptual measure of financial performance recorded an overall mean of 3.14, within the neutral band and markedly below all four compliance dimensions, with the manageability of financial liabilities recording 2.96 within the disagreement band. The objective measure computed from the audited financial statements is presented in Table 4.

Table 4: Descriptive Statistics for the Net Operating Surplus Ratio (2021 to 2025)

Variable	N	Minimum	Maximum	Mean	SD
NOSR 2021	46	-0.412	0.286	0.024	0.148
NOSR 2022	46	-0.386	0.301	0.031	0.142
NOSR 2023	46	-0.427	0.318	0.019	0.156
NOSR 2024	46	-0.398	0.324	0.038	0.151
NOSR 2025	46	-0.361	0.339	0.047	0.145
Composite NOSR (5-year mean)	46	-0.372	0.302	0.032	0.139

Audited Financial Statements (2021 to 2025).

The composite Net Operating Surplus Ratio averaged 0.032, indicating that on average the entities generated an operating surplus equivalent to only 3.2 per cent of total revenue. The range extended from negative 0.372 to 0.302 with a standard deviation of 0.139, confirming substantial dispersion. The annual means show a modest upward trend from 0.024 in 2021 to 0.047 in 2025 with a dip to 0.019 in 2023. Examination of the distribution established that 26 of the 46 entities, or 56.5 per cent, recorded a negative composite ratio over the period, which corroborates the reported underperformance of approximately 60 per cent of commercial GOEs.

The objective financial results therefore present a more cautious picture than the relatively favorable compliance practice means. All four compliance dimensions recorded construct means above 3.50, yet the five-year composite NOSR was only 0.032 and more than half of the entities recorded a negative ratio. This divergence indicates that the existence of compliance structures does not by itself guarantee strong financial outcomes. It also strengthens the rationale for the multivariate analysis, which tests whether variation in the quality of particular compliance dimensions explains variation in audited performance after the dimensions are considered together. The annual pattern, with improvement after the 2023 dip, further suggests that a multi-year average is preferable to relying on a single reporting period when comparing entities with substantially different financial trajectories.

Correlation Analysis

Pearson product-moment correlation analysis was conducted at entity level using the 46 institutional observations, and coefficients were interpreted using the guidelines of Cohen (1988). The results are presented in Table 5.

Table 5: Correlation Matrix

Variable	FP	RC	CM	ICS	CT
Financial performance (FP)	1				
Regulatory compliance (RC)	.562*	1			
Compliance monitoring (CM)	.497*	.468*	1		
Internal control systems (ICS)	.618*	.512*	.534*	1	
Compliance training (CT)	.401*	.386*	.412*	.447*	1

Field Data (2026). * Correlation significant at the 0.05 level (2-tailed). n = 46.

All four dimensions recorded positive and statistically significant correlations with financial performance. Internal control systems recorded the strongest correlation at 0.618, followed by regulatory compliance at 0.562, compliance monitoring at 0.497 and compliance training at 0.401. The ordering of these correlations mirrors the ordering of the descriptive means, suggesting that the dimension least well developed in practice is also the dimension least strongly associated with financial outcomes. Inter-correlations among the independent variables ranged from 0.386 to 0.534, well below the 0.80 threshold that would signal a multicollinearity concern.

Regression Analysis

Multiple linear regression was conducted to determine the combined and individual influence of the four dimensions on financial performance, controlling for sector. The model summary and analysis of variance are presented in Table 6.

Table 6: Model Summary and Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Model summary: R = 0.741; R² = 0.549; Adjusted R² = 0.492; Std. Error of the Estimate = 0.0991					
Regression	0.4712	5	0.09424	9.594	0.000
Residual	0.3929	40	0.00982		
Total	0.8641	45			

Dependent variable: financial performance (composite NOSR). Predictors: (Constant), regulatory compliance, compliance monitoring, internal control systems, compliance training, sector.

The model returned a coefficient of correlation of 0.741 and a coefficient of determination of 0.549, indicating that the four dimensions together with the sector control jointly explained 54.9 per cent of the variation in financial performance. The adjusted value of 0.492 confirms that this explanatory power is not an artefact of the number of predictors relative to the 46 observations. The model was statistically significant with an F-statistic of 9.594 and a significance value of 0.000, confirming that the four dimensions taken jointly were significant predictors of financial performance. The individual coefficients are presented in Table 7.

Table 7: Regression Coefficients

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	-0.386	0.128		-3.016	0.004
Regulatory compliance	0.062	0.024	0.317	2.583	0.014
Compliance monitoring	0.041	0.023	0.216	1.783	0.082
Internal control systems	0.079	0.026	0.394	3.038	0.004
Compliance training	0.028	0.021	0.158	1.333	0.190
Sector (dummy)	0.019	0.017	0.121	1.118	0.270

Dependent variable: financial performance (composite NOSR). n = 46.

Two of the four dimensions returned positive and statistically significant coefficients. Internal control systems exerted the strongest influence, with a coefficient of 0.079 ($\beta = 0.394$, $t = 3.038$, $p = 0.004$), implying that a one-unit improvement in internal control is associated with an increase of 0.079 in the Net Operating Surplus Ratio while holding the other dimensions constant. Regulatory compliance followed with a coefficient of 0.062 ($\beta = 0.317$, $t = 2.583$, $p = 0.014$).

Compliance monitoring returned a positive coefficient of 0.041 ($\beta = 0.216$, $p = 0.082$) which, while approaching conventional significance, did not attain the 0.05 threshold, and compliance training returned 0.028 ($\beta = 0.158$, $p = 0.190$). The sector control was not statistically significant ($p = 0.270$), indicating that sectoral heterogeneity does not account for the variation in financial performance across the entities. The diagnostic tests conducted prior to estimation are summarised in Table 8.

Table 8: Summary of Diagnostic Test Results

Assumption	Test	Result	Decision
Normality of residuals	Shapiro-Wilk	$W = 0.983, p = 0.583$	Satisfied
Normality of variables	Skewness and kurtosis	-0.348 to 0.297	Satisfied
Multicollinearity	Tolerance and VIF	Tolerance 0.508 to 0.786; VIF 1.272 to 1.969	Not a concern
Homoscedasticity	Breusch-Pagan	$\chi^2 = 7.412, df = 5, p = 0.192$	Satisfied
Linearity	ANOVA test for linearity	$F = 9.634 \text{ to } 23.891, p \leq 0.003$	Satisfied

Field Data and Audited Financial Statements (2026). Decision rules: normality and homoscedasticity assumed where $p > 0.05$; linearity where $p < 0.05$; multicollinearity not a concern where tolerance > 0.10 and VIF < 10 .

All four assumptions underlying multiple linear regression were satisfied, confirming that the estimates reported above are efficient and that the standard errors are reliable. The results of the hypothesis tests are summarised in Table 9.

Table 9: Summary of Hypotheses Testing

Hypothesis	Test Result	Decision
H ₀₁ : Regulatory compliance has no statistically significant influence on financial performance	$\beta = 0.317, p = 0.014$	Rejected
H ₀₂ : Compliance monitoring has no statistically significant influence on financial performance	$\beta = 0.216, p = 0.082$	Not rejected
H ₀₃ : Internal control systems have no statistically significant influence on financial performance	$\beta = 0.394, p = 0.004$	Rejected
H ₀₄ : Compliance training has no statistically significant influence on financial performance	$\beta = 0.158, p = 0.190$	Not rejected

Decision rule: reject H₀ where $p < 0.05$. Dependent variable: financial performance (composite NOSR).

Two of the four null hypotheses were rejected at the 0.05 level. Compliance risk management therefore significantly influences the financial performance of commercial GOEs in Kenya, but this influence is concentrated in the structural dimensions of internal control systems and regulatory compliance rather than in the procedural and developmental dimensions of monitoring and training.

Discussion

Regulatory Compliance and Financial Performance

The positive and statistically significant influence of regulatory compliance is consistent with evidence that robust compliance frameworks reduce exposure to fines, reporting failures and financial instability (Cohen et al. 2022; Akinsola 2025). It also supports African evidence linking weak compliance to poor financial performance in public enterprises (Efunniyi et al. 2024) and Kenyan evidence connecting ineffective compliance systems with financial mismanagement (Murithi et al. 2020). The present study extends this literature by using an audited outcome and showing that a one-unit improvement in regulatory compliance is associated with a 0.062 increase in the Net Operating Surplus Ratio, holding other dimensions constant. The result indicates that, at prevailing compliance levels, resources preserved through timely adherence and avoidance of regulatory disruption outweigh the associated compliance costs.

Theoretically, the finding supports stakeholder theory (Freeman 1984; Donaldson and Preston 1995), because organisations that meet legitimate regulatory and public expectations protect the institutional trust required for long-term viability. For commercial GOEs, regulatory compliance is central to maintaining legitimacy with the National Treasury, oversight bodies and citizens. The OECD (2020) similarly treats regulatory adherence as a foundation of responsible state ownership. The result is also consistent with agency theory because external requirements constrain managerial discretion and reduce opportunities for conduct that diverges from the interests of the state as principal (Eisenhardt 1989).

The practical mechanism is also consistent with the descriptive results. Entities reported strong performance on formal licensing and statutory requirements but weaker performance on remediation and avoidance of penalties. This implies that the financially relevant margin is not simply whether a compliance framework exists, but whether detected breaches are closed before they generate sanctions, disruption or repeated control failures. The significant regulatory coefficient therefore supports a shift from compliance as documentation toward compliance as loss prevention. In a commercial public entity, this is especially important because regulatory costs ultimately reduce resources available for service delivery, investment and the operating surplus expected from the entity's commercial mandate (Akinsola 2025; Efunniyi et al. 2024).

Compliance Monitoring and Financial Performance

Compliance monitoring did not exert a statistically significant independent influence despite its significant bivariate correlation with financial performance. This partly contrasts with East African evidence that monitoring improves transparency and reduces irregularities (Lagat et al. 2025), but it is consistent with findings that governance compliance may improve without a direct financial effect (Njenga and Warui 2023). The African Development Bank (2021) likewise observes that

oversight structures may exist formally without generating equivalent financial outcomes. The descriptive results help explain the pattern: formal monitoring frameworks were widely reported, yet early detection of non-compliance was the weakest monitoring item. Monitoring that documents problems after they occur may support accountability without preventing financial loss, so its contribution is likely realized through the control and enforcement mechanisms that act on its findings.

Theoretically, this provides a qualified reading of dynamic capabilities theory (Teece et al. 1997; Eisenhardt and Martin 2000). The sensing capability represented by monitoring is present, but it is not consistently coupled with the seizing and reconfiguring processes required to convert detection into financial outcomes. The value of a dynamic capability therefore depends on the organisational processes through which it is exercised (Wilden et al. 2023). This is consistent with evidence that monitoring and internal audit contribute most when management acts on the information produced (Lenz and Hahn 2023). Monitoring is therefore necessary, but not sufficient, for improved financial performance.

The difference between the significant correlation and the non-significant regression coefficient further indicates shared explanatory space among the compliance dimensions. Monitoring is positively related to performance when considered alone, but part of that relationship overlaps with internal control and regulatory compliance when the four predictors enter the model together. This is substantively plausible because monitoring produces information, while controls and regulatory action determine what happens to that information. The result should therefore not be interpreted as evidence that monitoring has no value. Rather, it indicates that monitoring does not add a sufficiently large independent contribution to audited surplus once the structural mechanisms through which its findings are implemented are already represented in the model.

Internal Control Systems and Financial Performance

Internal control systems exerted the strongest influence of the four dimensions. This is consistent with evidence that weak internal controls contribute to poor financial performance and irregularities in African public entities (African Development Bank 2021; Efunniyi et al. 2024) and with evidence from state-owned enterprises that stronger controls can reduce agency-related losses (Chen et al. 2016). Within Kenya, the result also corroborates studies linking audit structures and internal controls with stronger accountability and performance (Chelangat 2024; Ongonge and Okiro 2024). The item-level pattern is especially important: preventive controls were strong, but timely implementation of audit recommendations was the weakest area. Since internal control carried the largest regression coefficient, delayed remediation represents the most financially material correctable deficiency identified by the study. The result also supports the view that controls create value through effective application rather than formal existence alone (Nguyen et al. 2023; Nurfadila 2024).

Theoretically, the result strongly supports agency theory (Jensen and Meckling 1976). In commercial GOEs, state ownership is separated from managerial control, creating information asymmetry and scope for agency costs. The emergence of internal control as the strongest predictor of net operating surplus is therefore consistent with the role of control mechanisms in constraining managerial discretion and protecting the principal's resources (Eisenhardt 1989; Chen et al. 2016). The finding also reinforces the proposition that control, risk assessment and monitoring operate as an integrated system whose financial effectiveness depends on whether identified weaknesses are remediated (Lenz and Hahn 2023).

The dominance of internal control also has a direct financial logic. Controls operate close to the transactions that determine revenue, expenditure, asset protection and reporting accuracy. Weaknesses in authorisation, segregation of duties, reconciliation or remediation can therefore affect the operating surplus more immediately than training or monitoring, whose effects depend on subsequent organisational action. The descriptive weakness in timely implementation of audit recommendations is consequently important because it occurs at the point where identified risk should be converted into corrective action. Strengthening this stage is likely to produce benefits not only within the control construct itself but also by improving the effectiveness of monitoring information and regulatory compliance processes that depend on management response (Chen et al. 2016; Lenz and Hahn 2023).

Compliance Training and Financial Performance

Compliance training did not exert a statistically significant independent influence. The descriptive evidence provides a plausible explanation: training was relatively infrequent, content was not consistently updated, and demonstrated improvement in understanding was weaker than formal attendance recording. This pattern suggests a documentary approach rather than sustained capability development. The result is consistent with evidence that poorly designed or misaligned programmes may fail to generate measurable financial returns (Friday et al. 2022) and that compliance capability contributes only when embedded in operational practice (Kuola and Obasan 2025). It also qualifies broader evidence on the value of compliance systems and training (Lenz and Hahn 2023; Moodie and Wheelahan 2023): the issue is not the absence of a training mechanism, but the insufficient intensity and transfer needed for that mechanism to affect audited financial outcomes.

Theoretically, the finding offers a conditional reading of human capital theory (Becker 1964). The theory predicts returns where organisations make genuine investments in knowledge and capability. The present evidence indicates that the training delivered was not sufficiently regular, current or demonstrably transferred into practice to produce an independent financial effect. This interpretation is consistent with evidence that returns to training depend on workplace transfer (Jacobs and Park 2020). The significant bivariate correlation of 0.401 nevertheless shows that

entities with stronger training practices tended to record better financial outcomes; the regression indicates that this relationship is not independent of the compliance and control structures through which trained employees operate.

5. Conclusions and Recommendations

Conclusion

On the first objective, the study concludes that regulatory compliance significantly enhances the financial performance of commercial GOEs in Kenya, since entities that hold valid licences, report on time and avoid sanctions preserve resources otherwise lost to penalties and interrupted operations. Compliance is presently stronger on its procedural than its substantive dimensions, and it is at remediation and sanction that failures become financial loss.

On the second objective, compliance monitoring as currently practised does not exert an independent influence on financial performance once the other dimensions are controlled for. This is not to say monitoring is unimportant, given its significant bivariate correlation, but that its contribution is absorbed by the internal control and regulatory compliance functions on which it acts, and that monitoring operates reactively rather than preventively.

On the third objective, internal control systems are the most financially consequential dimension. Because the Net Operating Surplus Ratio is directly sensitive to leakage, misappropriation, procurement irregularity and reporting error, controls act on the cost side of the surplus equation while the other dimensions act indirectly. They are stronger at the preventive than the corrective stage, and the failure to implement audit recommendations on time is the most material remediable deficiency identified.

On the fourth objective, compliance training does not exert an independent and statistically significant influence within the study period. This is attributed not to the relationship between capability and performance but to the character of the training delivered, which the evidence establishes to be infrequent, rarely updated and weakly translated into demonstrated understanding, and which cannot generate a measurable financial return.

Overall, the study demonstrates that compliance risk management matters financially, but its dimensions are not equally consequential. The strongest effects arise where compliance is embedded in structural mechanisms that prevent loss and constrain the use of resources. This distinction is significant for public enterprise reform because it directs attention from the mere presence of policies, monitoring reports and training records to the quality of implementation, remediation and control action that can be linked to audited financial outcomes.

Recommendations

On regulatory compliance, management should sustain performance on licensing and statutory reporting while addressing the substantive dimensions where performance was weakest. Entities should adopt formal remediation protocols with named responsibility and binding timelines for closing every detected breach, and the National Treasury and the State Corporations Advisory Committee should require disclosure of all regulatory penalties in annual performance reports.

On compliance monitoring, entities should reorient monitoring from reporting to detection, defining forward-looking indicators and escalation thresholds that trigger attention before an obligation is breached. Framework coverage should extend to all applicable obligations, and every monitoring finding should be routed into a control remediation workstream with an assigned owner, since monitoring realizes its value through the internal control function.

On internal control systems, which warrant the highest priority, entities should maintain their preventive controls while concentrating effort on the implementation of audit recommendations. A formal tracking register should be reviewed at each audit and risk committee meeting, boards should build the implementation rate into the appraisal of the chief executive and the finance function, and the National Treasury should make closure rates an explicit performance contract indicator.

On compliance training, entities should restructure training from a documentary exercise into a capability-building intervention delivered on a regular cycle and updated whenever material regulatory change occurs. Effectiveness should be assessed through post-training evaluation and knowledge testing rather than attendance records, and the Kenya School of Government and the State Corporations Advisory Committee should develop a standardised curriculum for the finance and risk functions.

For policy, because the sector control was not significant, underperformance is a function of compliance and control practice rather than sectoral circumstance, and oversight should be directed at the practices of individual entities. The National Treasury and the State Corporations Advisory Committee should develop a composite compliance risk management index weighted to the financial materiality of the four dimensions and use it to guide oversight and the conditions attaching to exchequer support.

Limitations and Areas for Further Research

The requirement that both informants return usable questionnaires reduced the dataset to 46 entity-level observations, which limits the power to detect small effects, so the non-significant results for monitoring and training indicate the absence of a strong independent effect rather than of any effect. The scope excludes non-commercial entities, the independent variables were measured perceptually, and the cross-sectional design does not permit causal attribution. Larger datasets,

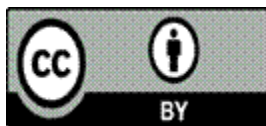
whether pooled multi-year observations or the inclusion of non-commercial entities, should re-examine whether monitoring and training exert independent influences. Longitudinal designs should establish causation and lag, structural equation modelling should test whether internal control mediates the effects of monitoring and training, and mixed methods enquiry would help explain why audit recommendations are accepted but inconsistently implemented.

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