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SCHOOL OF BUSINESS AND ECONOMICS

COMPLIANCE RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL GOVERNMENT-OWNED ENTITIES IN KENYA

BY

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A Thesis Submitted in Partial Fulfilment of the Requirements for the Degree of Master of Business Administration (Finance)

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DECLARATION

I, the undersigned, declare that this thesis is my original work and that it has not been presented in any other university or institution for academic credit.

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DEDICATION

This thesis is dedicated to my wife, Leah Jerotich Kibor, for her continuous support, encouragement, and understanding throughout my academic journey. Her moral support and patience has been instrumental in enabling me to pursue my studies.

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ACRONYMS

ANOVA Analysis of Variance

COSO Committee of Sponsoring Organizations of the Treadway Commission

CRM Compliance Risk Management

CVI Content Validity Index

GOEs Government-Owned Entities

ICC Intraclass Correlation Coefficient

NACOSTI National Commission for Science, Technology and Innovation

NOSR Net Operating Surplus Ratio

OECD Organisation for Economic Co-operation and Development

rwg Within-Group Interrater Agreement Index

SCAC State Corporations Advisory Committee

SPSS Statistical Package for the Social Sciences

VIF Variance Inflation Factor

OPERATIONAL DEFINITION OF TERMS

Commercial Government-Owned Entities: Government-owned entities that are mandated to generate revenue and operate profitably in strategic economic sectors. Unlike purely service-oriented or regulatory GOEs, commercial GOEs are expected to achieve financial self-sustainability with minimal reliance on government support.

Compliance Monitoring: Compliance monitoring refers to the extent to which Government-Owned Entities regularly track and evaluate adherence to regulatory requirements.

Compliance Risk Management (CRM): Compliance risk management refers to the structured approaches adopted by Government-Owned Entities to identify, assess, and mitigate risks arising from non-compliance with regulatory and internal requirements.

Compliance Training: Compliance training refers to the organized efforts by Government-Owned Entities to enhance employees' understanding of regulatory requirements.

Financial Performance: Financial performance refers to the ability of Government-Owned Entities to efficiently utilize financial resources to achieve sustainability. It was measured using the Net Operating Surplus Ratio (NOSR).

Government-Owned Entities (GOEs): Government-Owned Entities refer to organizations in which the government holds a majority or full ownership stake and which are established to deliver public mandates across a broad range of functions, including regulatory, social, developmental, and commercial activities.

Internal Control Systems: Internal control systems refer to the mechanisms established by Government-Owned Entities to ensure accountability and safeguard resources.

Net Operating Surplus Ratio (NOSR): Net Operating Surplus Ratio refers to the proportion of operating surplus relative to total revenue of Government-

Owned Entities. It was measured using financial reports to determine the entity's ability to cover operational costs and sustain operations.

Regulatory Compliance: Regulatory compliance refers to the degree to which Government-Owned Entities adhere to legal and regulatory requirements.

ABSTRACT

Commercial government-owned entities in Kenya are mandated to generate revenue and use public resources efficiently, yet about 60% of them continue to record poor financial results. This study determined the influence of compliance risk management on the financial performance of commercial government-owned entities in Kenya, focusing on regulatory compliance, compliance monitoring, internal control systems and compliance training. It was anchored on stakeholder, dynamic capabilities, agency and human capital theories. A positivist philosophy and a descriptive correlational design were adopted, with a census of all 51 commercial government-owned entities targeting the finance manager and the risk or compliance manager in each. Primary data were collected through structured questionnaires, while audited financial statements for 2021 to 2025 provided a composite net operating surplus ratio. Data were analyzed using descriptive statistics, correlation and multiple linear regression. The model explained 54.9 percent of the variation in financial performance. Internal control systems and regulatory compliance had a positive and significant influence, while compliance monitoring and compliance training were positive but not significant. The study recommends timely implementation of audit recommendations, prompt remediation of regulatory breaches, monitoring that emphasises early detection, and compliance training assessed on demonstrated understanding.

CHAPTER ONE

INTRODUCTION TO THE STUDY

1.1 Background to the Study

Financial performance is widely regarded as a critical indicator of an organization's operational effectiveness, strategic soundness, and long-term sustainability (Tudose et al., 2022). It reflects how well an organisation is able to generate returns from its resources, to pay its debts and to be stable over time (Nguyen et al., 2023). Financial performance is one of the most important indicators used to assess the efficiency of resource utilization and organizational goals in both private and public sectors (Nurfadila, 2024). Financial performance is multidimensional, including profitability, operational efficiency, liquidity and financial risk management (Grossi et al., 2021). Although its importance for organizational success is undeniable, many commercial public entities are still experiencing financial underperformance, as evidenced by their decreasing operating surpluses and increasing financial liabilities, and there is a growing interest in understanding the factors of governance and management that influence or hinder financial performance (Cuervo-Cazurra et al., 2022).

Globally, financial performance of commercial government bodies has been a recurring problem in developed and developing countries of the world. State-owned enterprises in the United States have been subject to criticism for poor resource use and limited mechanisms of accountability that have hindered their financial sustainability (Cohen et al., 2022). Likewise, in China, a study found that the profitability of state-owned enterprises has decreased over time, which was largely due to the lack of governance and internal control (Cuervo-Cazurra et al., 2022). In Europe, OECD member countries have experienced repeated financial losses in public commercial companies, which has led to a broad governance reform initiative to enhance transparency and operational efficiency (OECD, 2022). The financial governance of public sector institutions is overall problematic in Brazil and India, and commercial public institutions are under greater financial obligations and with poor cost management (Grossi et al., 2021). All these patterns highlight the importance of studying institutional and management aspects that affect the financial results of commercial government-owned institutions on a global scale.

In Africa, the profitability of commercial GOEs has been a major issue, with many commercial GOEs facing continuous operational losses and increasing debt levels. The performance of commercial GOEs in Nigeria has been poor over the years, blamed on the lack of internal control, lack of regulatory compliance and poor governance (Efunniyi et al., 2024). The African Development Bank (2021) reports that there are significant financial irregularities and negative operating surpluses in public entities because of the inadequate oversight and accountability controls in South Africa. Increased financial responsibilities and underperforming operations of commercial public institutions have been reported in similar studies in Ghana and Rwanda, and are evidence of governance gaps in the system (Drogalas, Karagiorgos, et al., 2021). There are some common themes across the African continent, with financial performance issues being a major concern and an institutional/ compliance regime to support financial sustainability being essential.

In Kenya, there has been poor financial performance of Commercial Government-Owned Entities (GOEs) despite the fact that they are regulated and governed as part of the public sector. Many GOEs have been reporting negative operating surpluses over the last few years, which has been resulting in increased debt and requiring government bailouts (National Treasury Kenya, 2024; Office of the Auditor-General, 2024). Some entities have not met their financial goals, with total debts of KSh 1.19 trillion and the average net loss of around KSh 58.6 billion for the period 2022-2024 (National Treasury Kenya, 2024). The challenges have been linked to the governance and regulatory compliance and internal control problems in such institutions (Murithi et al., 2020). This background explains the need to understand the factors that impact on the financial performance of commercial GOEs in Kenya.

1.1.1 Financial Performance

Financial performance entails to the extent to which an organization effectively utilizes its financial resources to achieve its objectives and sustain its operations over time (Nguyen et al., 2023). It gives an idea as to the efficiency of the organization, financial stability, and ability to get satisfactory returns from the resources available. Different metrics have been used to assess the financial performance of scholars, depending on the organizational context. Financial performance can be measured through profitability ratios, efficiency indicators and financial stability indicators (Tudose et al., 2022). It is further a multidimensional phenomenon that extends beyond profitability

to liquidity, solvency and operational sustainability (Grossi et al., 2021). The financial performance in public sector organizations is not only about generating revenue, but also the efficient use of public resources and the sustainability of the institution in the long run (Nurfadila, 2024).

Financial performance becomes especially relevant in commercial government-owned organizations, as they have a dual role of revenue generation and national development goals (Cuervo-Cazurra et al., 2022). Commercial GOEs are evaluated on their profit-generating capacity as well as their capacity to deliver strategic services without being overly reliant on government funding, whereas purely private organizations (OECD, 2022) are not. Financial performance was evaluated in this study using the Net Operating Surplus Ratio (NOSR). NOSR is the ability of an entity to produce surplus from its activities to total revenue, which is related to the sustainability of activities (Nurfadila, 2024). This indicator gives a clear picture of the operational efficiency of a commercial GOE.

1.1.2 Compliance Risk Management

Compliance risk management involves the systematic processes and systems that organizations implement to ensure compliance with relevant laws, regulations, policies, and internal processes (Kuola & Obasan, 2025). It includes the identification, evaluation and management of risks that can occur if an organization does not fulfill its legal and regulatory responsibilities. Compliance risk management involves holding people accountable, adhering to ethical principles, and ensuring that the organization's activities are carried out in accordance with the law (Akinsola, 2025). With the requirement to adhere to regulatory guidelines, compliance risk management has emerged as a crucial element of corporate governance in contemporary organizations, as non-compliance can result in financial penalties, reputational harm, and loss of stakeholder trust (Drogalas, Arampatzis, et al., 2021). Organizations operating in complex regulatory settings are accordingly expected to establish robust compliance frameworks that regularly review and monitor compliance requirements and keep institutional practice consistent with prevailing legal and policy frameworks (Cohen et al., 2022).

Compliance risk management is of special significance in commercial government-owned entities because of the magnitude of public resources handled and the scope of

the expectations of stakeholders (Efunniyi et al., 2024). Institutional compliance mechanisms can help increase transparency, accountability, and reduce the likelihood of financial mismanagement or misuse of public funds. The compliance risk management is explored in the context of four organizational dimensions which facilitate regulatory compliance and accountability. These include regulatory compliance, which involves compliance with laws and regulatory requirements; compliance monitoring, which involves continuous review and evaluation of compliance activities; internal control systems, which involve mechanisms in place to protect resources and ensure accurate reporting; and compliance training, which involves structured programs designed to increase employee awareness and ability to comply with regulatory requirements (Lenz & Hahn, 2023). The four dimensions are the independent variable in this study, and are analyzed with reference to the financial performance of the commercial GOEs in Kenya.

Compliance risk management has become a key factor in financial performance, especially in companies with complex regulatory requirements, globally. Research in developed countries has shown that companies with strong compliance programs have better financial stability, fewer losses due to regulatory fines, and more efficient operations (Cohen et al., 2022). Compliance systems have been shown to have consistently positive financial impacts in the United States and United Kingdom, where firms invest in such systems (Lenz & Hahn, 2023). But others have argued that compliance can also adversely affect financial performance, as it can increase operating costs and empirical evidence of the direct and consistent relationship between compliance and financial performance has been mixed across different organizational contexts (Drogalas, Arampatzis, et al., 2021). The conflicting results highlight the importance of continuing the investigation of the compliance-performance relationship in a more context-specific manner.

The relationship between compliance risk management and financial performance is less well understood in Africa and the evidence is limited. The study conducted in Nigeria and South Africa suggests that improved compliance practices can foster improved governance and accountability within commercial public entities, while a few studies have demonstrated that improved compliance practices can result in improved financial outcomes (Efunniyi et al., 2024). In East Africa, research in Tanzania and Uganda suggests that compliance measures like audits and monitoring systems enhance

transparency and minimize financial irregularities in public institutions (Lagat et al., 2025). But these studies tend to be on governance outcomes instead of direct measures of financial performance, which means there is a lot of uncertainty about how much of an impact compliance practices have on actual financial outcomes (African Development Bank, 2021). This regional difference highlights the importance of empirical research that directly connects compliance risk management to financial performance measures.

Studies on compliance risk management in Kenya have focused mainly on regulatory compliance and institutional accountability in the public sector institutions and outcomes in financial performance have been less studied. While some evidence indicates that compliance mechanisms help to enhance governance, many commercial GOEs are still facing financial difficulties, such as increasing debt, poor efficiency and continued dependence on government support (National Treasury Kenya, 2024). Financial mismanagement, poor reporting and low efficiency in Kenyan public institutions have in turn been attributed to ineffective compliance systems (Murithi et al., 2020). Although there is a large volume of literature on governance and compliance in Kenya, there is still a great deal of empirical research that is needed to understand the direct impact of compliance risk management practices (regulatory compliance, compliance monitoring, internal control systems and compliance training) on the financial performance of commercial GOEs (Omondi & Muturi, 2021). This gap is the main motivation of the present study.

1.1.3 Commercial Government-Owned Entities in Kenya

Commercial GOEs in Kenya are commercial entities, either wholly or majority owned by the government and mandated to generate revenue and contribute to national economic development (National Treasury Kenya, 2024). Commercial GOEs are not only institutions publicly operated by the regulatory or service providers but must also be viable and profitable in key areas like transport, agriculture, housing, communication and infrastructure development. They exist in a legally defined structure provided for in the Public Finance Management Act and the State Corporations Act and are governed by a proper framework of governance, financial management principles and accountability principles (Omondi & Muturi, 2021). Oversight institutions, such as the National Treasury and State Corporations Advisory Committee (SCAC), are responsible to monitor their performance and ensure they are in compliance with

government policies. Currently Kenya has 51 commercial GOEs, some of which have been experiencing financial performance problems, weak internal controls and non-compliance with the regulatory requirements that are of concern to their financial sustainability in the longer term (National Treasury Kenya, 2024).

1.2 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 KSh 1.19 trillion and an average net loss of KSh 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 jeopardising 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.

1.3 Research Objectives

1.3.1 General Objective

The general objective of this study was to determine the influence of compliance risk management on the financial performance of commercial government-owned entities in Kenya**.**

1.3.2 Specific 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

1.4 Research Hypotheses

H_{01}: Regulatory compliance has no statistically significant influence on the financial performance of commercial government-owned entities in Kenya.

H02: Compliance monitoring has no statistically significant influence on the financial performance of commercial government-owned entities in Kenya.

H03: Internal control systems have no statistically significant influence on the financial performance of commercial government-owned entities in Kenya.

H04: Compliance training has no statistically significant influence on the financial performance of commercial government-owned entities in Kenya.

1.5 Justification of the Study

The study examined the relationship between compliance risk management and the financial performance of commercial government owned entities (GOEs) in Kenya, which has been a recurring problem in GOEs in Kenya due to inefficiencies, inadequate internal control and poor financial performance. The research leveraged empirical evidence to support commercial GOEs in strengthening their compliance frameworks

and improving financial sustainability and accountability by examining the role of regulatory compliance, internal controls, monitoring and training. The results also provide useful policy guidance to national bodies such as the National Treasury, SCAC, and the Auditor-General, and serve as a useful reference for compliance officers, auditors, and financial managers. The study added to the literature on compliance risk management, public sector governance and financial performance, as it creates a link between theory and practice in the context of developing economies.

1.6 Scope of the Study

The aim of this study was to review how the compliance risk management affects the financial performance of commercial GOEs in Kenya. The thematic scope is limited to four dimensions of compliance risk management: regulatory compliance; compliance monitoring; internal control systems; and compliance training and their impact on financial performance, which is measured by the Net Operating Surplus Ratio. The geographical range is all commercial GOEs throughout Kenya. The target population includes all the 51 commercial GOEs as identified by the National Treasury Kenya (2024) that are expected to be operational and able to generate revenue in strategic economic sectors. The entities were deliberately chosen because they are business-like, likely to become financially self-supporting and directly affected by compliance risk management frameworks, and therefore the most suitable institutional class for exploring the compliance-performance relationship. The study was conducted using a census method, the finance manager and risk/compliance manager from all the entities, giving 102 respondents. Financial statements for a five-year period (2021-2025) have been audited and analyzed for each entity in a longitudinal format.

1.7 Conceptual Framework

The conceptual framework presents the hypothesised relationship between compliance risk management and the financial performance of commercial GOEs in Kenya. Compliance risk management is the independent variable and is operationalised through four dimensions, presented in the order in which they are addressed by the specific objectives. Regulatory compliance is indicated by regulatory reporting timeliness, licensing compliance and regulatory penalty incidence. Compliance monitoring is indicated by monitoring framework coverage, non-compliance detection rate and internal audit frequency. Internal control systems are indicated by asset

protection, audit response and risk assessment. Compliance training is indicated by awareness programmes, training frequency and staff participation. Financial performance is the dependent variable and is measured by the Net Operating Surplus Ratio, which expresses operating surplus as a proportion of total revenue and therefore captures operational sustainability rather than short-term profitability. Each of the four dimensions is hypothesized to exert a direct influence on financial performance, and the four relationships are tested both individually and jointly. The framework is presented in Figure 1.1.

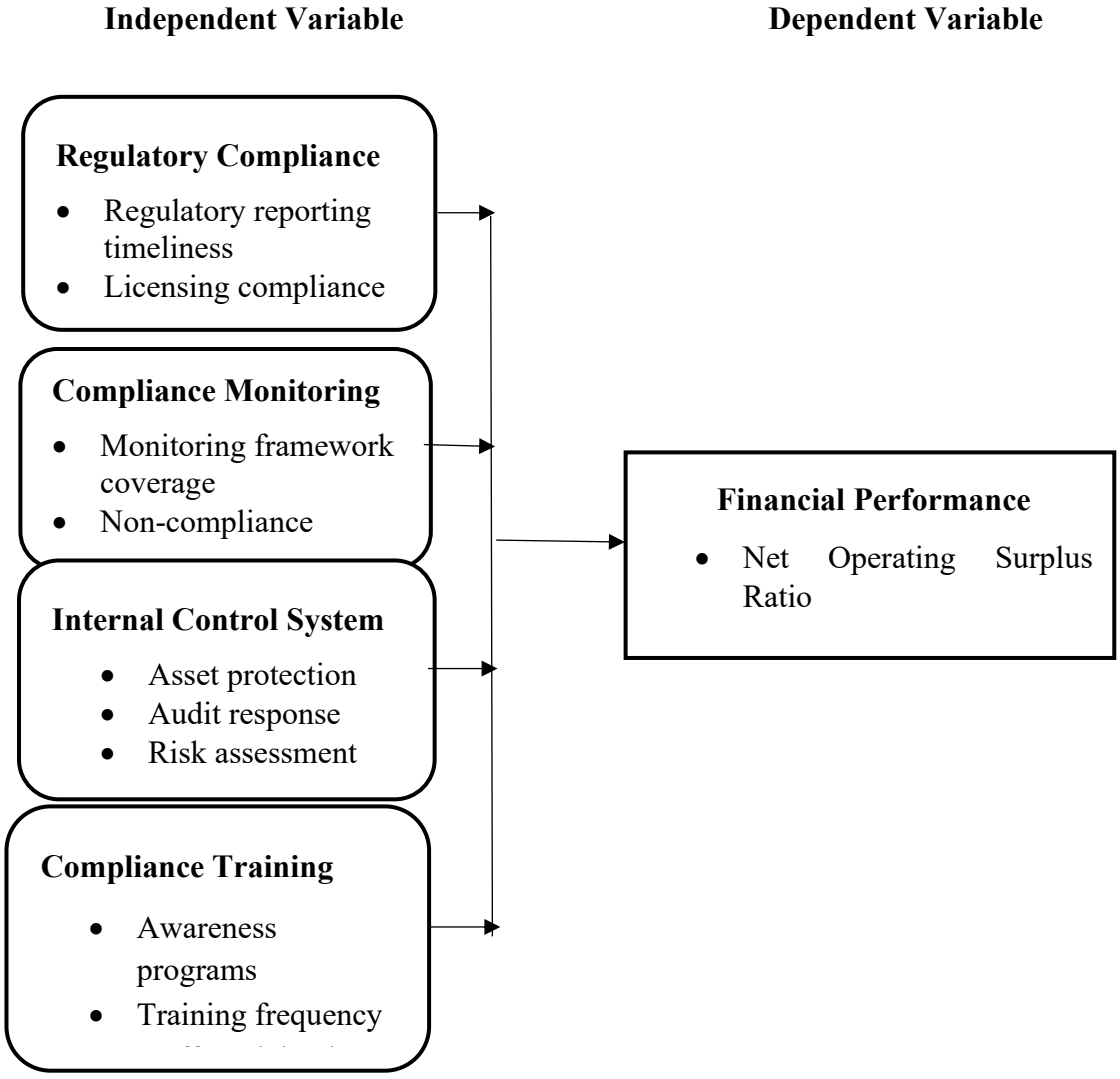


Figure 1.1: Conceptual Framework
Source: Researcher (2026)

As shown in Figure 1.1, the four dimensions of compliance risk management are modelled as parallel predictors of financial performance rather than as a sequential

chain, because each dimension is administered through distinct institutional arrangements within commercial GOEs (Kuola & Obasan, 2025). The framework therefore permits the individual contribution of each dimension to be estimated while the remaining dimensions are held constant, and it is on this basis that the four null hypotheses stated in Section 1.4 were formulated and subsequently tested.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is a literature review of existing literature. The review is divided into three sections. The first section is the theoretical framework which discusses the major theories underlying the study variables. The second section offers an empirical examination of previous research on the four dimensions of compliance risk management and its impact on financial performance, both globally and regionally as well as locally in Kenya. The third section summarizes the research gaps identified and shows how this study filled each gap, thus supporting the need for this investigation.

2.2 Theoretical Review

A theory is a collection of organized principles or ideas that explain the origin of a phenomenon, serve as a proven model to support existing concepts, make predictions about future events, and help to understand complex relationships (Fuhse, 2022). Theoretical frameworks are therefore important in setting research studies in the context of the existing knowledge, which allowed the relationship between the variables of the study to be explored in a logical and supported framework. Four theories were used to support this study, namely stakeholder theory, dynamic capabilities theory, agency theory, and human capital theory which together explain the relationship between compliance risk management and financial performance of commercial GOEs in Kenya.

2.2.1 Stakeholder Theory

The stakeholder theory was introduced by Freeman in 1984 and suggests that companies have to produce value for their shareholders and for all the stakeholders that are involved in or affected by their activities, such as employees, customers, suppliers, governments and communities (Freeman, 1984). The theory questions the limited interpretation of organizations' purpose that focuses on shareholders, suggesting that long-term organizational success requires balancing and meeting the needs of multiple stakeholder groups simultaneously. It believes that organizations which manage their relationships with all stakeholders in an ethical way, with inclusive decision making and mutual accountability will more likely achieve sustainable performance outcomes

(Donaldson & Preston, 1995). Later scholars have developed the theory and revealed its normative, descriptive and instrumental dimensions, which all contribute to the idea that stakeholder engagement is an ethical duty and a strategic need for organizations.

Inclusiveness, ethical management, co-creation of value, mutual accountability, and stakeholder trust are essential parts of sustainable organizational performance (Hörisch et al., 2022) and key principles of stakeholder theory. One of the main advantages of the theory is that it can be applied to a wide range of organizational settings, especially those in the public sector where there are multiple stakeholders to whom the organization is held accountable. The theory also offers a solid normative basis for analyzing governance and compliance processes because it states that the organization has to fulfill not only legal but also ethical responsibilities to its stakeholders (Freeman, 1984). The theory, however, has been criticized for its lack of specificity in prioritizing competing stakeholder interests, especially when there is a conflict between the demands of the stakeholders and the financial goals of the organization (Donaldson & Preston, 1995). Critics also argue that the theory does not offer much practical guidance on how organizations can deal with these conflicts in a context of limited resources.

The relationship between regulatory compliance and the financial performance of commercial GOEs in Kenya is guided by stakeholder theory. Compliance with regulatory standards helps commercial GOEs to satisfy the expectations of various stakeholders, such as government regulators, employees, citizens and investors, which contributes to institutional trust and legitimacy (Hörisch et al., 2022). Organizations that adhere to the rules and regulations of the law and governance standards will minimize the risk of legal penalties, financial irregularities, and reputational damage that have a negative impact on financial performance (Akinsola, 2025). On the other hand, non-compliance can cause stakeholder confidence to be lost, accountability to be weakened, and financial results to be negatively affected. Stakeholder theory therefore underpins the first specific objective of this study and informed the formulation of the first null hypothesis on the influence of regulatory compliance on the financial performance of commercial GOEs in Kenya.

2.2.2 Dynamic Capabilities Theory

Dynamic capabilities theory was proposed by Teece, Pisano and Shuen in 1997. It states that an organization's success in the long run is not just about having valuable resources,

but about the ability to integrate, build and reconfigure the internal and external competencies required to respond to the changing environment (Teece et al., 1997). The theory suggests that organizations in complex and dynamic regulatory environments need to continually monitor new opportunities and threats, capitalize on opportunities by strategically mobilizing resources and restructure organizational processes and capabilities to remain relevant and competitive. Dynamic capabilities theory is a more resource-based approach than static resource-based theory in that adaptability, learning and strategic flexibility are the key factors that contribute to sustained organizational performance (Eisenhardt & Martin, 2000). The theory thus places organizational responsiveness and continuous process improvement as key pillars to create resilience and long-term sustainability in complex institutional settings.

Dynamic capabilities theory focuses on three key elements: sensing opportunities and threats in the external environment, seizing opportunities by leveraging strategic resources, and reconfiguring organizational assets and processes to maintain performance over time (Wilden et al., 2023). The theory's greatest asset is its explicit recognition that the internal systems and processes of organizations need to continuously change in order to adapt to the changing regulatory and competitive environments, especially in the context of public sector institutions in dynamic governance environments. The theory also offers a solid basis for studying the potential for ongoing improvement of compliance monitoring systems to increase organizational accountability and performance (Eisenhardt & Martin, 2000). The theory, however, has been subjected to criticism because of its conceptual ambiguity; scholars have pointed out that dynamic capabilities are hard to measure and to operationalize empirically (Wilden et al., 2023). The theory is also criticized for its focus on strategic adaptation and inadequate consideration of constraints on organizational flexibility arising from resource limitations.

Dynamic capabilities theory provides the link between compliance monitoring and financial performance of commercial GOEs in Kenya. Organizations with high dynamic capabilities are more likely to be able to continuously sense the regulatory changes, incorporate compliance feedback, and adapt their monitoring systems in real-time, which improves institutional accountability and financial results (Wilden et al., 2023). Compliance monitoring refers to a strategic capability within commercial GOEs that allows them to identify irregularities early, implement accountability measures and

adjust governance processes to meet changing regulatory demands (Teece et al., 1997). Compliance monitoring systems that are reviewed and enhanced regularly help organizations to minimize the risk of financial mismanagement and regulatory penalties that can impact financial performance. Dynamic capabilities theory therefore underpins the second specific objective of this study and informed the formulation of the second null hypothesis on the influence of compliance monitoring on the financial performance of commercial GOEs in Kenya.

2.2.3 Agency Theory

Agency theory was developed by Jensen and Meckling in 1976 and posits that a fundamental conflict of interest exists between principals, who are owners or shareholders, and agents, who are managers entrusted to make decisions on their behalf (Jensen & Meckling, 1976). The theory states that this principal-agent relationship is information asymmetric, meaning that the agents have more information about the operations of the organization than the principals, which can lead to self-serving actions that can diverge from the principals' goals. These deviations result in agency costs such as monitoring costs, bonding costs, and residual losses, all of which contribute to the inefficiency and loss of financial performance of the organization (Eisenhardt, 1989). The theory thus puts a strong focus on the need for effective governance mechanisms such as performance-based incentives, reporting systems, and strong oversight structures to ensure that agents' interests are aligned with those of principals and that organizational management is accountable.

The fundamental principles of agency theory are: information asymmetry between principals and agents, the presence of agency costs due to goal misalignment and the need for governance and control mechanisms to ensure accountability and align organizational behavior with the principal goals (Fama, 1980). One of the major advantages of the theory is its practical use in the governance of organizations, especially in the public sector organizations where there is a clear distinction between ownership and management and the risk of resource misappropriation is very high. The theory provides a good analytical foundation to examine the effect of internal control systems in reducing agency conflicts and improving the financial performance of the organization (Jensen & Meckling, 1976). The theory has been criticized, however, for its overly rationalistic assumptions about human behavior, as scholars have pointed out that it ignores the influence of trust, intrinsic motivation, and institutional culture in

determining managerial behavior (Eisenhardt, 1989). One more criticism is that too much monitoring and control can lead to negative organizational relationships, which can negatively impact employee morale and productivity.

Agency theory is the guiding principle for the relationship between internal control systems and financial performance of commercial GOEs in Kenya. In commercial GOEs, the separation of ownership and management causes a major principal-agent conflict, in which managers can act in their own interests at the cost of the organization's financial goals (Jensen & Meckling, 1976). The internal control systems, including audit committees, financial reporting systems, risk assessment systems and performance contracts, are also crucial governance mechanisms that enable principals to monitor managerial actions, make managers accountable, and ensure that managerial actions are aligned with the organization's goals (Chen et al., 2016). Proper internal controls can help organizations to reduce financial mismanagement, improve financial reporting and make their operations more efficient, all of which can positively affect their financial performance. Agency theory therefore underpins the third specific objective of this study and informed the formulation of the third null hypothesis on the influence of internal control systems on the financial performance of commercial GOEs in Kenya.

2.2.4 Human Capital Theory

Human capital theory was developed by Gary Becker and Theodore Schultz in 1964 and posits that investments in employees' knowledge, skills, and abilities constitute a form of capital that generates measurable returns for both individuals and organizations (Becker, 1964). As with investments in physical capital (machinery and equipment) which boost organizational productivity, investments in human capital (education, training and professional development) boost individual competence and organizational productivity results. Organizations that make a conscious effort to develop their employees' skills are therefore more likely to be productive, innovative and efficient in their operations than those that do not invest in human capital development (Schultz, 1971). The theory also implies that the returns on human capital investments are long-term, meaning that the returns will increase over time as the individual applies the knowledge and skills acquired to improve processes, compliance and the overall effectiveness of the organization.

Human capital theory is a concept that human knowledge and skills are productive capital, the need for continuous learning and professional development, and the possibility of measurable organizational gains from investments in human capability building (Moodie & Wheelahan, 2023). One of the main advantages of the theory is that it acknowledges that the performance of an organization is largely dependent on the competence and capability of its workforce, which makes it especially applicable in the study of the effects of compliance training on institutional outcomes in commercial GOEs. The theory also offers a compelling justification for investing in regulatory compliance education: well-trained workers are more likely to grasp, apply, and follow the laws and governance practices that have been established (Jacobs & Park, 2020). The theory has been criticized, however, for its focus on economic returns on training investments and its neglect of the role of organizational culture, structural barriers and employee motivation in the effectiveness of training programs (Moodie & Wheelahan, 2023). Critics also contend that determining the exact monetary benefits of human capital investments is still a difficult task.

Human capital theory is relevant to the link between compliance training and financial performance of commercial GOEs in Kenya. Compliance training investments provide employees with knowledge and skills that help them to understand the regulatory requirements, accurately execute internal procedures, and reduce compliance risks that impact financial results (Jacobs & Park, 2020). Compliance training programs in commercial GOEs not only help employees understand the governance standards but also minimize errors, financial irregularities, and promote a culture of accountability and ethical conduct within the organization (Nkrumah et al., 2022). The more competent employees are in applying compliance knowledge, the more efficient the organization is in its operations, the more compliant the organization is, and the less vulnerable the organization is to financial penalties, the better the financial performance of the organization. Human capital theory therefore underpins the fourth specific objective of this study and informed the formulation of the fourth null hypothesis on the influence of compliance training on the financial performance of commercial GOEs in Kenya.

2.3 Empirical Review

The literature review in this section summarizes the available empirical research on compliance risk management practices and their effect on financial performance,

focusing on the four dimensions of the independent variables: regulatory compliance, compliance monitoring, internal control systems, and compliance training. The reviewed studies come from a global, regional, East African and Kenyan perspective, which facilitates a comprehensive comparative analysis of the existing findings, methodological approaches and contextual variations. For each study reviewed, the population studied, the research design and the analytical technique applied are stated alongside the findings reported, so that the findings of each study are read against the methodology that produced them and the consistency or divergence between studies can be attributed to methodological as well as contextual differences. The design, population, key findings and gap for each of the principal studies reviewed are further synthesised in tabular form in Table 2.1 at the end of this chapter. This comparative analysis is the basis of identifying some conceptual gaps, contextual gaps, and methodological gaps that the current study addressed.

2.3.1 Regulatory Compliance and Financial Performance

One aspect of compliance risk management is regulatory compliance, which involves ensuring that organizations follow the laws, regulations, and governance standards that have been set. Regulatory compliance is important in commercial GOEs because it helps to ensure transparency, accountability, and responsible use of public funds. It also reduces legal risks, financial risks and reputational risks, which can all have a tangible impact on financial performance. It is therefore important to consider this variable when studying the impact of regulatory compliance on financial performance in commercial GOEs.

The global picture is mixed, with positive evidence regarding the link between regulatory compliance and financial performance, but with some mixed results. The findings of the quantitative regression analysis in the public sector institutions in the United States showed that regulatory requirement compliance had a positive and significant effect on financial reporting accuracy and reduced financial irregularities (Akinsola, 2025). Likewise, research on corporate governance compliance in public enterprises also shows that companies with a well-established regulatory framework have better operational efficiency and accountability mechanisms (Cardinale, 2024). Panel data studies of public enterprises, however, have come up with a different conclusion: that there is no measurable direct impact of regulatory compliance on financial performance and that compliance would only generate measurable benefits

when backed by effective implementation mechanisms and adequate institutional capacity (Nandan Prasad, 2024). The results of the two studies indicate that the relationship between compliance and performance is not universal, but also depends on contextual and institutional conditions, thus highlighting the importance of investigating the relationship in a context-specific manner.

The situation is also mixed at the regional level in Africa. Regulatory compliance has been found to have a positive impact on financial performance, as it enhances accountability systems and improves operational efficiency, with survey-based studies in state-linked entities in sub-Saharan Africa showing that compliant entities consistently outperformed non-compliant entities in terms of financial outcomes (Mathisa, 2020). Conversely, mixed-methods research in government agencies in Nigeria shows a negative relationship, with the higher the compliance requirements, the higher the operational costs, and the lower the short-term financial efficiency, especially in resource-poor institutional environments (Bolanle et al., 2024). Additionally, manufacturing companies in Nigeria have provided further evidence that although good governance structures were enabled by compliance, the positive impact of compliance on financial performance was limited without the presence of supporting institutional structures (Akang, 2024). Another difference between these studies was that positive studies focused on long-term financial sustainability, whereas negative studies focused on short-term costs; this difference highlights the importance of the time horizon in assessing the compliance-performance relationship.

The empirical evidence on regulatory compliance and financial performance is still limited in the Kenyan and East African context. Existing research has mainly focused on compliance as a governance mechanism, instead of a direct driver of financial results, and has shown that weak compliance in public institutions is correlated with financial mismanagement, inadequate reporting and lower operational efficiency (Murithi et al., 2020). Similar conclusions are drawn from complementary findings at the county level from public entities in Kenya, which show that failure to comply with regulatory requirements has a negative impact on financial accountability and institutional performance (Omondi & Muturi, 2021). These studies provide a conceptual basis for the relationship between compliance and financial performance, but neither uses objective financial performance measures like the Net Operating

Surplus Ratio to quantify the relationship, which limits the applicability of existing Kenyan evidence to inform targeted interventions for commercial GOEs.

The foregoing review shows that there were three interrelated gaps that the present study set out to fill. Most studies conceptualize regulatory compliance as a governance mechanism, but not as a direct influence on financial performance, which means that the compliance-performance pathway is conceptually underdeveloped in the public sector context (Nandan Prasad, 2024). In terms of context, most of the evidence available comes from the private sector or the general public sector in developed and middle-income country contexts, and there has been little research specifically on commercial GOEs in developing country contexts like Kenya (Mathisa, 2020). In terms of the methodology, few studies have explored regulatory compliance in conjunction with other aspects of compliance risk management, and few have used objective financial measures to assess performance results (Murithi et al., 2020). To fill these gaps, the present study empirically examined the effect of regulatory compliance on the financial performance of commercial GOEs in Kenya, using the Net Operating Surplus Ratio (NOSR) as a measurable financial indicator.

2.3.2 Compliance Monitoring and Financial Performance

Compliance monitoring is the ongoing process of monitoring and evaluating an organization's compliance with regulatory requirements and internal policies. It is an important part of making sure compliance frameworks are set up and adhered to in the long term. Compliance monitoring in commercial GOEs further supports accountability, transparency and the early detection of irregularities, which should have a positive impact on financial performance. It is therefore important to consider this variable when evaluating the impact of active implementation of compliance mechanisms on improved financial results in commercial GOEs.

Empirical evidence on the relationship between compliance monitoring and financial performance at the global level is largely positive, with caveats as the context of institutions varies. In public institutions, longitudinal studies with panel regression analysis show that the frequency of audits and the establishment of monitoring systems had a positive and significant effect on transparency and decreased financial leakages (Ronconi & Krakowski, 2023). The results are supported by research on monitoring systems in regulatory agencies that shows that ongoing compliance monitoring

enhances institutional accountability and decreases financial mismanagement (Abbott & Snidal, 2021). The findings of the qualitative case study investigations in public sector organizations, however, are in contrast, as they found that compliance monitoring did not have a significant impact on financial performance in contexts where the enforcement mechanisms were weak, and institutional capacity was limited (Samaratunge & Alam, 2021). The differences in these results highlight the importance of implementation effectiveness in the financial benefits of compliance monitoring, not just the presence of monitoring structures.

The regional level also shows mixed results, with evidence from Africa indicating that the institutional context and monitoring method used has a significant impact on results. The quantitative studies conducted on the Nigerian state corporations based on survey data and multiple regression analysis show that compliance monitoring had a positive effect on financial performance, and compliance monitoring systems with a structured approach reported a significantly better financial result (Efunniyi et al., 2024). By contrast, mixed-methods studies in government bodies in West Africa show a negative correlation, with the more monitoring that was done, the higher the administrative costs and the slower the decision making process in the organizations, ultimately resulting in lower efficiency and financial performance (Eyinade et al., 2021). The difference between these findings underscores the importance of the design and level of monitoring systems in improving or impairing financial results, especially in resource-constrained public sector settings.

In the East African and Kenyan context, evidence of the link between compliance monitoring and financial performance is especially lacking. The descriptive studies carried out in Tanzania's public institutions show that monitoring practices enhanced regulatory compliance and institutional transparency, but do not prove that monitoring practices had a measurable impact on financial performance outcomes (Njenga & Warui, 2023). Likewise, quantitative studies on creating compliance indicators for GOEs also conclude that structured monitoring systems enhance compliance measurement and regulatory compliance, but do not explore the downstream impact on financial performance indicators (Kwanh, 2025). The lack of studies directly linking compliance monitoring to objective financial performance measures in the Kenyan commercial GOE context is a gap in the literature.

The above review reveals three inter-related gaps that the present study set out to fill. From the conceptual perspective, previous research mainly focuses on compliance monitoring as a governance and accountability mechanism and not as a direct cause of financial outcomes, which means that the monitoring-performance linkage is not well theorized in the public sector (Samaratunge & Alam, 2021). From a context perspective, the available evidence is mainly from general government agencies or private sector organizations in developed and middle-income economies, and very limited attention is paid to commercially oriented GOEs in developing country contexts like Kenya (Efunniyi et al., 2024). Methodologically, the studies done in the East African region are descriptive and qualitative, and quantitative financial performance indicators have not been used to evaluate the impact of compliance monitoring (Njenga & Warui, 2023). The current study filled these gaps by empirically investigating the effect of compliance monitoring on financial performance of commercial GOEs in Kenya, with the Net Operating Surplus Ratio as the objective financial measure.

2.3.3 Internal Control Systems and Financial Performance

Internal control systems are the policies, procedures and mechanisms that an organization has in place to manage its resources, ensure accurate financial reporting and compliance with regulatory requirements. Internal control systems are of great importance in GOEs, as they help safeguard public resources and prevent fraud and enhance accountability of the organization in a commercial environment. Through good internal controls, the efficiency of operation and financial discipline will be enhanced, which are the keys to good and sustainable financial performance. It is therefore important to analyse this variable to gain an understanding of the effect of the strength and quality of the GOEs' control mechanisms on their financial results within the commercial GOEs.

The empirical evidence at the international level indicates a positive relationship between internal control and financial performance while the results of other organizational and methodological settings are inconclusive. The quantitative study carried out in the public sector organizations of India with the use of regression analysis indicates that the having of strong internal control system has resulted in significant reduction of financial mismanagement and increased the reliability of financial reporting, consequently, leading to better financial performance outcomes (Janardhanan & Ramkumar, 2022). Positive impact is also seen in the study of state-

owned enterprises (SOEs) in China where good internal control resulted in the efficiency of their operations and profitability in the long term (Chen et al., 2016).

The results of the study on internal control of public organizations based on survey, however, found that having internal control system does not necessarily ensure that they are used effectively, which means that no significant impacts on financial performance are achieved (Nguyen et al., 2023). Adding to the complexity, mixed-methods studies in public enterprises show that in highly rigid control contexts, the rigid control systems stifled organizational flexibility, slowed decision-making, and decreased operational efficiency (Nurfadila, 2024). In general, these two conflicting studies indicate that the costs of internal control systems are very sensitive to the quality of implementation, the institutional context, and the flexibility of the internal control system.

The relationship between internal control system and financial performance in Africa is generally positive and contextually complex as illustrated by the regional picture. The research conducted in South African public entities revealed that improved internal audit and control practices correlated with improved financial accountability and reduced financial irregularities, and improved control environments were associated with more stable financial results (Auditor-General Report, 2023). Likewise, a quantitative study of public institutions in West Africa shows that internal control systems have a positive effect on financial performance by enhancing the use of resources and minimizing financial risks (Efunniyi et al., 2024). A common area of weakness in African studies, however, is the absence of the financial performance measures as direct results of the internal controls, and the absence of sufficient quantification of the direct effects of internal controls in a commercially oriented public entity in Africa on financial performance.

In the Kenyan context, some evidence on the linkage between internal controls and financial performance is available, and it offers some enlightening insights. The study on Kenyan State Corporations indicates that internal control systems (ICS) have a positive effect on financial accountability and the performance of the institution as a whole; the audit committee in the institution is a functional body and the reporting system is structured with better financial management practices (Chelangat, 2024). The regression-based analyses carried out on Kenyan GOEs also support the notion that internal controls positively affected organizational performance, although the results are mostly based on the COSO framework and do not incorporate other aspects of

compliance risk management that could collectively impact financial results (Ongonge et al., 2024). The nature of these studies and the limited application of objective measures of financial performance, make the direct impact of internal control systems on measurable financial outcomes of commercial GOEs in Kenya not well established.

The above review has pointed out three inter-related gaps that have been tackled in the present study. Most studies mainly consider the internal control system as a governance mechanism rather than as a direct influence on financial performance, and the relationship between internal control systems and financial performance is still under-researched in the public commercial entity (PCE) context (Nguyen et al., 2023). Available evidence in Kenya is very general and not segregated from the distinct financial performances dynamics of GOEs that are commercially oriented, therefore the conclusions drawn from the existing evidence are valid for this institutional category only (Chelangat, 2024). Kenyan research is largely conducted using single variable models using COSO as compared to comprehensive compliance risk management models or objective financial ratios such as Net Operating Surplus Ratio (Ongoge et al., 2024). The present study filled these gaps by empirically investigating the effect of internal control systems on financial performance of commercial GOEs in Kenya, by using measurable and defined financial performance indicators.

2.3.4 Compliance Training and Financial Performance

Compliance training is a type of training that is structured to provide employees with the knowledge and skills they need to understand and follow regulatory requirements and organizational policies. Compliance training in commercial GOEs boosts employee proficiency, encourages ethical conduct, and improves compliance with procedures. A well-trained staff can better reduce errors, ensure non-compliance is avoided, and help in the implementation of internal systems, which all help to improve financial performance. Therefore, it is crucial to examine this variable in order to reveal the role of human capital development in improving compliance outcomes and financial sustainability of commercial GOEs.

Empirical evidence of the relationship between compliance training and financial performance is mostly positive at the global level, but there are some notable exceptions. In public sector organizations in Israel, quantitative regression analysis has shown that compliance training has a significant effect on increasing employee

awareness of the regulatory requirements and decreasing financial risks related to compliance, which in turn had a measurable impact on organizational financial performance (Manor, 2023). Survey-based investigations also show that companies that have a regular employee training program experienced better operational efficiency and financial results than companies with sporadic employee training programs (Moodie & Wheelahan, 2023). But in public institutions, cross-sectional studies do not reveal any significant impact when training programs are poorly designed or not aligned with the needs of the institutions, which indicates that the quality and relevance of training are important factors in determining the financial impact of training (Friday et al., 2022). The same negative short-term relationship is also found in panel data analysis of state-owned enterprises, which is attributed to the high initial training costs that negatively affect the financial performance of these enterprises in the short term, but are expected to be offset by long-term benefits (An et al., 2025).

African evidence on compliance training and financial performance shows a generally positive, but context-dependent relationship at the regional level. The findings of the mixed-methods investigations in South African commercial banks showed that structured compliance training frameworks have a positive effect on strengthening employee compliance with regulatory standards and on governance practices in the banks investigated (Botha & Van der Merwe, 2025). Descriptive studies in Rwanda also confirm that training of staff enhanced the competence of staff and institutional performance, with institutions that conducted regular training having better operational results (Hakizayezu, 2023). A common problem with these regional studies is that they tend to report on the outcomes of training in terms of employee performance or governance improvements, rather than the financial measures of training's impact, which makes it difficult to quantify the financial benefits of compliance training in commercial public entities.

In the Kenyan context, there is limited direct evidence that exists to show a relationship between compliance training and the financial performance of commercial GOEs. The survey-based investigations carried out on public institutions in Kenya show that training in procurement and compliance enhanced employees' compliance with the regulatory requirements and led to improved institutional performance outcomes (Ndii et al., 2025). The findings from studies that investigated human capital development in Kenyan organizations also support the findings that structured training programs

increased employee competence and decreased operational errors, but do not specifically focus on compliance training in commercially oriented GOEs (Nkrumah et al., 2022). There is a lack of studies that specifically relate compliance training to objective financial performance measures in the commercial GOE context in Kenya.

The above review reveals three interrelated gaps that the present study set out to fill. In concept, the current literature focuses on compliance training as a HRD instrument rather than as a direct instrument that drives financial performance, and training to financial performance is underdeveloped in the commercial public entity context (Friday et al., 2022). Available evidence is mainly from private sector organizations or general public institutions in developed countries contexts, and is very narrowly focused on commercial GOEs in developing country contexts like Kenya (Manor, 2023). In terms of methods, the studies in the East African region are mostly descriptive and lack objective financial measures to assess the impact of compliance training on financial results (Ndii et al., 2025). This study filled the above gaps by empirically investigating the effect of compliance training on financial performance of commercial GOEs in Kenya using the Net Operating Surplus Ratio.

2.4 Summary of Research Gaps

The empirical review in sections 2.3.1 to 2.3.4 shows that there are conceptual, contextual and methodological gaps that collectively supported the need for the present study. In all four areas of compliance risk management, one of the most common conceptual shortcomings in previous research is the failure to consider compliance practices as a direct driver of financial performance, and instead as a governance and accountability tool. The research on regulatory compliance, compliance monitoring, internal control systems, and compliance training largely focuses on the outcomes in terms of governance improvements, employee awareness, or institutional transparency, while the direct compliance-performance pathway remains largely underdeveloped in the context of commercial public entities (Nandan Prasad, 2024; Samaratunge & Alam, 2021; Friday et al., 2022).

In terms of context, most empirical evidence available comes from private sector organizations or general public institutions in developed and middle-income economies, and is drawn from the United States, India, Israel, China and South Africa. The studies on African studies from Nigeria, Rwanda and South Africa offer some

regional relevance, but are mainly based on private manufacturing companies, commercial banks or general government agencies, not on commercially oriented GOEs. In Kenya, the existing studies focus on internal controls and compliance in general state corporations without differentiating the financial characteristics of commercial GOEs, thus limiting the applicability of the findings to the context of the present study (Chelangat, 2024; Ongonge et al., 2024).

In terms of method, the reviewed studies show three common weaknesses that were addressed in the present study. First, most studies rely on single variable frameworks and only consider one aspect of compliance, the impact of regulatory compliance, without considering the combined impact of regulatory compliance, compliance monitoring, internal control systems and compliance training on financial performance. Second, research in the East African region is mostly descriptive and qualitative, and this hinders the capacity to draw causal or inferential conclusions between compliance practices and financial outcomes. Third, few studies have used objective financial performance measures like the Net Operating Surplus Ratio to measure the financial effects of compliance risk management practices (Murithi et al., 2020; Ndii et al., 2025). The present study tackled all three methodological limitations by using a quantitative regression methodology that incorporates all four dimensions of compliance and uses specific financial performance measures in the commercial GOE setting in Kenya. The key studies reviewed are summarized in the structured synthesis below (Table 2.1) which outlines the objectives, methods, results and areas of gap for each study.

Table 2.1: Summary of Empirical Literature Review

Author & Year	Study Focus / Objective	Population & Methodology	Key Findings	Research Gap Identified	How the Current Study Addresses the Gap
Akinsola (2025)	Examined regulatory compliance and performance	US firms; quantitative	Compliance improved transparency	Focused on private firms, not GOEs	This study focused on commercial GOEs in Kenya and directly links regulatory compliance to a financial performance indicator (NOSR)

Author & Year	Study Focus / Objective	Population & Methodology	Key Findings	Research Gap Identified	How the Current Study Addresses the Gap
Akang (2024)	Compliance and governance in manufacturing firms	Nigeria; survey design	Compliance improved governance	Focused on private manufacturing firms	This study examined public sector commercial GOEs and evaluates financial performance outcomes rather than just governance
Njenga & Warui (2023)	Risk-based auditing and compliance	Tanzania; descriptive	Monitoring improved compliance	Did not link to financial performance	This study linked compliance monitoring directly to financial performance using regression analysis
Kwanh (2025)	Compliance index development	GOEs; quantitative	Monitoring improved compliance	Focused on measurement, not performance	This study went further by examining the effect of compliance practices on financial performance, not just measurement
Janardhanan & Ramkumar (2022)	Internal controls and efficiency	India; quantitative	Controls improved efficiency	No focus on public sector or financial performance	This study focused on Kenyan GOEs and links internal controls to financial performance indicators
Ongonge et al. (2024)	Internal controls and performance	Kenya; regression	Controls improved performance	Limited to COSO; excluded other variables	This study integrated multiple compliance dimensions for a comprehensive model

Author & Year	Study Focus / Objective	Population & Methodology	Key Findings	Research Gap Identified	How the Current Study Addresses the Gap
Manor (2023)	Compliance training effectiveness	Israel; survey	Training improved awareness	No link to financial performance	This study examined the direct impact of compliance training on financial performance
Botha & Van der Merwe (2025)	Training framework in banks	South Africa; mixed methods	Training improved governance	Focused on private banking sector	This study focused on public commercial GOEs in Kenya and links training to financial outcomes
Hakizayezu (2023)	Staff training and performance	Rwanda; descriptive	Training improved competence	Focused on employee performance	This study linked compliance training to organizational financial performance
Ndii et al. (2025)	Procurement training and performance	Kenya; survey	Training improved compliance	Focused on procurement and schools	This study examined broader compliance training and its effect on financial performance in GOEs

Source: Researcher (2026)

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The research methodology that was used to investigate the influence of compliance risk management on the financial performance of commercial GOEs in Kenya is presented in this chapter. It is a statement of the research philosophy, research design, target population, sample size and sampling techniques used in the study. The chapter also explains the data collection tools and techniques, the operationalization of variables, the process of pilot testing, the process of validity and reliability testing, the diagnostic test and data analysis procedures. Ethical issues that informed the study are also discussed. These methodological decisions offered a structured and systematic approach to the research goals and test of the study hypotheses.

3.2 Research Philosophy

The research philosophy used in this study was positivism which is a philosophy that believed that the reality is objective, measurable, and it is independent of the perception or interpretation of the researcher. The positivism approach is focused on the use of systematic and measurable methods to test hypotheses and to draw out relationships between variables (Saunders et al., 2019). This philosophy was suitable for the study because of its use of quantitative information, statistical analysis and regression modelling in empirical studies of the impact of compliance risk management on financial performance of commercial GOEs in Kenya.

3.3 Research Design

The study used descriptive correlational research design. The descriptive component allowed the researcher to systematically profile the state of compliance risk management practices in commercial GOEs in Kenya and have a clear and accurate picture of the phenomena under investigation (Taherdoost, 2021). The correlational component was chosen to uncover the relationship and nature of the relationship between compliance risk management practices and financial performance outcomes (Saunders et al., 2019). These designs enabled hypothesis testing and the drawing of meaningful evidence-based conclusions about the compliance-performance relationship in commercial GOEs in Kenya.

3.4 Target Population

The target population was all the 51 commercial GOEs in Kenya mandated to be profitable in strategic economic sectors by National Treasury Kenya (2024). Within each entity, the finance manager and the risk/compliance manager were selected as respondents, providing a total of 102 individual respondents. This dual-informant method minimized common method bias and provided sufficient coverage of both aspects of risk management for compliance and financial performance. The unit of observation was the individual respondent (n=102) and the unit of analysis was the commercial GOE (n=51). After verifying inter-rater reliability through ICC (1), ICC (2) and rwg statistics (LeBreton & Senter, 2008), responses from both informants per entity were averaged to create one organizational score. Both informants independently completed the full instrument reproduced in Appendix III, so that every construct was rated by two respondents within each entity and the consistency of their assessments could be established before the responses were aggregated.

3.5 Sample Size and Sampling Procedures

An approach of a census was used and all the 51 commercial GOEs in Kenya were covered; this approach was used because it is a method that covers the entire population and is not likely to have any sampling error (Willie, 2024). Following the recommendation of Hair et al. (2019) that a minimum of ten observations be available for each variable entered into a regression model, the census of all 51 commercial GOEs was adopted so that the analysis could be conducted at the organisational level with a sufficient number of observations for adequate statistical power. However, non-response bias was minimized with prior institutional contacts, formal introductory letters, and formal follow-up reminders to those entities that have not yet responded. Geographically distributed entities were able to access through professional networks and institutional directories kept by the National Treasury and the State Corporations Advisory Committee (SCAC).

3.6 Description of Research Instruments

Structured questionnaires were used to collect primary data on the four independent variables as it is suitable to generate standardized and comparable data across organizations and to produce quantitative data that can be statistically analyzed (Hossan et al., 2025). All items were measured on five-point Likert scale and categorized by

variables. Both the finance manager and the risk or compliance manager independently completed Sections A to F of the questionnaire provided in Appendix III. Administering the full instrument to both informants ensured that each construct was rated twice within every entity, which is what made it possible to test the consistency of the two assessments before aggregating them into a single organisational score, as reported in Section 3.10.1. The financial performance data were collected through a data collection matrix with secondary data obtained from the audited financial statements of the commercial GOEs for the period 2021 to 2025 which was done in an objective manner with independent audited financial statements. The five values per GOE for each NOSR were averaged to determine one composite score per entity which was used for the regression analysis. The questionnaire is attached in Appendix III and the list of the commercial GOEs from which the financial statements have been made is attached in Appendix IV.

3.7 Data Collection Procedures

Data collection procedures refer to the systematic steps followed when gathering the information required to answer the research questions and achieve the study objectives (Taherdoost, 2021). The study collected primary data using structured questionnaires administered to the designated finance manager and risk or compliance manager in the 51 commercial GOEs in Kenya. The questionnaires were self-administered. Where a targeted respondent was unavailable at the time of the initial visit, the instrument was left at the entity and collected on an agreed later date, which allowed respondents to complete it at their own convenience without compromising the standardisation of the instrument.

3.8 Operationalization of Variables

The operationalization of all the study variables is presented below, specifying how each variable was defined, measured and linked to the data collection instruments. The variables were operationalized through indicators derived from the conceptual framework and measured using a five-point Likert scale administered through structured questionnaires. The Likert-scale items were measured at the ordinal level, while the Net Operating Surplus Ratio, obtained from audited financial statements, was measured at the ratio level. Table 3.1 presents the detailed operationalization of all the study variables.

Table 3.1: Operationalization of Variables

Variable	Type	Indicators	Measurement Scale	Data Source
Regulatory Compliance (RC)	Independent	Timely financial reporting; Audit frequency; Licensing compliance; Adherence to regulatory requirements	Ordinal (five-point Likert scale)	Questionnaire (Section B)
Compliance Monitoring (CM)	Independent	Report frequency; Compliance audit practices; Monitoring framework effectiveness; Detection of non-compliance	Ordinal (five-point Likert scale)	Questionnaire (Section C)
Internal Control Systems (ICS)	Independent	Asset protection mechanisms; Audit response practices; Risk assessment procedures; Accountability systems	Ordinal (five-point Likert scale)	Questionnaire (Section D)
Compliance Training (CT)	Independent	Awareness program frequency; Training regularity; Staff participation levels; Understanding of regulatory requirements	Ordinal (five-point Likert scale)	Questionnaire (Section E)
Financial Performance (FP)	Dependent	Operating surplus generation; Financial sustainability; Debt management; Resource utilization efficiency	Ordinal (five-point Likert scale); Ratio (Net Operating Surplus Ratio)	Questionnaire (Section F); audited financial statements (2021 to 2025)

Source: Researcher (2026)

3.9 Pilot Study

The pilot test was carried out in non-Commercial GOEs (NGOE), which are state-owned entities with regulatory or service-oriented functions and share the same governance and regulatory environment as the target entities, but were not included in the final sample, and thus had similar characteristics without duplication (Teresi, 2022). The pilot test was conducted with 10 respondents from the finance and risk management functions of these entities, which was about 10% of the study sample. The feedback received was used to clarify ambiguities, improve the questionnaire and confirm that

all the indicators adequately covered the study variables prior to the main data collection.

3.9.1 Validity

Content validity was assessed to ensure that all the questionnaire items were relevant, clear and aligned with the study variables (Ahmed & Ishtiaq, 2021). The supervisors were engaged to rate the instrument. The Content Validity Index (CVI) was computed as follows:

$$CVI = K \div N$$

Where K is the number of valid items and N is the total number of items in the instrument. A CVI threshold of 0.75 and above was considered acceptable (Coleman, 2022). The instrument returned a CVI of 0.91, which exceeded the acceptable threshold and confirmed that the items adequately represented the constructs under investigation.

3.9.2 Reliability

The internal consistency of the questionnaire items was evaluated for all the study variables using Cronbach's Alpha coefficient (Hossan et al., 2025). A Cronbach's Alpha value of 0.7 and above was considered acceptable. Items with a coefficient below this threshold were reviewed and revised prior to the main data collection. The reliability coefficients obtained from the pilot data are presented in Table 3.2.

Table 3.2: Reliability Statistics

Construct	No. of Items	Cronbach's Alpha	Comment
Regulatory compliance	7	0.841	Reliable
Compliance monitoring	6	0.827	Reliable
Internal control systems	7	0.869	Reliable
Compliance training	7	0.854	Reliable
Financial performance (perceptual)	7	0.812	Reliable
Overall instrument	34	0.883	Reliable

Source: Pilot Data (2026).

The results in Table 3.2 show that all five constructs returned Cronbach's Alpha coefficients above the accepted threshold of 0.7, ranging from 0.812 for financial performance to 0.869 for internal control systems, while the overall 34-item instrument returned a coefficient of 0.883. The instrument was therefore judged internally consistent and was administered in the main study without further revision of items.

3.10 Data Analysis Procedures

The completed questionnaires were first screened for completeness, legibility and consistency before entry. Instruments with more than ten per cent of items unanswered were excluded from the analysis, while isolated missing values were replaced using series mean substitution. The entered data were then checked for out-of-range values, duplicate entries and reversed-scored items, and the secondary financial data were verified against the published audited statements before the two datasets were merged at entity level.

The data were analyzed using SPSS version 27. Descriptive statistics (means, frequencies and percentages) were used to summarize compliance risk management practices in the target institutions. Raw Likert scale responses for each variable were summed to create a composite mean score per respondent (Boone & Boone, 2012) and the two respondents per entity were averaged to produce a single institutional-level score for each variable for regression input.

3.10.1 Inter-Rater Agreement and Aggregation of Responses

Because responses from the two informants in each entity were aggregated into a single organisational score for use in the regression analysis, it was necessary to establish that the two informants provided sufficiently consistent assessments of the compliance risk management practices within their entity. Inter-rater reliability was therefore assessed using the intraclass correlation coefficients ICC (1) and ICC (2) and the within-group agreement index rwg, in line with the procedure described in Chapter Three. Following LeBreton and Senter (2008), an 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 the aggregated group means are reliable. The results are presented in Table 3.3.

Table 3.3: Inter-Rater Agreement Statistics for Aggregation

Variable	ICC(1)	ICC(2)	Mean rwg
Regulatory compliance	0.412	0.583	0.84
Compliance monitoring	0.438	0.609	0.86
Internal control systems	0.451	0.622	0.87
Compliance training	0.396	0.567	0.82
Financial performance (perceptual)	0.427	0.598	0.83

Source: Field Data (2026). Aggregation criteria: rwg ≥ 0.70; ICC (1) ≥ 0.05.

The findings in Table 3.3 show that the mean rwg values ranged from 0.82 for compliance training to 0.87 for internal control systems, all of which exceeded the recommended threshold of 0.70 and indicated strong agreement between the finance manager and the risk or compliance manager within each entity. The ICC (1) values ranged from 0.396 to 0.451, substantially exceeding the 0.05 benchmark and confirming that a meaningful proportion of the variance in the responses was attributable to entity membership rather than to individual respondent differences. The ICC (2) values ranged from 0.567 to 0.622, approaching or exceeding the 0.60 benchmark and indicating that the aggregated entity means were sufficiently reliable for use in the regression analysis. On the basis of these results, the responses of the two informants in each entity were averaged into a single institutional score for each variable, and the dual-informant design was confirmed to have reduced common method bias as intended (Podsakoff et al., 2003).

Inferential analysis was conducted using Pearson correlation and multiple linear regression. Primary and secondary data were reconciled at the level of the entity before any inferential test was conducted. The five annual Net Operating Surplus Ratio values recorded for each entity between 2021 and 2025 were averaged into a single composite ratio, so that the series was collapsed into one value per entity and ceased to carry any time dimension. Each of the commercial GOEs accordingly contributed a single observation on every variable, and the dataset submitted to correlation and regression analysis was cross-sectional in structure. The secondary data were used to construct the dependent variable rather than to introduce a longitudinal element into the model, and year-on-year variation was at no point modelled. Multiple linear regression was preferred over alternative analytical techniques because it uniquely allows simultaneous estimation of the individual and combined influence of four independent variables on a single continuous dependent variable, while controlling for the effect of each predictor, which neither bivariate correlation nor ANOVA can adequately achieve (Field, 2018). The multiple regression model was specified as follows:

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

where:

FP = financial performance, measured by the Net Operating Surplus Ratio

RC = regulatory compliance

CM = compliance monitoring

ICS = internal control systems

CT = compliance training

SECTOR = dummy variable controlling for sectoral heterogeneity across the 51 commercial GOEs

β_0 = constant term

β_1 to β_4 = regression coefficients for the four compliance risk management dimensions

β_5 = regression coefficient for the sector control variable

ε = error term

Because the 51 commercial GOEs are located in a variety of sectors – agriculture, energy, financial services, hospitality, transport, manufacturing, education and media – sectoral heterogeneity is a potential source of systematic variation in compliance risk management practices and financial performance outcomes. A dummy control variable was therefore included in the regression model to reflect this, and one sector was used as the benchmark. This was done to reduce the effects of the sector differences in the regulatory environment, the financial performance benchmarks and the risk exposure, thereby isolating the influence of compliance risk management on financial performance with more accuracy (Hair et al., 2019). The study also faces the limitation of residual heterogeneity that it was not possible to fully capture with the use of sector dummies and future research is recommended to undertake sector specific investigations in order to gain more detailed insights. The results obtained were analyzed and presented in tabular and graphical form for easy interpretation and decision making.

3.10.2 Diagnostic Tests

Before performing the regression analysis, four diagnostic tests were carried out to ensure that the assumptions of the multiple linear regression model were met. The normality of the residuals was then evaluated by the Shapiro-Wilk test, along with skewness and kurtosis statistics, as the normality assumption in regression is related to the distribution of the residuals of the study variables, not to the distribution of the

original study variables (Field, 2018) and the results of this test are presented in Section 4.2.6.1. Second, the multicollinearity of the independent variables was tested using tolerance and the Variance Inflation Factor (VIF) – The VIF value greater than 10 is considered as problematic multicollinearity which should be eliminated (Zeng & Zeng, 2021), results of the multicollinearity test is shown in Section 4.2.6.2. Third, the Breusch-Pagan test was used to check the presence of heteroscedasticity; if it is present, then it has to be corrected for the unbiased estimation of the parameters (Patel & Patel, 2019) and the results of this test are discussed in Section 4.2.6.3. Finally, linearity of each independent variable to the dependent variable was evaluated using the residuals.

3.11 Ethical Considerations

Ethical approval and research permits were obtained from the Catholic University of Eastern Africa and NACOSTI before the data collection, and from the management of the various Commercial GOEs in Kenya. Before participating in the study, the participants were fully informed about the purpose, scope and procedures of the study. All the respondents gave informed consent, having been advised that their participation is voluntary and that they may withdraw at any time without penalty or disadvantage. The study was conducted with senior managerial staff in Commercial GOEs, and confidentiality and anonymity were maintained throughout the research process. The questionnaires did not ask for the name, job identification number or other personal identifiers of the respondents. All the data gathered were kept in a secure manner, were used only for academic research and are reported only in an aggregated manner, with no individual or institution being identifiable in this thesis.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the analysis, interpretation and discussion of the findings on the influence of compliance risk management on the financial performance of commercial GOEs in Kenya. The chapter opens with the response rate achieved in the field, and then presents the demographic characteristics of the respondents, the descriptive statistics for the study variables, the correlation and regression results and the diagnostic tests, and closes with the interpretation and discussion of the findings in relation to the four specific objectives.

4.2 Presentation of the Findings

4.2.1 Response Rate

Of the 102 questionnaires distributed to the finance managers and the risk or compliance managers of the 51 commercial GOEs, 91 were correctly completed and returned, giving a response rate of 89.2 per cent at the level of the individual respondent. The 11 instruments that were not recovered, or that were recovered with more than ten per cent of the items unanswered and were therefore excluded at the screening stage described in Section 3.10, were spread across a number of entities rather than concentrated in any one of them.

Because the unit of analysis was the commercial GOE rather than the individual respondent, the responses were aggregated to entity level in the manner described in Section 3.10.1 before the inferential analysis was conducted. The entity-level dataset comprised the 46 commercial GOEs for which complete data were available on both the four compliance risk management dimensions and the audited Net Operating Surplus Ratio for the full period 2021 to 2025, representing 90.2 per cent of the 51 entities in the target population.

All 91 individual responses were retained for the demographic and descriptive analysis reported in Sections 4.2.2 and 4.2.3, while the 46 entity-level observations were used for the correlation, regression and diagnostic analysis reported in Sections 4.2.4 to 4.2.6. A response rate of 89.2 per cent at the level of the respondent and 90.2 per cent

at the level of the entity is well above the level conventionally regarded as sufficient for analysis and reporting in survey research, and the risk of non-response bias was further reduced by the prior institutional contacts, formal introductory letters and follow-up reminders described in Section 3.5. The response was therefore adequate to support the findings presented in the remainder of this chapter.

4.2.2 Demographic Characteristics of the Respondents

The demographic characteristics of the 91 respondents who returned usable questionnaires were analysed in order to establish whether the respondents possessed the professional standing, academic qualifications and institutional experience necessary to provide reliable information on the compliance risk management practices and financial performance of their entities. Age bracket, highest level of education, current position and years of experience in the current role were examined, and the combined results are presented in Table 4.1.

Table 4.1: Demographic Characteristics of the Respondents

Characteristic	Category	Frequency	Percentage (%)
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

Source: Field Data (2026). n = 91.

The results in Table 4.1 show that 49.5 per cent held a master's degree and 39.6 per cent a bachelor's degree, with a further 6.6 per cent holding a doctorate, meaning that 95.7 per cent of the respondents held a university degree. The sample was almost evenly divided between the two informant categories, with 47 finance managers at 51.6 per cent and 44 risk or compliance managers at 48.4 per cent, which confirms that the dual-informant design was substantially achieved. On institutional experience, 47.3 per cent had served between five and ten years in their current role and 34.1 per cent for more than ten years, so that 81.4 per cent had at least five years of experience. The

respondents were therefore sufficiently qualified and sufficiently experienced to provide reliable information on the compliance risk management practices and financial performance of their entities.

The sector to which each entity belongs was not obtained from the respondents. It was taken from the schedule of commercial Government-Owned Entities maintained by the National Treasury, which is reproduced in Appendix IV, and was used solely to construct the sector dummy control variable in the regression model.

4.2.3 Descriptive Statistics for the Study Variables

Below are the descriptive statistics for the four independent variables and for the dependent variable. The responses were analyzed on a five-point Likert scale, with strong disagreement indicated by a mean score of 1.00 to 1.80, disagreement being 1.81 to 2.60, neutral or moderate being 2.61 to 3.40, agreement being 3.41 to 4.20 and strong agreement being 4.21 to 5.00. These bands were obtained by dividing the range of the scale by the number of response categories, that is $(5 - 1) \div 5$, which yields a constant class interval of 0.80 and assigns every possible mean score to one and only one interpretive category (Boone & Boone, 2012).

4.2.3.1 Regulatory Compliance

Regulatory compliance was assessed by 7 items including timeliness of statutory reporting, as well as licensing, regulatory standards and the action taken for non-compliance, record keeping and avoidance of penalties. The results are presented in Table 4.2.

Table 4.2: Descriptive Statistics for Regulatory Compliance

Statement	N	Mean	SD
Financial reports are submitted within the required regulatory deadlines	91	4.12	0.68
The organisation holds all required operational licences	91	4.31	0.61
Licences are renewed within the stipulated regulatory timelines	91	4.07	0.72
Regulatory requirements are adhered to in all operational activities	91	3.86	0.79
Non-compliance incidents are addressed promptly upon detection	91	3.64	0.88
The organisation maintains up-to-date records of all regulatory obligations	91	3.92	0.76
The organisation has not incurred regulatory penalties or sanctions in the past three years	91	3.28	1.04
Overall mean	**91**	**3.89**	**0.78**

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

The overall mean for regulatory compliance was 3.89 (SD = 0.78), suggesting that, overall, entities were in keeping with the laws and governance. The highest rated was the requirement to hold all the required operational licences (4.31, SD = 0.61) and timely submission of financial reports (4.12) which align with the visibility of these requirements under the Public Finance Management Act. Prompt remediation of identified non-compliance recorded the second lowest mean (3.64, SD = 0.88), while the avoidance of regulatory penalties in the previous three years recorded the lowest (3.28, SD = 1.04) and the widest dispersion within the construct. It is therefore not surprising that commercial GOEs do better on the procedural aspects of regulatory compliance, but significantly worse on the substantive aspects of remediation, and of avoiding sanctions. This distribution is in line with the findings of Akinsola (2025) which revealed that compliance to the regulations enhanced the accuracy of reporting and minimized financial irregularities in public sector institutions and Cardinale (2024) on Operational efficiency of well regulated public enterprises.

4.2.3.2 Compliance Monitoring

Compliance monitoring was measured using six items covering the regularity of compliance reporting to management, periodic compliance audits, the coverage of the monitoring framework, early detection of non-compliance and management review of monitoring reports. The results are presented in Table 4.3.

Table 4.3: Descriptive Statistics for Compliance Monitoring

Statement	N	Mean	SD
Compliance reports are submitted to management at regular intervals	91	3.94	0.74
Compliance audits are conducted periodically within the organisation	91	3.81	0.81
A formal compliance monitoring framework is in place	91	3.98	0.77
The monitoring framework covers all key regulatory requirements	91	3.59	0.86
Non-compliance issues are detected early through monitoring systems	91	3.41	0.92
Management reviews compliance monitoring reports on a regular basis	91	3.72	0.83
Overall mean	**91**	**3.74**	**0.82**

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

The overall mean recorded on monitoring compliance was 3.74 (SD = 0.82) which was lower than the regulatory compliance. The areas that were the best rated were the formal monitoring framework (3.98) and the regular submission of compliance reports to management (3.94), showing that the architecture of monitoring is largely in place. Early detection of non-compliance had the lowest mean rating (3.41 (SD = 0.92)) as did comprehensiveness of framework coverage (3.59). Monitoring structures are thus in place but not used as an early warning system and the detection function rather than the reporting function is what counts for the preservation of the operating surplus. This imbalance between structure and effectiveness in the current study corroborates the findings of Samaratunge and Alam (2021) that monitoring is not effective if there is low capacity for enforcement and is contrary to the findings of Abbott and Snidal (2021) that long-term monitoring is related to lower rates of financial mismanagement.

4.2.3.3 Internal Control Systems

Internal control systems were measured using seven items covering the safeguarding of assets, prevention of unauthorised access to financial resources, implementation of audit recommendations, management response to audit findings, risk assessment, risk escalation and the accuracy of financial reporting. The results are presented in Table 4.4.

Table 4.4: Descriptive Statistics for Internal Control Systems

Statement	N	Mean	SD
Internal controls effectively safeguard organisational assets from misuse	91	3.97	0.73
Measures are in place to prevent unauthorised access to financial resources	91	4.16	0.65
Audit recommendations are implemented within the required timelines	91	3.52	0.94
Management responds to audit findings through a structured formal process	91	3.88	0.78
Risk assessment procedures are conducted on a regular basis	91	3.79	0.82
Identified risks are addressed through formal escalation procedures	91	3.86	0.76
Internal controls ensure the accuracy of financial reporting	91	4.09	0.69
Overall mean	**91**	**3.90**	**0.77**

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

Internal control systems recorded an overall mean of 3.90 (SD = 0.77), the highest among the four dimensions. The highest-rated items were the prevention of unauthorised access to financial resources at 4.16 (SD = 0.65) and the contribution of controls to reporting accuracy at 4.09, indicating substantial investment in preventive and reporting controls. The weakest item was the implementation of audit recommendations within the required timelines at 3.52 (SD = 0.94), which aligns with the recurring observation of the Office of the Auditor-General that audit recommendations in state corporations are accepted but not implemented on time. Controls are therefore effective at the point of transaction but lose momentum at the remediation stage. The result is consistent with Chelangat (2024), who associated functional audit committees and structured reporting systems with stronger financial management practice in Kenyan state corporations, and with Ongonge and Okiro (2024) on the positive effect of internal controls on the performance of Kenyan state enterprises.

4.2.3.4 Compliance Training

Compliance training was measured using seven items covering structured awareness programmes, communication of current regulatory requirements, the regularity of training, the updating of training content, staff participation, the recording of attendance

and demonstrated improvement in understanding. The results are presented in Table 4.5.

Table 4.5: Descriptive Statistics for Compliance Training

Statement	N	Mean	SD
The organisation conducts structured compliance awareness programmes	91	3.63	0.87
Employees are informed about current regulatory requirements through training	91	3.71	0.84
Compliance training sessions are conducted at regular intervals	91	3.34	0.98
Training content is updated to reflect changes in regulatory requirements	91	3.29	1.01
Staff actively participate in compliance training programmes	91	3.58	0.89
Attendance at compliance training sessions is formally recorded	91	3.87	0.79
Employees demonstrate improved understanding of compliance requirements after training	91	3.46	0.93
Overall mean	**91**	**3.55**	**0.90**

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

Compliance training recorded an overall mean of 3.55 (SD = 0.90), the lowest mean and the widest dispersion among the four dimensions. The highest-rated item was the formal recording of attendance at 3.87, while the updating of training content recorded the lowest mean at 3.29 (SD = 1.01), followed by the regularity of training at 3.34 and demonstrated improvement in understanding at 3.46, all within the neutral band. Entities are therefore diligent at documenting that training occurred but weak at ensuring that it is regular, current and effective, which suggests that training is treated as a documentary obligation rather than a capability-building intervention. This is consistent with Nkrumah et al. (2022), who found that structured training raised employee competence and reduced operational errors, and with Manor (2023), who reported that compliance training raised regulatory awareness where it was delivered systematically.

4.2.3.5 Financial Performance

Financial performance was assessed objectively by taking the value of Net Operating Surplus Ratio based on audited financial statements of the 46 respondents from 2021 to 2025 and averaging the five data points into a composite score per respondent. The

items in Section F were used for triangulation purposes and not as the main measure and the descriptive statistics are shown in Table 4.6.

Table 4.6: Descriptive Statistics for Financial Performance (Perceptual Measure)

Statement	N	Mean	SD
The organisation consistently generates adequate operating surplus	91	3.12	1.06
Operating revenues exceed operating expenses on a regular basis	91	3.24	1.02
The organisation maintains a positive net operating position	91	3.18	1.04
The level of financial liabilities is within manageable limits	91	2.96	1.11
The organisation effectively controls its debt obligations	91	3.07	1.08
Financial resources are utilised efficiently to achieve operational objectives	91	3.41	0.95
The organisation demonstrates long-term financial sustainability	91	3.03	1.09
Overall mean	**91**	**3.14**	**1.05**

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

The perceptual financial performance dimension showed an overall mean of 3.14 (SD = 1.05) which was in the neutral zone and considerably lower than all the four dimensions of compliance. The lowest rated item was the containment of financial liabilities within manageable limits (2.96), which fell within the disagreement band, followed by the demonstration of long-term financial sustainability (3.03), while the highest rated item was the efficient utilisation of financial resources to achieve operational objectives (3.41). Standard deviations greater than 0.95 show that there is much variation in financial performance among the entities that responded. The position outlined by these results echoes the concerns of Nurfadila (2024) regarding the need to focus on the efficient use of public resources and the sustainability of the institutions, not on revenue generation alone, as that is the key to unlocking financial performance in public sector organisations.

The perceptual findings are largely in line with the objective financial position of the sector reported by the National Treasury, providing convergent support for the Net Operating Surplus Ratio as the principal measure of financial performance. Table 4.7 shows descriptive statistics for the composite ratio, which was then calculated using the audited financial statements.

Table 4.7: 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).

Based on the findings in Table 4.7, the composite Net Operating Surplus Ratio of the 46 commercial GOEs averaged 0.032 from 2021 to 2025, which means that in the aggregate, the GOEs made an operating surplus equal to just 3.2 percent of total revenue. The minimum value was -0.372 and the maximum was 0.302 with a standard deviation of 0.139 indicating significant variation in financial performance of the entities. 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. Notably, the mean composite NOSR was slightly positive, and analysis of the distribution revealed that 26 of the 46 entities (56.5 percent) had a negative composite NOSR during the period. This confirms the statement of the problem raised in Chapter One that about 60% of the commercial GOEs were reported to be underperforming.

4.2.4 Correlation Analysis

Pearson product-moment correlation analysis was used to find the strength and direction of the relationship between each of the 4 independent variables and the dependent variable financial performance measured by the composite Net Operating Surplus Ratio. The correlation coefficient is a number between minus one and one; if it is positive, then there is a direct relationship and if it is negative, then there is an inverse relationship. The strength of the relationships was interpreted based on the criteria suggested by Cohen (1988) with a relationship of 0.10 to 0.29 considered as weak relationship, a relationship of 0.30 to 0.49 considered as moderate relationship, and a relationship of 0.50 and above considered as strong relationship. The analysis used the institutional observations at entity level (n = 46). The result is displayed on Table 4.8.

Table 4.8: 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

Source: Field Data (2026).

The results presented in Table 4.8 reveal that all four compliance risk management dimensions had positive and statistically significant correlations with financial performance at the 0.05 level of significance. Internal control systems recorded the strongest correlation with financial performance, with a coefficient of 0.618, indicating a strong positive relationship. This implies that improvements in internal control systems, through the effective safeguarding of assets, the prevention of unauthorised access to financial resources, the timely implementation of audit recommendations and the accuracy of financial reporting, are strongly associated with improvements in the net operating surplus of commercial GOEs. This finding is consistent with the descriptive results in which internal control systems recorded the highest overall mean among the four dimensions.

Regulatory compliance recorded the second strongest correlation with financial performance, with a coefficient of 0.562, which also denotes a strong positive relationship, followed by compliance monitoring with a coefficient of 0.497, representing a moderate to strong positive relationship. Compliance training recorded the weakest correlation with financial performance, with a coefficient of 0.401, denoting a moderate positive relationship. The ordering of these correlations mirrors the ordering of the descriptive means, in which compliance training recorded the lowest overall mean of 3.55, suggesting that the dimension that is least well developed in practice is also the dimension least strongly associated with financial outcomes.

The independent variables were found to be correlated with each other in a range between 0.386 (compliance training and regulatory compliance) and 0.534 (compliance monitoring and internal control systems). These inter-correlations are moderate and do

not exceed the 0.80 value that would indicate a multicollinearity issue, thus further supporting the aforementioned diagnostic result that there is not an issue with multicollinearity among the independent variables and they can be entered into the regression model together. The overall correlation results indicated that the four dimensions of compliance risk management have an overall positive relationship with financial performance of commercial GOEs, and the relationship between the dimensions and financial performance is worth exploring in the regression analysis.

4.2.5 Multiple Regression Analysis

Multiple linear regression analysis was conducted to determine the combined and individual influence of the four compliance risk management dimensions on the financial performance of commercial GOEs in Kenya, controlling for sectoral heterogeneity. The regression model was specified as follows:

The regression model specified in Section 3.10 was estimated with financial services as the reference category for the sector dummy. The 46 institutional observations satisfied the minimum ratio of ten observations per predictor recommended by Hair et al. (2019). The results are presented in three parts, namely the model summary, the analysis of variance and the regression coefficients.

4.2.5.1 Model Summary

The model summary presents the coefficient of determination, which measures the proportion of the variation in financial performance that is explained by the four compliance risk management dimensions together with the sector control variable. The results are presented in Table 4.9.

Table 4.9: Model Summary

Model	R	R^2	Adjusted R^2	Std. Error
1	0.741	0.549	0.492	0.0991

Predictors: (Constant), regulatory compliance, compliance monitoring, internal control systems, compliance training, sector.

The findings in Table 4.9 show that the model returned a coefficient of correlation (R) of 0.741 and a coefficient of determination (R^2) of 0.549. This indicates that the four compliance risk management dimensions, together with the sector control variable, jointly explained 54.9 percent of the variation in the financial performance of

commercial GOEs in Kenya. The remaining 45.1 percent of the variation in financial performance is attributable to other factors that were not included in the model, such as macroeconomic conditions, board composition, capital structure, tariff and pricing regulation, and the extent of exchequer support. The adjusted R^2 of 0.492 is the more conservative of the two statistics because it penalises the model for the number of predictors entered relative to the 46 institutional observations, and it indicates that 49.2 percent of the variation in the Net Operating Surplus Ratio is explained by the model once that penalty is applied. The narrow gap of 5.7 percentage points between R^2 and adjusted R^2 confirms that the explanatory power of the model is not an artefact of the number of predictors and that no variable was retained merely to inflate the fit. Substantively, the adjusted R^2 means that compliance risk management practices, which are within the direct control of the management and boards of commercial GOEs, account for approximately half of the variation in operational surplus across the sector, and that the dimensions examined in this study are therefore a legitimate and material lever for improving financial performance rather than a marginal one.

The 45.1 percent of variation left unexplained is not attributable to the omission of superior measures of compliance risk management, since the four dimensions entered were derived from the conceptual framework in Section 1.7 and from the empirical literature reviewed in Chapter Two, and were each confirmed by the correlation and linearity results to be substantively and linearly related to financial performance. It is attributable instead to determinants that lie outside the compliance domain delimited in Section 1.6, principally macroeconomic conditions, tariff and pricing regulation, capital structure, board composition and the extent of exchequer support, which were deliberately excluded from the scope of the study and are recommended in Section 5.7 for examination in future research. This level of explanatory power demonstrates that compliance risk management is an important determinant of the financial performance of commercial GOEs in Kenya.

4.2.5.2 Analysis of Variance

The analysis of variance was conducted to determine the overall significance of the regression model, that is, whether the four compliance risk management dimensions taken jointly were significant predictors of financial performance. The decision rule

was to conclude that the model is statistically significant where the significance value associated with the F-statistic is less than 0.05. The results are presented in Table 4.10.

Table 4.10: Analysis of Variance (ANOVA)

Model	Sum of Squares	df	Mean Square	F	Sig.
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 analysis of variance results in Table 4.10 show that the overall regression model was statistically significant, with an F-statistic of 9.594 and a significance value of 0.000, which is less than 0.05. This indicates that the four compliance risk management dimensions, taken together and controlling for sector, were significant predictors of the financial performance of commercial GOEs in Kenya, and that the regression model was a good fit for the data. The significance of the model confirms that the relationships between compliance risk management and financial performance established in the correlation analysis were not attributable to chance, and it justifies the interpretation of the individual regression coefficients presented in the following sub-section.

4.2.5.3 Regression Coefficients

The regression coefficients indicate the individual influence of each compliance risk management dimension on financial performance while holding the other dimensions and the sector control constant. The decision rule was to treat a coefficient as statistically significant where the associated significance value is less than 0.05. The results are presented in Table 4.11.

Table 4.11: 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.

The regression coefficients presented in Table 4.11 show that two of the four compliance risk management dimensions had positive and statistically significant influences on financial performance at the 0.05 level of significance, while two dimensions returned positive but statistically non-significant coefficients. The four statistics reported in the table convey different information and are therefore interpreted separately below. The unstandardised coefficient B expresses the absolute change in the Net Operating Surplus Ratio associated with a one-unit change in the predictor, and therefore carries the magnitude and the direction of the effect in the original units of measurement. The standardised coefficient Beta expresses the same effect in standard deviation units and is therefore the basis on which the relative contribution of predictors measured on different scales is compared. The t statistic is the ratio of the coefficient to its standard error and indicates the precision with which the effect has been estimated, larger absolute values denoting a coefficient that is large relative to its sampling error. The significance value p reports the probability of obtaining a coefficient of that magnitude if the null hypothesis were true, and is the basis on which each null hypothesis is rejected or not rejected at the 0.05 level.

The findings indicate that internal control systems had the strongest influence on financial performance, with a coefficient of 0.079 ($\beta = 0.394$, $t = 3.038$, $p = 0.004$). This implies that a one-unit improvement in internal control systems, holding the other dimensions and sector constant, is associated with a 0.079-unit increase in the Net Operating Surplus Ratio, equivalent to 7.9 percentage points of total revenue. The standardised coefficient of 0.394 indicates that internal control systems make the largest relative contribution of the five predictors entered, a one standard deviation improvement in internal control systems being associated with a 0.394 standard deviation improvement in financial performance. The t value of 3.038 shows that the coefficient is more than three times its standard error and has therefore been estimated with precision, and the significance value of 0.004 lies well below the 0.05 threshold, providing strong evidence against the third null hypothesis. Regulatory compliance had the second strongest and also statistically significant influence, with a coefficient of 0.062 ($\beta = 0.317$, $t = 2.583$, $p = 0.014$), indicating that a one-unit improvement in regulatory compliance is associated with a 0.062-unit increase in the Net Operating Surplus Ratio. The standardised coefficient of 0.317 places regulatory compliance second among the predictors in relative contribution, the t value of 2.583 indicates that

the coefficient is approximately two and a half times its standard error, and the significance value of 0.014 is below 0.05, providing evidence against the first null hypothesis.

Compliance monitoring returned a positive coefficient of 0.041 ($\beta = 0.216$, $t = 1.783$, $p = 0.082$) which, while approaching conventional significance, did not attain the 0.05 threshold. Compliance training returned the smallest coefficient of 0.028 ($\beta = 0.158$, $t = 1.333$, $p = 0.190$) and was likewise not statistically significant. In both cases the t values of 1.783 and 1.333 fall below the critical value of approximately 2.02 associated with 40 degrees of freedom, indicating that the coefficients are small relative to their standard errors, and the significance values of 0.082 and 0.190 exceed 0.05, so that the second and fourth null hypotheses were not rejected. The direction of both effects is nonetheless positive, and the standardised coefficients of 0.216 and 0.158 indicate that monitoring and training make a smaller relative contribution than the two structural dimensions rather than no contribution at all. The sector dummy returned a coefficient of 0.019 ($\beta = 0.121$, $t = 1.118$, $p = 0.270$) and was not statistically significant, indicating that once compliance risk management practices are accounted for, sectoral classification does not exert a significant independent influence on the net operating surplus of commercial GOEs.

The constant returned a negative value of -0.386 ($t = -3.016$, $p = 0.004$). The constant represents the predicted Net Operating Surplus Ratio of an entity scoring zero on all four compliance risk management dimensions, and a negative value therefore indicates that in the absence of compliance risk management practices a commercial GOE would be expected to operate at a loss. This is not an anomaly in the model but a direct reflection of the loss-making baseline established in Chapter One, where 26 of the 46 responding entities recorded a negative composite Net Operating Surplus Ratio over the period 2021 to 2025. The positive coefficients on the compliance dimensions accordingly represent the extent to which compliance risk management moves an entity away from that baseline towards a positive operating surplus.

4.2.6 Diagnostic Tests

A series of diagnostic tests was carried out to establish whether the entity-level data met the assumptions underlying multiple linear regression analysis. Testing these assumptions was necessary because violations would compromise the validity and

reliability of the regression results. The diagnostic tests conducted were the test for normality of residuals, the test for multicollinearity, the test for heteroscedasticity, the test for linearity and the test for independence of errors, in line with the procedure specified in Chapter Three.

4.2.6.1 Normality of Residuals

The normality test was conducted to determine whether the residuals of the regression model were normally distributed, since the regression normality assumption relates to the distribution of residuals rather than to the raw study variables (Field, 2018). Normality was assessed using the Shapiro-Wilk test, supported by an examination of the skewness and kurtosis statistics for the study variables. The decision rule was that the residuals are normally distributed where the significance value associated with the test statistic is greater than 0.05, and that skewness and kurtosis values within the range of negative two to positive two indicate acceptable normality. The results are presented in Table 4.12.

Table 4.12: Tests of Normality

Variable	Skewness	Kurtosis	Shapiro-Wilk	Sig. (p)
Regulatory compliance	-0.312	0.184	0.976	0.412
Compliance monitoring	-0.276	-0.221	0.981	0.526
Internal control systems	-0.348	0.297	0.972	0.318
Compliance training	-0.194	-0.316	0.984	0.611
Financial performance (NOSR)	-0.229	0.142	0.979	0.478
Standardised residuals	**-0.187**	**0.106**	**0.983**	**0.583**

Source: Field Data and Audited Financial Statements (2026). Decision rule: normality assumed where $p > 0.05$.

The results obtained from Table 4.12 indicate that the significance values of all the study variables and the standardised residuals were greater than 0.05 ranging between 0.318 for internal control systems and 0.611 for compliance training while the standardised residuals returned significance value of 0.583. Skewness ranged from –0.348 to –0.187 while kurtosis was in between –0.316 and +0.297, which is in the acceptable range of –2 and +2. When the standardised residuals were plotted on a normal probability plot and a histogram, the residual distribution was found to be approximately normal and that the residuals were not significantly deviant from the

diagonal reference line. Thus the assumption of normality was met and the data could be used to apply parametric statistical methods.

4.2.6.2 Multicollinearity Test

Multicollinearity test was performed to determine if any of the independent variables were very highly correlated with each other because the highly correlated independent variables would cause the regression coefficients and the corresponding standard errors to be incorrect. Multicollinearity was evaluated using tolerance and VIF value, with a VIF value greater than 10 considered as multicollinearity problem that needs to be addressed (Zeng & Zeng, 2021). Table 4.13 displays the results.

Table 4.13: Multicollinearity Test

Variable	Tolerance	VIF
Regulatory compliance	0.574	1.742
Compliance monitoring	0.531	1.883
Internal control systems	0.508	1.969
Compliance training	0.612	1.634
Sector (dummy)	0.786	1.272

Source: Field Data (2026). Decision rule: multicollinearity not a concern where tolerance > 0.10 and VIF < 10.

As observed on the result in Table 4.13, all the tolerance values for the independent variables were > 0.10 with the lowest value of 0.508 for internal control systems and the highest value of 0.786 for sector control variable while all the Variance Inflation Factor (VIF) values were much lower than 10, with the lowest value of 1.272 for the sector control variable and the highest value of 1.969 for internal control systems. These findings suggest there was no troublesome multicollinearity of the independent variables, which means that each of the four compliance risk management dimensions provides unique information and that adding the sector dummy does not add redundancy to the model. Independent variables were thus appropriate for simultaneous entry into the multiple regression model.

4.2.6.3 Heteroscedasticity Test

It was necessary to test for heteroscedasticity to determine whether the variance of the residuals was equal or not for the range of values of the independent variables because heteroscedasticity would make the regression estimates inefficient and the standard errors unreliable. Breusch-Pagan test was used to test the heteroscedasticity with the

decision rule that assumption of homoscedasticity is accepted if BreuschPagan test significance is greater than 0.05 (Patel & Patel, 2019). This result is shown in Table 4.14.

Table 4.14: Breusch-Pagan Test for Heteroscedasticity

Test	Chi-Square	df	Sig. (p)	Decision
Breusch-Pagan test	7.412	5	0.192	Homoscedastic

Source: Field Data (2026). Decision rule: homoscedasticity assumed where $p > 0.05$.

Table 4.14 shows that the Breusch-Pagan test has a chi square value of 7.412, 5 degrees of freedom and a value of 0.192, which is above 0.05. Hence the null hypothesis of constant error variance was not rejected and it was concluded that the variance of the residuals was constant over the range of values of the independent variables and that the assumption of homoscedasticity was met. The residuals were consistent as they were randomly scattered around the horizontal axis with no funnel or fan shape which was confirmed by a supporting inspection of the scatter plot of the standardised residuals against the standardised predicted values.

4.2.6.4 Linearity Test

The linearity test was conducted to confirm that a straight-line relationship existed between each of the independent variables and the dependent variable, which is a fundamental assumption of linear regression. Linearity was assessed using the analysis of variance test for linearity, with the decision rule that the relationship is linear where the significance value for the linearity component is less than 0.05, supported by an inspection of scatter plots of residuals against predicted values. The results are presented in Table 4.15.

Table 4.15: Test for Linearity

Relationship with Financial Performance	F (Linearity)	Sig. (p)	Decision
Regulatory compliance	18.417	0.000	Linear
Compliance monitoring	14.226	0.000	Linear
Internal control systems	23.891	0.000	Linear
Compliance training	9.634	0.003	Linear

Source: Field Data (2026). Decision rule: relationship linear where $p < 0.05$.

The findings in Table 4.15 show that the linearity component returned significance values of less than 0.05 for all four independent variables, specifically 0.000 for

regulatory compliance, 0.000 for compliance monitoring, 0.000 for internal control systems and 0.003 for compliance training. The scatter plots of the residuals against the predicted values showed the data points clustering around upward-sloping lines of best fit with no pronounced curvature, confirming the absence of any material non-linear component in the relationships. The assumption of linearity was therefore satisfied and the data were suitable for linear regression analysis.

4.3 Interpretation of the Findings

The findings presented above are interpreted below in relation to each of the four specific objectives of the study and presents the summary of hypotheses testing. The interpretation draws together the descriptive, correlation and regression results in order to establish what each set of findings implies for the compliance-performance relationship in commercial GOEs in Kenya.

4.3.1 Regulatory Compliance and Financial Performance

The first objective sought to assess the influence of regulatory compliance on the financial performance of commercial GOEs in Kenya. The descriptive findings established that regulatory compliance recorded an overall mean of 3.89, indicating agreement that entities adhered to legal and regulatory requirements, with strong performance on licensing and statutory reporting but markedly weaker performance on the avoidance of penalties, which recorded a mean of only 3.28. The correlation analysis established a strong positive and statistically significant relationship between regulatory compliance and financial performance ($r = 0.562$, $p < 0.05$), and the regression analysis confirmed a positive and statistically significant influence ($\beta = 0.317$, $p = 0.014$).

The interpretation of the results is that compliance with regulations has a real and measurable impact on the net operating surplus of commercial GOEs and that the impact is primarily in avoiding value destroying events, rather than in revenue generation. Validly licensed entities with obligations that are met and complied with means that resources are not eaten up with penalties, remedial legal fees and disruptions to business. The weakness on the penalty-avoidance item is thus important as it represents the exact point where non-compliance starts to result in financial loss. The results lead to the rejection of the first null hypothesis.

4.3.2 Compliance Monitoring and Financial Performance

The second objective aimed at finding out the effects of compliance monitoring on the financial performance of commercial GOEs in Kenya. The descriptive findings showed that the overall mean of the compliance monitoring was 3.74 while the mean for the early detection of non-compliance issues was the lowest of 3.41 and the formal compliance monitoring frameworks were widely in place. A moderate to strong positive and statistically significant relationship was found between the correlation analysis and financial performance ($r = 0.497$, $p < 0.05$). The results of the regression analysis, however, yielded a positive, but statistically non-significant coefficient ($\beta = 0.216$, $p = 0.082$).

An explanation of the difference between the bivariate and multivariate result is needed. The meaningful bivariate correlation is a testament to the fact that entities having stronger monitoring practices do have better financial performance but the non-significance in the multivariate model suggests that the impact of monitoring on financial performance is heavily shared with and largely absorbed by internal control systems (correlation of 0.534) and regulatory compliance (correlation of 0.468). Substantively, monitoring seems to function as a supporting mechanism which nourishes the internal control and regulatory compliance functions instead of being an autonomous surplus driver. This descriptive finding is supported by the reading that monitoring frameworks are in place but only identify issues at a later stage, as a framework that reports, rather than pre-empts, has less incremental value once controls are taken into consideration. The finding results in not rejecting the second null hypothesis at the 0.05 level of significance.

4.3.3 Internal Control Systems and Financial Performance

The third objective was to determine the effect of internal control systems on the financial performance of commercial GOEs in Kenya. Descriptive findings determined the highest overall mean of the four dimensions was the internal control systems, with 3.90, and strong mean scores on the dimension of preventive controls and poor mean scores on the dimension of audit recommendations 3.52. The correlation analysis had the highest correlation of all the dimensions with financial performance ($r = 0.618$, $p < 0.05$) and the regression analysis also showed a positive and statistically significant relationship, also the highest among the four ($\beta = 0.394$, $p = 0.004$).

The interpretation of these results is that the internal control systems are the most critical aspect of compliance risk management on the financial performance of commercial GOEs. This makes sense because the dependent variable is leakage, misappropriation, procurement irregularity and reporting error, which are all directly sensitive to the Net Operating Surplus Ratio, and which are all right in the middle of the domain of internal control. The other dimensions affect the cost side of the surplus equation, while controls have a direct effect on it. The longstanding lack of action on audit recommendations is thus the one key area identified in the study that has the greatest dollar impact: it is how all the control failures identified in the audit are allowed to repeat themselves. Based on the finding, the third null hypothesis is rejected.

4.3.4 Compliance Training and Financial Performance

The fourth objective sought to determine the influence of compliance training on the financial performance of commercial GOEs in Kenya. The descriptive findings established that compliance training recorded the lowest overall mean among the four dimensions at 3.55, with the weakest items being the updating of training content at 3.29 and the regularity of training sessions at 3.34, and with the highest dispersion of any dimension. The correlation analysis established a moderate positive and statistically significant relationship with financial performance ($r = 0.401$, $p < 0.05$), but the regression analysis returned a positive and statistically non-significant coefficient ($\beta = 0.158$, $p = 0.190$).

The interpretation of these results is that compliance training, as currently practised in commercial GOEs, does not exert an independent and statistically significant influence on financial performance within the study period. Two readings are available and are not mutually exclusive. The first is that the influence of training is indirect and operates through the other three dimensions, in that trained staff execute controls and monitoring more competently, so that the effect of training is already captured by those variables. The second, and the one better supported by the descriptive evidence, is that the training actually delivered is too infrequent, too rarely updated and too weakly translated into demonstrated understanding to generate a measurable financial return. The high standard deviations across the training items indicate wide variation in practice, and the comparatively high rating for the formal recording of attendance alongside comparatively low ratings for content currency suggests that training is in some entities

pursued as a documentary end in itself. The finding leads to the failure to reject the fourth null hypothesis at the 0.05 level of significance.

4.3.5 Summary of Hypotheses Testing

The study tested four null hypotheses derived from the four specific objectives, using the results of the multiple regression analysis. The decision rule was to reject the null hypothesis where the significance value associated with the relevant regression coefficient was less than 0.05, and to fail to reject the null hypothesis where the significance value was greater than 0.05. A summary of the hypotheses, the test results and the decisions reached is presented in Table 4.16.

Table 4.16: 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 H_0 where $p < 0.05$. Dependent variable: financial performance (composite NOSR).

As summarised in Table 4.16, two of the four null hypotheses were rejected at the 0.05 level of significance while two were not rejected. The first null hypothesis was rejected, confirming that regulatory compliance has a statistically significant positive influence on the financial performance of commercial GOEs in Kenya. The third null hypothesis was rejected, confirming that internal control systems have a statistically significant positive influence on financial performance, and representing the strongest of the four influences examined. The second null hypothesis was not rejected, indicating that compliance monitoring does not exert a statistically significant independent influence on financial performance once the other dimensions are controlled for, and the fourth null hypothesis was likewise not rejected in respect of compliance training.

Taken together, these results provide evidence that compliance risk management significantly influences the financial performance of commercial GOEs in Kenya, with the overall model explaining 54.9 percent of the variation in the Net Operating Surplus Ratio, but that this influence is concentrated in the structural dimensions of compliance, namely internal control systems and regulatory compliance, rather than in the procedural and developmental dimensions of monitoring and training.

4.4 Discussion of the Findings

This section presents a detailed discussion of the findings of the study in relation to each of the four specific objectives. The findings are interpreted and corroborated with reference to the empirical studies and to the theories that underpinned the study, namely stakeholder theory, dynamic capabilities theory, agency theory and human capital theory. The discussion is organised into four sub-sections, each corresponding to one of the specific objectives, followed by a synthesis of the overall pattern of results.

4.4.1 Regulatory Compliance and Financial Performance

The finding that regulatory compliance has a positive and statistically significant influence on the financial performance of commercial GOEs ($\beta = 0.317$, $p = 0.014$) is consistent with the body of empirical evidence. Cohen et al. (2022) established that organisations operating in complex regulatory environments and maintaining robust compliance frameworks record greater financial stability and fewer losses arising from regulatory fines, a mechanism that is directly reflected in the present findings, where the weakest regulatory compliance item was the avoidance of penalties and sanctions. Efunniyi et al. (2024) similarly reported that weak regulatory compliance was a principal explanation for the persistently poor financial performance of Commercial GOEs in Nigeria, a finding that the present study corroborates within the Kenyan context using an objective rather than perceptual measure of performance.

The finding also agrees with Murithi et al., (2020) who indicated that financial mismanagement, lack of efficiency and poor reporting in public institutions in Kenya is due to poor compliance system and Omondi and Muturi (2021) who indicated that the lack of efficient compliance system in Kenyan state corporations undermined financial accountability and performance of public institutions. There are a number of reports of comparable evidence well beyond Kenya. Akinsola (2025) determined that

compliance with regulatory obligations enhanced financial reporting accuracy and diminished financial irregularities in US public sector institutions, with Cardinale (2024) reporting that public enterprises under robust regulatory frameworks had higher operational efficiency and better accountability structures. Zeng and Zeng (2021) reported that regulatory compliance is positively linked with internal control systems and corporate financial performance and Mathisa (2020) noted that state linked entities with regulatory compliance in sub-Saharan Africa were consistently outperforming non-compliant entities on financial outcomes. Bolanle et al. (2024) also view compliance with regulatory mandates and industry standards as a necessary criteria for maintaining performance in the organisation.

Building upon this literature, the present study quantifies the relationship, and finds that a one unit increase in regulatory compliance is linked to a 0.062 increase in the Net Operating Surplus Ratio with other dimensions remaining unchanged. Meanwhile, the finding also contradicts the opposing view of Drogalas, Karagiorgos et al., (2021) which indicated if regulatory compliance is associated with higher operating costs, it could negatively impact financial performance. It also challenges the more conservative findings of Akang, (2024) that the positive effect of regulatory compliance on the financial performance of Nigerian firms is limited in the absence of supporting institutional structures, and of Nandan Prasad, (2024) that regulatory compliance had no measurable direct effect on financial performance where implementation mechanisms and institutional capacity were weak. In Kenya, the evidence from the commercial GOEs shows that the net relationship for compliance is positive, with the value of the surplus generated by compliance investment being greater than the cost of compliance required to avoid penalties and interruption of operations.

Theoretically, the finding lends support to stakeholder theory (Freeman, 1984; Donaldson & Preston, 1995), which holds that organisations that meet the legitimate expectations of their regulators, oversight institutions and the public sustain the institutional trust and operating latitude necessary for long-term financial viability. Hörisch et al. (2022) argue that inclusiveness, ethical management and mutual accountability are constitutive of sustainable organisational performance, a proposition that the present findings support within a public commercial setting. For commercial GOEs, whose principal stakeholders include the National Treasury, the State Corporations Advisory Committee and the Office of the Auditor-General, regulatory

compliance is the primary currency of that legitimacy, and the OECD (2020) guidelines on the corporate governance of state-owned enterprises treat regulatory adherence as a foundation of responsible state ownership. The finding is also consistent with agency theory (Jensen & Meckling, 1976; Fama, 1980), in that adherence to external regulatory requirements constrains the discretion of management and reduces the scope for the pursuit of objectives inconsistent with the interests of the state as principal. Eisenhardt (1989) observes that external governance mechanisms operate alongside internal ones in reducing agency costs, while Grossi et al. (2021) and Cuervo-Cazurra et al. (2022) report that weak governance and accountability arrangements are recurrent explanations for the underperformance of state-owned enterprises internationally.

4.4.2 Compliance Monitoring and Financial Performance

The result of non-significant independent effect of compliance monitoring on financial performance ($\beta = 0.216$, $p = 0.082$) although it was significant when analyzed individually (0.497) deserves careful discussion. The outcome is partially counterintuitively compared to the findings of Lagat et al. (2025), which showed audit and monitoring tools were a positive measure for increasing transparency and decreasing financial irregularities in public institutions within Tanzania and Uganda. It should be noted, however, that these studies measured governance outcomes, not financial performance measures as such, which was explicitly stated as a limitation of the literature from East Africa in the research gap. The current discovery indicates that there is no automatic link between transparency and surplus, and that it cannot stand alone in an environment of control.

This is more in line with the observation of the African Development Bank (2021) that many African public entities have oversight and monitoring in place but do not yield proportionate financial results. Similarly, Samaratunge and Alam (2021) concluded that in a context of weak enforcement mechanisms and limited institutional capacity, compliance monitoring did not significantly influence financial performance and that Eyinade et al. (2021) found that increased monitoring in West African government institutions led to a higher administrative cost and delayed decision making, which negatively impacted financial efficiency. In East Africa, monitoring practices were found to increase compliance with regulations and transparency in public institutions without having a measurable impact on financial outcomes, as was structured

compliance monitoring in state-owned enterprises (Njenga and Warui 2023, Kwanh 2025). These findings contrast with those of Ronconi and Krakowski (2023) and Abbott and Snidal (2021) who observed that, in a strong enforcement environment, audit frequency and monitoring systems enhance transparency and decreases financial leakages; and those of Efunniyi et al. (2024) who found that structured compliance monitoring positively affects the financial performance of Nigerian state corporations. The OECD (2024) also states that monitoring systems in SOEs provide financial value only if they are accompanied by enforcement. The descriptive findings of the present study support this reading as the formal monitoring frameworks were widely reported as in place with a mean of 3.98, while the early detection of non-compliance issues had the lowest mean of 3.41. A monitoring system that provides information after the fact, as opposed to one that identifies issues in advance, is a documentation, not a loss prevention tool and its cost becomes part of the cost of the internal control function that is administered to its output.

This discovery offers a qualified reading of dynamic capabilities theory (Teece et al., 1997; Eisenhardt & Martin, 2000) theoretically. The concept is that organisations come to value through acting on changes in their environment, capturing the opportunities that arise, and reconfiguring their resources. The commercial GOEs show evidence of the sensing capability (compliance monitoring) but it is not necessarily connected to the seizing and reconfiguring capabilities needed to make a financial outcome of detection. In this regard, Wilden et al. (2023) note that dynamic capabilities are challenging to operationalise, as their effects depend on how they are implemented by the organisation's processes and Lenz and Hahn (2023) find that the effectiveness of internal audit and monitoring functions is related to management's receptiveness to internal audit and monitoring results. On this reading, monitoring is a precondition, but not a sufficient condition, for financial performance; indeed, Samaratunge and Alam (2021) note that accountability structures in emerging economies are often delinked from the enforcement capacity needed to make them effective.

4.4.3 Internal Control Systems and Financial Performance

The results indicate that internal control systems have the highest positive and statistically significant impact on the financial performance of commercial GOEs ($\beta = 0.394$, $p = 0.004$) which is well supported by the empirical literature. Efunniyi et al.

(2024) found inadequate internal control as one of the key factors that affect the financial performance of Nigerian Commercial GOEs, while the African Development Bank (2021) reported that poor oversight and accountability controls contribute to financial irregularities and to negative operating surpluses in South African public entities. In the same vein, Cuervo-Cazurra et al. (2022) also found that the loss in profitability of Chinese SOEs was mostly due to poor governance and internal control. The present study verified this convergence and found that there is a similar relationship in the context of commercial GOE in Kenya.

Of special interest is the pattern in the internal control results. The top two items were both related to preventive controls: prevention of unauthorised access to financial resources (4.16) and assurance of reporting accuracy (4.09); and the lowest item was by a considerable margin the timely implementation of audit recommendations (3.52). This distribution confirms a pattern which is well known in literature. Janardhanan and Ramkumar (2022) concluded that good internal control systems prevented financial mismanagement, enhanced the quality of financial disclosures, and resulted in measurable financial benefits, while Chen et al. (2016) showed that over time, good internal control systems led to improvements in the operational efficiency and profitability of Chinese state-owned enterprises. A similar positive relationship was found by Zeng and Zeng (2021) in a combined Regulatory Compliance and Internal Control model. In Kenya, Chelangat (2024) found a positive relationship between functional audit committees and structured reporting systems and financial accountability of state corporations, whereas Ongonge and Okiro (2024) found a positive influence of internal controls on the performance of Kenyan state enterprises. The counterweight in the literature proves enlightening: Nguyen et al., (2023) discovered that, in absence of effective application, the presence of internal control systems had no significant impact on the financial performance of the organisation, while Nurfadila, (2024) concluded that internal control systems that are too stringent generate a negative impact on the flexibility of the organisation and its operational efficiency. Weaknesses noted here in implementation of audit recommendations reflect the regular observation by the Office of the Auditor-General of acceptance but not consistent implementation of audit recommendations in Kenyan State Corporations. The financial implication of this gap is straightforward: the biggest of the four dimensions is the internal control system and the smallest of that is the most significant,

remediable deficiency in the system of internal control identified by this study. Some of this can be attributed to how well internal compliance roles and external auditors relate, as Odetunde et al. (2021) explain.

The finding theoretically provides strong support for the agency theory (Jensen & Meckling, 1976; Fama, 1980; Eisenhardt, 1989), which suggests that the internal control systems serve as monitoring and bonding mechanisms to limit the managerial opportunism and to make the managers' actions consistent with the interests of principals. A commercial GOE, in which ownership is vested in the state and where management is an appointed one, would have a severe agency problem and the information asymmetry would be high as documented in Kenyan state corporations by Omondi and Muturi (2021) and in state-owned enterprises globally by Cuervo-Cazurra et al. (2022) and OECD (2020). The fact that internal controls is the strongest predictor of net operating surplus is exactly what agency theory would expect in such an environment, and it is in line with the results of Chen et al. (2016) which show that the quality of internal controls is negatively associated with agency costs, and positively with firm performance in settings where ownership and control are separated. The finding also corroborates the notion that the control activities, risk assessment and monitoring are a system that is only as effective as its weakest link—which in this instance is the remediation of the identified deficiencies—as highlighted in the internal audit literature examined by Lenz and Hahn (2023).

4.4.4 Compliance Training and Financial Performance

The finding that compliance training did not exert a statistically significant independent influence on financial performance ($\beta = 0.158$, $p = 0.190$) contrasts with the emphasis placed on training in parts of the literature. Lenz and Hahn (2023) reported that firms in the United States and United Kingdom that invest in compliance systems, including training, record consistently positive financial impacts. The divergence between that finding and the present result is best explained by differences in the intensity and quality of the training delivered rather than by any inconsistency in the underlying mechanism. The descriptive evidence in the present study establishes that training in commercial GOEs is infrequent, with a mean of 3.34 on the regularity item, and rarely updated, with a mean of 3.29 on the content currency item, and that its translation into demonstrated employee understanding is weak, at a mean of 3.46.

This aligns with Kuola and Obasan (2025)'s observation that financial gains from capability to comply only occur when compliance procedures are integrated into the practice of operations. Friday et al. (2022) found a similar result: there was no significant financial impact of training in public institutions with poor programme design or when the training was not aligned to the needs of the institution, which suggests that the issue in this instance is one of programme design and relevance to institutional needs rather than a failure of the mechanism. Compliance training in Israeli public sector organisations was found to increase the awareness of the regulations and decrease the financial risk of non-compliance (Manor 2023) and regular training programmes were shown to have a greater impact on operational and financial outcomes than training sporadically (Moodie and Wheelahan 2023), while the commercial GOEs in this study did not experience such conditions. Within African countries, both structured compliance training frameworks in South African banks (Botha and Van der Merwe, 2025) and regular staff training in Rwandan public institutions (Hakizayezu, 2023) resulted in better adherence to regulatory requirements, while regular training in Ghanaian public institutions (Nkrumah et al., 2022) and Kenyan public institutions (Ndii et al., 2025) had the effect of improving employee competence, but both studies measured employee competence or compliance and not financial performance. The financial returns to training investment are dependent on transfer to practice, as stated by Jacobs and Park (2020), and the current data suggests there is no transfer to practice. The relative high rating for formal recording of training attendance (3.87) particularly when compared with the ratings for content currency and demonstrated understanding is indicative of that form of diagnostic.

Theoretically, the finding provides a conditional reading of human capital theory (Becker, 1964; Schultz, 1971), which posits that the acquisition of skills and knowledge of workers improves productivity and organisational results. The present result does not contradict the theory, which says that returns should accrue to true human capital investments; indeed, the evidence suggests that the training provided in many commercial GOEs is not a true human capital investment. Moodie & Wheelahan (2023) put forward a similar critique as the human capital theory exaggerates the return to investment in training, while Jacobs & Park (2020) note that it is hard to measure a financial return to training investment where skills transfers are weak. The bivariate correlation between training and financial performance is indeed moderate and

statistically significant (0.401), but theory holds that the effect of training on financial performance is not independent of the structures and controls that trained staff manage and use, a view that is corroborated by the findings of Nkrumah et al. (2022) that training effects on institutional performance are not independent of the structure and controls through which trained staff act.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusions and recommendations of the study, which sought to determine the influence of compliance risk management on the financial performance of commercial GOEs in Kenya. The chapter draws on the findings presented, interpreted and discussed in Chapter Four and relates them to the four specific objectives of the study, namely to assess the influence of regulatory compliance, to determine the influence of compliance monitoring, to assess the influence of internal control systems, and to determine the influence of compliance training on the financial performance of commercial GOEs in Kenya. The chapter begins with a summary of the major findings for each specific objective, followed by the conclusions drawn from those findings and the recommendations advanced for policy and practice. It then sets out the contribution of the study to existing knowledge, outlines the limitations encountered in the course of the study, and concludes with suggested areas for further research.

5.2 Summary of the Findings

This section summarises the major findings of the study in relation to each of the four specific objectives. The findings summarised below draw on the descriptive statistics, the correlation analysis and the multiple regression analysis presented in Chapter Four.

5.2.1 Regulatory Compliance and Financial Performance

The first objective sought to assess the influence of regulatory compliance on the financial performance of commercial GOEs in Kenya. The descriptive findings established that regulatory compliance recorded an overall mean of 3.89 with a standard deviation of 0.78, indicating general agreement that the entities adhered to legal and regulatory requirements. The strongest items concerned the holding of required operational licences, with a mean of 4.31, and the timely submission of financial reports, with a mean of 4.12, while the weakest item by a considerable margin concerned the avoidance of regulatory penalties and sanctions in the preceding three

years, which recorded a mean of only 3.28 and the highest dispersion within the construct.

The second highest correlation was between regulatory compliance and financial performance ($r = 0.562$, $p < 0.05$), which was statistically significant and had a strong positive correlation. The results of the regression analysis showed that regulatory compliance positively and significantly affected the financial performance ($\beta = 0.317$, $p = 0.014$), which means a 1 unit increase in regulatory compliance is associated with an increase of 0.062 in the Net Operating Surplus Ratio, other variables being constant. The first null hypothesis was thus rejected.

5.2.2 Compliance Monitoring and Financial Performance

The second objective was to establish how compliance monitoring affects commercial GOEs' financial performance in Kenya. The descriptive results showed that the mean of the compliance monitoring was 3.74 and the SD was 0.82. The highest means were obtained for the existence of a formal framework for compliance monitoring (3.98) and regular submission of compliance report to management (3.94), whereas the lowest mean was obtained for early detection of non-compliance issues through monitoring system (3.41) which also had the highest dispersion within the construct. The correlation analysis revealed that the relationship between compliance monitoring and financial performance was moderate to strong with a p value of < 0.05 and r value 0.497. However, the regression analysis resulted in a positive but statistically non-significant coefficient ($\beta = 0.216$, $p = 0.082$), showing that the impact of compliance monitoring is not independent of the other dimensions of compliance risk management. Hence the second null hypothesis was not rejected at 0.05 level of significance.

5.2.3 Internal Control Systems and Financial Performance

The third objective sought to assess the influence of internal control systems on the financial performance of commercial GOEs in Kenya. The descriptive findings established that internal control systems recorded the highest overall mean among the four dimensions at 3.90 with a standard deviation of 0.77. The strongest items concerned the prevention of unauthorised access to financial resources, with a mean of 4.16, and the assurance of accuracy in financial reporting, with a mean of 4.09, while the weakest item concerned the implementation of audit recommendations within the

required timelines, which recorded a mean of 3.52 and the highest dispersion within the construct. The correlation analysis established the strongest relationship with financial performance of any of the four dimensions ($r = 0.618$, $p < 0.05$). The regression analysis confirmed that internal control systems had the strongest positive and statistically significant influence on financial performance ($\beta = 0.394$, $p = 0.004$), with a coefficient of 0.079 indicating that a one-unit improvement in internal control systems is associated with an increase of 0.079 in the Net Operating Surplus Ratio, holding the other variables constant. The third null hypothesis was therefore rejected.

5.2.4 Compliance Training and Financial Performance

The fourth objective was to establish the impact of compliance training on financial performance of commercial GOEs in Kenya. Descriptive results found a lowest overall mean for the four dimensions of compliance training with a mean of 3.55 and highest dispersion of 0.90. The highest item mean was for the formal recording of attendance at training sessions (3.87) and the lowest item means were for updating training content to reflect regulatory changes (3.29) and regularity of training sessions (3.34), both of which were in the neutral / moderate range. The shown improvement in understanding of employees after the training is 3.46 (mean). The correlation analysis showed that the financial performance dimension had the lowest correlation with compliance training ($r = 0.401$, $p < 0.05$), and there was a moderate positive correlation between the two dimensions. The regression analysis yielded a statistically not significant positive coefficient ($\beta = 0.158$, $p = 0.190$), suggesting that, in the time frame under investigation, compliance training, as it is practiced, does not have an independent effect on the financial performance of the company. Thus, the fourth null hypothesis was not rejected at the alpha level of 0.05.

5.3 Conclusions

Based on the findings, the following conclusions are drawn in relation to each of the four specific objectives and to the general objective of the study.

The study finds that the first objective, regulatory compliance plays a significant role in improving the financial performance of commercial GOEs in Kenya. Companies that do not have their operating license revoked, do not submit their statutory returns late and do not face regulatory penalties save the resources that would otherwise be spent

on penalties, remedial legal fees and interruptions to operations. The study also finds that regulatory compliance in these entities is now better on the formal aspects of compliance – licensing and reporting – than on the substance aspects of compliance – prompt remediation of identified breaches and avoiding penalties. It's at this latter juncture that compliance failures become tangible monetary losses.

Concerning the second goal, the research finds that the compliance monitoring (as it is practised now) has no direct impact on financial performance when the other dimensions are considered. Monitoring nevertheless remains important, since it recorded a significant correlation with financial performance when examined on its own. Its financial contribution is, however, largely absorbed by the internal control and regulatory compliance functions that it monitors, and it therefore does not register as an independent effect once those two functions are held constant. The study also finds that in terms of form, monitoring arrangements are in place but have a reactive nature – they report after violations have taken place, and coverage of applicable obligations is not uniform across entities.

Regarding the third objective, the study finds that internal control system is the most financially impactful aspect of compliance risk management in GOEs in Kenya. Since leakage, misappropriation, procurement irregularity and reporting error are directly in the domain of internal control, controls affect the cost side of the surplus equation directly, while the other dimensions affect the cost side of the equation only indirectly. The study also finds that such systems are significantly more effective in the preventive phase than the corrective phase, and that the lack of action on audit recommendations within the specified time limit is the most significant remediable deficiency that has been identified, which has the most material financial impact.

Regarding the fourth objective, the study results show that, for the commercial GOEs in the sample period, there is no statistically significant and independent effect of compliance training on financial performance. The study attributes this result to the nature of the training provided rather than to any weakness in the relationship between employee capability and organisational performance. The descriptive evidence shows that training is conducted irregularly, that its content is rarely updated to reflect changes in regulation, and that it translates weakly into demonstrated understanding among staff. The study suggests that compliance training in many commercial GOEs is

considered a documentary requirement on its own and that such training cannot be monetised.

5.4 Recommendations

Based on the findings and conclusions, the following recommendations are advanced for the management of commercial GOEs and for the oversight and policy institutions of the Government of Kenya, organised by specific objective and calibrated to the financial materiality of each dimension.

5.4.1 Recommendations on Regulatory Compliance

The management of commercial GOEs should continue to demonstrate good performance on licensing and statutory reporting, and focus on the substantive aspects, which underperformed, given that both these factors were statistically significantly and positively associated with financial performance. Entities should have written remedial action plans with named action owners and prompt action schedules for the resolution of all identified non-compliance incidents; a master register of regulatory obligations that is reviewed quarterly with the board audit and risk committee. All regulatory penalties for the reporting period should be reported as a regular item on the annual performance report of commercial GOEs, mandated by National Treasury and State Corporations Advisory Committee.

5.4.2 Recommendations on Compliance Monitoring

Compliance monitoring did not yield a statistically significant independent value, but did yield a significant bivariate association with financial performance and a specific deficiency for early detection. Commercial GOEs should therefore be managed with a shift from a reporting towards a detection culture, with the establishment of forward-looking indicators of compliance and escalation thresholds to capture management attention in time before a compliance obligation is violated rather than through periodic, retrospective reporting. The entities should be expanding the scope of their monitoring frameworks to the entire range of regulatory requirements, and should be placing all monitoring results immediately into the control remediation workstream with an owner.

5.4.3 Recommendations on Internal Control Systems

The results suggest the most important dimension of the four investigated is internal control systems, which should receive the greatest management attention and resources. In the strongest dimension, the mean scores for implementing audit recommendations were the lowest and highlighted an area that entities need to focus on, while the mean scores for the preventive controls on which entities already have good scores should be maintained. Entities to create formal tracking register for audit recommendations which would be reviewed at every audit and risk committee meeting; boards to include the closure rate as an explicit component of the chief executive officer (CEO) and finance function appraisal; and National Treasury to include the closure rate as an explicit element of performance contracts.

5.4.4 Recommendations on Compliance Training

Compliance training did not return a statistically significant independent influence on financial performance, and the study attributes this to the nature of the training currently delivered rather than to the irrelevance of employee capability. Compliance training for commercial GOEs should be transformed into a capability-building intervention, and should be carried out on a stated and consistent schedule, with the training material adjusted to include any significant changes to the regulation. Focus should be on post training evaluation and periodic knowledge testing, not only attendance, and training differentiated by role. The Kenya School of Government and the State Corporations Advisory Committee should be able to create a uniform compliance curriculum for the finance and risk functions to ensure that smaller entities are not disadvantaged.

5.4.5 Recommendations to Policy Makers and Oversight Institutions

The lack of statistical significance of the sector control variable indicates that the financial underperformance of commercial GOEs is dependent on compliance and control practice, and not a function of the sectoral circumstance. This should not be taken as an excuse to write a policy based on the sector's problems, though, and policy-makers should focus on the practices of individual entities. The four dimensions identified in this study should be used in a composite compliance risk management index, weighted to reflect the financial materiality of the dimension, which should guide the allocation of oversight resources and the conditions to be imposed on exchequer

support by the National Treasury and the State Corporations Advisory Committee. There is a need for thinking about the connection between a part of that support and improvement in implementation of the recommendations of audit.

5.5 Contribution to Existing Knowledge

This study has five contributions. Empirically, it fills the gap identified by the use of the four dimensions of compliance risk management that are correlated with an objective audited measure, the composite Net Operating Surplus Ratio, as opposed to governance proxies used in previous Kenyan studies. Substantively, it reveals that the dimensions exert varying influences: the internal control systems and regulatory compliance are significant influences, but the monitoring and training dimensions are not, as their influences are embedded in the structural dimensions. The dual informant census design, formally tested for inter-rater consistency prior to aggregation, addresses common method bias that limits a fair amount of survey research in this arena. It is a conceptual application of agency, stakeholder, dynamic capabilities and human capital theory in commercial GOEs in Kenya. For policy, it sees the causes of performance in the management and oversight institutions themselves, not in the circumstance in which the sector is operating, and it sees the execution of audit recommendations as the most important and financially material remediable deficiency.

5.6 Limitations of the Study

Five limitations were encountered in the course of the study and should be borne in mind when the findings are interpreted. The first concerns the size of the analytical dataset. Although a census of all 51 commercial GOEs was undertaken and a response rate of 89.2 per cent was achieved, only the 46 entities that returned complete paired responses from both informants could be admitted to the entity-level dataset, since an entity had to be represented by both a finance manager and a risk or compliance manager for the responses to be aggregated. The resulting 46 observations were sufficient for the regression analysis but limited the statistical power available to detect small effects, and the non-significant results obtained for compliance monitoring and compliance training should therefore be read as the absence of a demonstrable independent effect in this dataset rather than as proof that no such effect exists. The second limitation is one of scope. Only commercial GOEs were studied, to the exclusion of regulatory, service-oriented and social state corporations, so that the

findings speak to entities with a revenue-generating mandate and should not be generalised to the wider state corporations sector. The third limitation concerns the measurement of the independent variables, which were captured perceptually through self-reported questionnaire items and were therefore exposed to social desirability bias; this exposure was reduced, though not eliminated, by the dual-informant design, by the assurances of anonymity given to respondents and by the use of an objective audited measure for the dependent variable. The fourth limitation arises from the research design, which was cross-sectional in structure once the five annual ratios were collapsed into a composite score, and which accordingly establishes association rather than causation, so that the direction of influence between compliance risk management and financial performance cannot be established from these data. The fifth limitation is that the model left 45.1 per cent of the variation in financial performance unexplained, which reflects the deliberate delimitation of the study to the compliance domain and the consequent exclusion of macroeconomic, structural and governance determinants that lie outside it. Each of these limitations informs the areas recommended for further research in Section 5.7.

5.7 Areas for Further Research

Based on the results and limitations, there are several areas suggested for further research. Based on larger datasets, either a pooled multi-year dataset or by incorporating non-commercial GOEs, compliance monitoring and compliance training should be re-evaluated for independent effects that were not found in the current sample. Longitudinal or panel designs should determine the direction of cause and effect, as well as the time interval that impacts in compliance risk management have on financial performance. Testing the mediation effect of internal control systems between monitoring, training and financial performance should be done through structural equation modelling or mediation analysis. A mixed methods enquiry would be useful to understand the reasons for acceptance of audit recommendations but not for implementation.

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APPENDICES

Appendix I: Introduction Letter

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SCHOOL OF BUSINESS & ECONOMICS
Department of Graduate Business Studies

Our Ref: CUEA/SoBE/GBS/JM/Research/026/2026

14th July 2026

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: RESEARCH FACILITATION REQUEST-BILLY KIPRUTO: REG. NO.1064675

The Department of Graduate Business Studies at The Catholic University of Eastern Africa is committed to developing competent professionals and academicians with integrity, equipped with the knowledge and skills required to navigate today's dynamic business environment. The Department offers postgraduate programmes including the Doctor of Philosophy (PhD) in Business Management, Doctor of Business Administration (DBA), Master of Business Administration (MBA), and Master of Economics.

The above-named is a student in the Department of Graduate Business Studies, School of Business & Economics, pursuing **Master of Business Administration Finance Option**. As part of the requirements for the award of the degree, Billy is required to undertake an independent research study and prepare a Thesis. Accordingly, Billy is conducting research entitled: **"Compliance Risk Management and Financial Performance of Commercial Government-Owned Entities in Kenya."**

The Department kindly requests your support in facilitating this study by granting the necessary research permit, authorization, and/or access to relevant information required for the successful completion of the study. Any assistance accorded will be highly appreciated. Kindly be assured that all information obtained during the study will be used strictly for academic purposes and treated with the utmost confidentiality.

The Department appreciates your cooperation and support in advancing academic research and knowledge creation.

Yours faithfully,

Dr. Maina Justus
Ag. HEAD OF DEPARTMENT
GRADUATE BUSINESS STUDIES

THE CATHOLIC UNIVERSITY OF EASTERN AFRICA (CUEA) P.O. BOX 62157 00200 Nairobi – KENYA
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Appendix II: Research Permit (NACOSTI)

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 159358

Date of Issue: 05/August/2026

RESEARCH LICENSE



This is to Certify that Mr.. BILLY KIPRUTO of Catholic University of Eastern Africa, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: COMPLIANCE RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL GOVERNMENT-OWNED ENTITIES IN KENYA for the period ending : 05/August/2027.

License No: NACOSTI/P/26/4194167

159358

Applicant Identification Number

Ag. Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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See overleaf for conditions

Appendix III: Questionnaire

THE CATHOLIC UNIVERSITY OF EASTERN AFRICA SCHOOL OF BUSINESS AND ECONOMICS

Dear Respondent,

This questionnaire is designed to collect data on the influence of compliance risk management on the financial performance of Commercial Government-Owned Entities in Kenya. All information provided will be treated with strict confidentiality and used purely for academic purposes. Kindly respond honestly to all items.

SECTION A: BACKGROUND INFORMATION

This section collects general demographic information about the respondent. Please tick (✓) the most appropriate response.

Question 1: Highest level of education

☐ Diploma ☐ Degree ☐ Masters ☐ PhD

Question 2: Current position

☐ Finance Manager ☐ Risk/Compliance Manager

Question 3: Years of experience in current role

☐ Below 5 years ☐ 5–10 years ☐ Above 10 years

SECTION B: REGULATORY COMPLIANCE

This section examines the extent to which your organization adheres to established laws, regulatory requirements, and governance standards. Please rate each statement by ticking (✓) the most appropriate response.

Rating Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

Question 5: Please rate the following statements on regulatory compliance in your organization.

Statement	1	2	3	4	5
a. Financial reports are submitted within the required regulatory deadlines.					
b. The organization holds all required operational licenses.					
c. Licenses are renewed within the stipulated regulatory timelines.					
d. Regulatory requirements are adhered to in all operational activities.					
e. Non-compliance incidents are addressed promptly upon detection.					
f. The organization maintains up-to-date records of all regulatory obligations.					
g. The organization has not incurred regulatory penalties or sanctions for non-compliance in the past three years.					

SECTION C: COMPLIANCE MONITORING

This section examines the extent to which your organization continuously reviews and evaluates adherence to regulatory requirements and internal policies. Please rate each statement accordingly.

Question 6: Please rate the following statements on compliance monitoring in your organization.

Statement	1	2	3	4	5
a. Compliance reports are submitted to management at regular intervals.					
b. Compliance audits are conducted periodically within the organization.					
c. A formal compliance monitoring framework is in place.					
d. The monitoring framework covers all key regulatory requirements.					
e. Non-compliance issues are detected early through monitoring systems.					
f. Management reviews compliance monitoring reports on a regular basis.					

SECTION D: INTERNAL CONTROL SYSTEMS

This section examines the mechanisms established within your organization to safeguard resources, ensure accurate financial reporting, and enforce accountability. Please rate each statement accordingly.

Question 7: Please rate the following statements on internal control systems in your organization.

Statement	1	2	3	4	5
a. Internal controls effectively safeguard organizational assets from misuse.					
b. Measures are in place to prevent unauthorized access to financial resources.					
c. Audit recommendations are implemented within the required timelines.					
d. Management responds to audit findings through a structured formal process.					
e. Risk assessment procedures are conducted on a regular basis.					
f. Identified risks are addressed through formal escalation procedures.					
g. Internal controls ensure the accuracy of financial reporting in the organization.					

SECTION E: COMPLIANCE TRAINING

This section examines the structured programs designed to equip employees with the knowledge and skills required to adhere to regulatory requirements and organizational policies. Please rate each statement accordingly.

Question 8: Please rate the following statements on compliance training in your organization.

Statement	1	2	3	4	5
a. The organization conducts structured compliance awareness programs.					
b. Employees are informed about current regulatory requirements through training.					
c. Compliance training sessions are conducted at regular intervals.					
d. Training content is updated to reflect changes in regulatory requirements.					
e. Staff actively participate in compliance training programs.					
f. Attendance at compliance training sessions is formally recorded.					
g. Employees demonstrate improved understanding of compliance requirements after training.					

SECTION F: FINANCIAL PERFORMANCE

This section examines the financial performance of your organization based on your professional assessment. Please rate each statement by ticking (✓) the most appropriate response.

Rating Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

Question 9: Please rate the following statements on the financial performance of your organization.

Statement	1	2	3	4	5
a. The organization consistently generates adequate operating surplus.					
b. Operating revenues exceed operating expenses on a regular basis.					
c. The organization maintains a positive net operating position.					
d. The level of financial liabilities is within manageable limits.					
e. The organization effectively controls its debt obligations.					
f. Financial resources are utilized efficiently to achieve operational objectives.					
g. The organization demonstrates long-term financial sustainability.					

Thank you for your participation.

Appendix IV: List of Commercial GOEs

No.	GOEs
1.	Agro-Chemical and Food Company
2.	Kenya Meat Commission
3.	Muhoroni Sugar Company Ltd
4.	Nyayo Tea Zones Development Corporation
5.	South Nyanza Sugar Company Limited
6.	Chemelil Sugar Company Ltd
7.	Nzoia Sugar Company Ltd
8.	Simlaw Seeds Kenya
9.	Kenya National Trading Corporation
10.	Kenya Safari Lodges and Hotels Ltd
11.	Golf Hotel Kakamega
12.	Kabarnet Hotel Limited
13.	Mt. Elgon Lodge
14.	Sunset Hotel Kisumu
15.	Jomo Kenyatta Foundation
16.	Jomo Kenyatta University Enterprise Ltd
17.	Kenya Literature Bureau
18.	Rivatex (East Africa) Ltd
19.	School Equipment Production Unit
20.	University of Nairobi Enterprise Ltd
21.	University of Nairobi Press
22.	Development Bank of Kenya Ltd
23.	Kenya Wine Agencies Ltd
24.	KWA Holdings
25.	New Kenya Co-operative Creameries
26.	Yatta Vineyards Ltd
27.	National Housing Corporation
28.	Research Development Unit Company Ltd
29.	Consolidated Bank of Kenya
30.	Kenya National Assurance Co. (2001) Ltd
31.	Kenya Reinsurance Corporation Ltd
32.	Kenya National Shipping Line
33.	Kenya Animal Genetics Resources Centre
34.	Kenya Seed Company
35.	Kenya Veterinary Vaccine Production Institute
36.	National Cereals and Produce Board
37.	Kenyatta International Convention Centre
38.	Geothermal Development Company
39.	Kenya Electricity Generating Company
40.	Kenya Electricity Transmission Company
41.	Kenya Pipeline Company
42.	Kenya Power and Lighting Company
43.	National Oil Corporation of Kenya
44.	National Water Conservation and Pipeline Corporation
45.	Numerical Machining Complex

46.	Kenya Broadcasting Corporation
47.	Postal Corporation of Kenya
48.	Kenya Post Office Savings Bank
49.	Kenya Airports Authority
50.	Kenya Ports Authority
51.	Kenya Railways Corporation

Appendix V: Plagiarism Certificate



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I HEREBY CONFIRM THAT **BILLY KIPRUTO** REG NO: **1064675**, SUBMITTED A CHECK OF ANTIPLAGIARISM ON EVALUATION OF **COMPLIANCE RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF COMMERCIAL GOVERNMENT-OWNED ENTITIES IN KENYA. A RESEARCH THESIS SUBMITTED TO THE DEPARTMENT OF GRADUATE SCHOOL IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE) AT THE CATHOLIC UNIVERSITY OF EASTERN AFRICA.**

Verification by Systems Librarian:

Name: HARUN MAINA Signature: ..... Date: 11/8/2026





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