

**CORPORATE GOVERNANCE PRACTICES BY KENYA AIRWAYS LIMITED**

**BY**

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## DECLARATION

This research project is my original work and has not been presented for a degree or any other examination in any University.

Signed .....

Date.....

Mr Robert Mulei Mutia

This research project has been submitted for examination with my approval as a university supervisor.

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## **DEDICATION**

First to God for he has done it all, then my wife and daughter Mwende and Sabina and finally to my parents for their tender loving care, support and enduring responsibilities of bringing me up to what am today.

## **ABSTRACT**

The collapse of major corporates across the world like Ansett Airlines, Retailer Harris Scarfe, Enron and WorldCom has triggered a global consciousness to clear out the problem of governance. Since the collapses in Australia there has been increased focus on disclosure and the independence of auditors and directors and the need for the board to act in the best interests of the stakeholders, not themselves. A study by Lockhart and Taitoko (2005) examined causes surrounding the collapse of Ansett Holdings Ltd and the largest corporate loss of Air New Zealand, which they attributed to a failure of governance to act in the organization's (stakeholders) interests.

It is against this background that this paper investigates corporate governance practices within Kenya Airways Limited. Data was collected through interview guide from directors and senior managers in Kenya Airways Limited.

The results of the research established that Corporate Board and management of Kenya Airways Limited practices acceptable corporate governance practices. The study also established that Board of Directors roles, accountability and responsibilities are clearly defined, and the Board composition is based on expertise, experience and knowledge of the industry. The study also found out that Kenya Airways have three board committees which are independent and their responsibilities are clearly defined making them discharge their mandates effectively.

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## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the study

The problem of corporate governance was introduced by Berle and Means (1932). Corporate governance has traditionally been associated with the 'principal-agent' or 'agency problem'. The principal-agent relationship arises when the owner of a company is not the same person as its manager. This 'separation' results in the following: business failures, takeovers, managers expropriating their rights by paying themselves enormous salaries, investors only concerned with short term objectives, etc. In order to overcome problems in corporate governance, different mechanisms can be applied. According to Cadbury (1992), corporate governance mechanisms refers to control that investors put in place to control the behavior of the management. Denis and McConnell (2003) distinguish corporate governance mechanism types as being either internal or external. Internal mechanisms operate through the Board of Directors and ownership structure, while external mechanisms refer to the external market for corporate control (the takeover market) and the legal system. Becht et al. (2000) identify five alternative mechanisms of corporate governance the concentration and identity of owners, hostile takeovers and proxy voting, the delegation and concentration of control in the Board of Directors, the alignment of managerial interests with investors through executive compensation contracts and the clearly defined fiduciary duty of the Chief Executive Officer (CEO). Agrawal and Knoeber (1996) propose seven corporate governance mechanisms: insider shareholdings, institutional shareholdings, shareholding by block holders, a proportion of outsiders on

the Board of Directors, debt financing, an external labour market for managers and a market of corporate control.

There are several basic reasons for the growing interest in corporate governance. In the first place, the efficiency of the prevailing governance mechanisms has been questioned (see for instance, Jensen, 1993, Miller, 1997 and Porter, 1997). Secondly, this debate has intensified following reports about spectacular, high-profile financial scandals and business failures (e.g. Polly Peck, BCCI), media allegations of excessive executive pay (see for example, Byrne, Grover and Vogel, 1992), the adoption of anti-takeover devices by managers of publicly-owned companies and, more recently, a number of high visibility accounting frauds allegedly perpetrated by managers (Enron, Worldcom). Thirdly, there has been a surge of antitakeover legislation (particularly in the US) which has limited the potential disciplining role of takeovers on managers (see Bittlingmayer, 2000, for a description of this regulation). And, finally, there has been a considerable amount of debate over comparative corporate governance structures, especially between the US, Germany and Japan models (see Shleifer and Vishny, 1997, for a survey of this debate) and a number of initiatives taken by stock market and other authorities with recommendations and disclosure requirements on corporate governance issues.

### **1.1.1 Corporate Governance**

The need for corporate governance arises because of the separation of management and ownership in the modern corporation. In practice, the interest of those who have effective control over a firm can differ from the interests of those who supply the firm with external

finance. The 'principal-agent' problem is reflected in management pursuing activities which may be detrimental to the interest of the shareholders of the firm. The agency problem can usually only be mitigated through the protections derived from good corporate governance. There is no universally accepted definition of corporate governance. Defined broadly, "corporate governance" refers to the private and public institutions, including laws, regulations and accepted business practices, which in market economy, govern the relationship between corporate managers and entrepreneurs ("corporate insiders") on one hand, and those who invest resources in corporations, on the other (Oman, 2001). Other writers like Cochran and Warwick (1988) define corporate governance as: "...an umbrella term that includes specific issues arising from interactions among senior management, shareholders, boards of directors, and other corporate stakeholders." It is concerned with creating a balance between economic and social goals and between individual and communal goals while encouraging efficient use of resources, accountability in the use of power and stewardship and aligning the interests of individuals, corporations and society. It also encompasses the establishment of an appropriate legal, economic and institutional environment that allows companies to thrive as institutions for advancing long-term shareholder value and maximum human-centered development while remaining conscious of their other responsibilities to stakeholders, the environment and the society. In general, corporate governance is concerned with the processes, systems, practices and procedures as well as the formal and informal rules that govern institutions, the manner in which these rules and regulations are applied and followed, the relationships that these rules and regulations determine or create, and the nature of those relationships. It also addresses the leadership role in the institutional framework. Corporate Governance, therefore, refers to

the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission. Corporate governance implies that companies not only maximize shareholders wealth, but balance the interests of shareholders with those of other stakeholders, employees, customers, suppliers, and investors so as to achieve long-term sustainable value. From a public policy perspective, corporate governance is about managing an enterprise while ensuring accountability in the exercise of power and patronage by firms. Good corporate governance seeks to promote the following objectives, Firstly, efficient, effective and sustainable corporations that contribute to the welfare of society by creating wealth, employment and solutions to emerging challenges. Secondly, responsive and accountable corporations. Legitimate corporations that are managed with integrity, probity and transparency and finally recognition and protection of stakeholder rights.

### **1.1.2 Airline Industry**

An airline provides air transport services for passengers and/or freight. Airlines lease or own their aircraft with which to supply these services and may form partnerships or alliances with other airlines for mutual benefit. Generally, airline companies are recognized with an air operating certificate or license issued by a governmental aviation body. Airlines vary from those with a single aircraft carrying mail or cargo, through full-service international airlines operating hundreds of aircraft. Airline services can be

categorized as being intercontinental, intra-continental, domestic, regional, or international, and may be operated as scheduled services or charters.

According to Appendix 1 the airlines are distributed all over the world and depending on their network and region of operation, it's an international business with competition both on domestic and international market. An increasing number of governments are moving to eliminate economic regulation of domestic airline services under policies known as "open skies" policies. However, even states that have deregulated the airline industry have been reluctant to allow foreign airlines to provide domestic services. International services are generally provided under bilateral agreements within the framework of the Chicago Conference of 1944. Airport capacity, route structures, technology and costs to lease or buy the physical aircraft are significant in the airline industry. Other large issues are: Weather which is variable and unpredictable. Extreme heat, cold, fog and snow can shut down airports and cancel flights, which costs airline money. Fuel Cost which according to the Air Transportation Association (ATA), is an airline's second largest expense. Fuel makes up a significant portion of an airline's total costs, although efficiency among different carriers can vary widely. Short haul airlines typically get lower fuel efficiency because take-offs and landings consume high amounts of jet fuel. Labor according to the ATA, labor is the airline's number one cost; airlines must pay pilots, flight attendants, baggage handlers, dispatchers, customer service and others. The main components of demand for airline services are business travelers, tourism, freight transport, and mail transport. Flight schedules tend to be the crucial competitive issues for business travelers, while tourists and personal travel is much more

price sensitive. Freight and mail services account for about 15% of airlines total overall revenue, while international freight and mail is closer to one-third of airlines' international revenue. Airline services enable access to other goods, such as vacations, business meetings, or foreign-sourced products. Thus the demand for airline services is closely linked to the demand for these other goods. Airlines have responded to these financial pressures in a variety of ways: liquidating, seeking government subsidies, improving operating efficiency, privatization, and forming alliances with other airlines.

### **1.1.3 Kenya Airways Ltd**

Kenya Airways Ltd is the Kenya national carrier operating scheduled flights throughout African, Asia and Europe. Its hub is the Jomo Kenyatta International Airport in Nairobi. It was established in the year 1977 after the breakup of East African community and subsequent disbanding of the jointly owned East Africa Airways. Its IATA designated code is KQ. The Kenya Airways Group is made of Ken cargo Airlines International Ltd, African Cargo Handling Ltd (ACHL) and the Kenya Airfreight Handling Ltd (KAHL) (Source; Kenya Airways intranet).

The airline has faced a myriad of challenges since its inception, most of which have been intensified by the impact of globalization. Currently the airline is facing stiff competition in both its domestic and the European routes due to the entrance of new players such as Fly 540 in the east African routes and Virgin Atlantic for the Europe routes, other competitors include Emirates, British Airways, Qatar Airways, East African Airways, Jetlink e.t.c. Kenya Airways continues to work on its fleet modernization programmed

through the recent acquisition of a new aircraft for its regional routes. Kenya Airways joins the ranks of global airlines as a full SkyTeam member a milestone towards service delivery and since safety is of paramount importance. Kenya Airways has achieved various IATA recognitions and awards such as IOSA (IATA Operational Safety Audit) becoming the 1st carrier in sub-Saharan to get this rigorous safety certification and scooped triple win as Best Domestic Airline 2003, Best Regional Airline 2002 and 2003 and Best In-flight Magazine 2002 and 2003 by Travel News & Lifestyle Magazine COYA (Company of the Year) top awards for strategic planning and emergency preparedness (source: Intranet; <http://kqworld01:8001>). To address the governance issues in Kenya , there have been a number of workshops organized by Nairobi Stock Exchange, Capital Market Authority, Institute of Public Accountant of Kenya and Kenyan Chapter of Chartered Certified Accountant. It is against this background that this study sought to examine the practices and structures of corporate governance structures in Kenya Airways Limited.

## **1.2 Research Problem**

The collapse of major corporate across the world like Ansett Airlines, Retailer Harris Scarfe, Enron and WorldCom has triggered a global consciousness to clear out the problem. Since the collapses in Australia there has been increased focus on disclosure and the independence of auditors and directors and the need for the board to act in the best interests of the stakeholders, not themselves. A study by Lockhart and Taitoko (2005) examined causes surrounding the collapse of Ansett Holdings Ltd and the largest corporate loss of Air New Zealand, which they attributed to a failure of governance to act

in the organization's (stakeholders) interests. Bell (2009) established that despite Southwest Airlines being the most unionized airline in the U.S. and proudly offering nothing to eat or drink in the cabin, it enjoys outstanding customer service ratings and loyalty as well as the best financial returns in the industry.

A study by the Centre for Corporate Governance found out that governance remains the biggest challenge to the success of corporations in Kenya, blaming it for the near collapse of key sectors of the economy including tea, coffee, and sugar sub sector. Several research work have shown a positive relationship between corporate governance and performance for companies listed in the Nairobi Stock Exchange (Juliana, 2006; Richard, 2006; Muriithi, 2004).A lot of work have also been done to determine the corporate governance practice and structures in various industries of the economies such as survey of corporate governance practices in cooperative societies in Nairobi(Wangome,2003),a survey of corporate governance practices in insurance industry in Kenya (Maina, 2007), Mwakanongo (2007) did a survey of corporate governance in shipping companies in Kenya, Mucuvi(2002) studied corporate governance practices in the motor vehicle industry in Kenya. Thiga (2002) established that many airlines had adopted various strategic responses such as retrenchment, business re-engineering, merger and strategic alliances in order to survive, however the study focused on the international airlines operating into Kenya and specifically excluded Kenya Airways. In his study Gichira(2007) concluded that Kenya Airways faced a lot of challenges associated with globalization, he further showed that Kenya Airways had managed to stay ahead of these challenges through adaptation of technological tools to make it competitive in the global market. A study by Chemayiek



(2005) established that re-branding strategy had positively contributed towards revenue generation, cost reduction and operational efficiency in Kenya Airways.

Theoretical and empirical studies on governance practices in airline industry has been carried out in developed countries, however, little is known and documented on corporate governance practices in developing countries airline industry and in particular Kenya Airways Limited. Hence this study aims to bridge the knowledge gap of corporate governance practices in developing countries airline industry a case of Kenya Airways Limited.

This study aims to determine how Kenya Airways Limited has embraced the concept of corporate governance by seeking to answer the following questions; what corporate governance structures exist in Kenya Airways Limited? Does Kenya Airways Limited adhere to generally accepted principles of corporate governance? What corporate governance structures are wanting and what is Kenya Airways Limited doing to improve on them?

### **1.3 Research Objective**

The objective of this study was to determine corporate governance practices by Kenya Airways Limited.

### **1.4 Value of the study**

First the study will be useful to policy makers in the government and in the private sector. By illustrating the how Kenya Airways Limited have embraced the concept of corporate

governance policy makers and regulatory institutions can use the finding of this study to better align or revise the existing code and the guideline of corporate governance.

Secondly the findings of this study can also be used by investors and shareholders in evaluating the management and the board of director's performance. Shareholders and investors will gain better understanding and get reliable information on the published financial statements to get an indication of how their funds are invested.

Thirdly the finding of the study will also be useful to various corporate boards of directors. They can use the study to understand the effect of structure, composition and leadership of the board and use it to strengthen monitoring role of the board on management and initiate structural reforms in board and in the management.

Fourthly, Corporate Strategy Division, Human Resource Division and Government Relation Division within Kenya Airways Limited can also benefit from this study because the study provides insights on current practices and principles on corporate governance in Kenya Airways Limited. They can therefore appreciate and improve on areas not meeting the threshold set by the industry and the regulatory institutions.

Finally, the study will add to the body of knowledge by documenting corporate governance concept and principles in African airline industry and in particular Kenya Airways Limited. The study will also form basis of further research to academicians in the area of corporate governance.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Concept of corporate governance

The term “corporate governance” is a relatively new one both in the public and academic debates, although the issues it addresses have been around for much longer, at least since Berle and Means (1932) and the even earlier Smith (1776). Zingales (1998) expresses the view that “allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labour market competition, organisational structure, etc., can all be thought of as institutions that affect the process through which quasi-rents are distributed (p. 4)”. He therefore defines “corporate governance as “the complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by a firm (p. 4)”. Williamson (1985) suggests a similar definition. Viewing the corporation as a nexus of explicit and implicit contracts, Garvey and Swan (1994) assert that “governance determines how the firm’s top decision makers (executives) actually administer such contracts (p. 139)”. They also observe that governance only matters when such contracts are incomplete, and that a consequence is that executives “no longer resemble the Marshallian entrepreneur (p. 140)”.

Shleifer and Vishny (1997) define corporate governance by stating that it “deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (p.737)”. A similar concept is suggested by Caramanolis-Cötelli (1995), who regards corporate governance as being determined by the equity allocation

among insiders (including executives, CEOs, directors or other individual, corporate or institutional investors who are affiliated with management) and outside investors. John and Senbet (1998) propose the more comprehensive definition that “corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected (p. 372)”. They include as stakeholders not just shareholders, but also debt holders and even non-financial stakeholders such as employees, suppliers, customers, and other interested parties. Hart (1995) closely shares this view as he suggests that “corporate governance issues arise in an organization whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving members of the organization - these might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract (p. 678)”.

## **2.2 Benefits of Corporate Governance**

Good corporate Governance is necessary in order to: Firstly, attract investors both local and foreign and assure them that their investments will be secure and efficiently managed, and in a transparent and accountable process. Secondly, create competitive and efficient companies and business enterprises. Thirdly, enhance the accountability and performance of those entrusted to manage corporations. Fourthly, promote efficient and effective use of limited resources. Corporate governance enhances the performance and ensures the conformance of corporations. Its principles stimulate the performance of corporations by creating and maintaining a business environment that motivates

managers and entrepreneurs to maximise firms' operational efficiency, returns on investment and long-term productivity growth. They ensure corporate conformance with investors' and society's interests and expectations by limiting the abuse of power, the siphoning-off of assets, the moral hazard, and the wastage of corporate-controlled resources (so-called "agency problems"). Simultaneously, they establish the means to monitor managers' behaviour to ensure corporate accountability and provide for the cost-effective protection of investors' and society's interests vis-a-vis corporate insiders. Results from an extensive study of corporate governance in emerging markets by CSLA Global Emerging Markets, released in April 2001 suggest that good governance pays. Elements of good governance considered include transparency, integrity and responsiveness to shareholders, focus on a few core businesses and firm's administration that largely benefit small investors. Among the top rated companies whose shares were recommended to investors are Infosys Technologies Ltd. (India), SIA Singapore Airlines Ltd., CLP Holdings Ltd. (Hong Kong), Singapore Press Holdings Ltd. and Standard Bank of South Africa, better known as Stanbic (Glassman, 2001).

Recent financial scandals associated to accounting and other frauds allegedly blamed to top company managers (e.g. Enron, WorldCom and Adelphia) have brought into public light the recurring question of whether companies are managed on the best interests of shareholders and other company stakeholders such as workers, creditors and the general community. A point that has been made frequently is that top managers may possess too much power inside their companies and that a general lack of accountability and control of their activities is prevalent in companies with wide ownership diffusion.

Although this kind of scandals is certainly not new, there has been a renewed interest on the mechanisms that can effectively curtail managerial discretion over sensitive company issues that can have an impact on the welfare of the remaining stakeholders. At the same time, and especially after some well publicized company failures in the late 80s / early 90s (Polly Peck, Coloroll, Maxwell Communications, BCCI), numerous sets of recommendations on corporate governance issues have been published worldwide and adopted, in particular, by many stock market regulators since the seminal Cadbury (1992) report in the UK. This has given place to a considerable amount of research on the effectiveness of these recommendations in providing better company governance.

### **2.3 Corporate Governance Mechanisms**

Dunham (2004) categorizes corporate governance mechanisms into two main classes. They are internal and external governance mechanisms. They are discussed below.

#### **2.3.1 Internal Corporate Governance Mechanisms**

These include mechanisms and policies that are in company's power to control and implement in order to enhance corporate governance. Some of internal governance mechanisms include;

Board of Directors are individuals who are responsible for representing the firm's owners by monitoring top-level manager's strategic decisions. In order to enhance corporate governance, the shareholders have recently been increasing the diversity of board members backgrounds. This is to ensure good quality decisions are made all the

times. The internal accounting and control systems have also been strengthened to ensure that the board gets all the information they require on timely basis to make decisions. Yermack (1996) carried a study on the board size and concluded that small board was more effective. Denis and Shleifer (2001) argue that the board exists primarily to hire, fire, monitor, and compensate management, all with an eye towards maximizing shareholder value. They further documented that while the board is an effective corporate governance mechanism in theory, in practice its value is less clear. Boards of directors include some of the very insiders who are to be monitored; in some cases they (or parties sympathetic to them) represent a majority of the board. In addition, it is not uncommon that the CEO is also the chairperson of the board.

Executive Compensation includes the use of salary, bonuses and Long-term incentives to align manager's interest with shareholders interests. Executive decisions are complex and non-routine. Many factors intervene, making it difficult to establish how managers will be responsible for the outcome of their decisions. Lewellen and Huntsman (1970) suggest that there is a significant correlation between performance and executive pay.

Ownership Concentration, large block shareholders have strong incentives to monitor management closely. Large stakes make it worth the time, effort, and expense to monitor closely. They may also obtain board seat, which enhance their ability to monitor effectively. Mitton (2002) argues that firms with higher ownership concentration tend to perform better and have effective corporate governance. He believes the benefit of concentrated ownership does not extend to concentrated ownership by managers.

Shleifer and Vishny (1997) concludes that higher outside ownership concentration is associated with high performance because outsider ownership with large stakes in the firm will monitor and change the management whenever necessary. When the government is a significant owner of corporations, government ownership represents concentrated ownership. If we view the government as a single entity, state-owned corporations have very concentrated ownership. Over time, there has been a trend away from state ownership of corporate assets. The conversion from state to private ownership, termed privatization, provides an interesting setting in which performance and governance has improved.

### **2.3.2 External Corporate Governance Mechanisms**

These include the governance mechanisms that are out of the company's control. They include policies mechanisms that are controlled by external factors to the company. Some of the external governance mechanisms include: -

Market for Corporate Control, refers to purchase of firms that are underperforming relative to the industry rivals in order to improve strategic competitiveness. Market forces have in recent threatened management to perform in the best interest of shareholders to reduce the risk of hostile takeover. Mannes (1965) observes that a hostile takeover is the acquisition of the firm (the target) by another group of firm (the acquirer) that is not supported by management. Hostile takeover occurs when the acquirer feels that the target firm is being poorly managed and as result its undervalued in the market place. The constant threat of takeover motivates management to act in the best interest of the



shareholder. According to Hermalin (2002), when internal control mechanisms fail to a large enough degree, when the gap between the actual value of a firm and its potential value is sufficiently negative, there is incentive for outside parties to seek control of the firm. The market for corporate control has been very active, as have researchers interested in this market. Changes in the control of firms virtually always occur at a premium, thereby creating value for the target firm's shareholders. Furthermore, the mere threat of a change in control can provide management with incentives to keep firm value high, so that the value gap is not large enough to warrant an attack from the outside. Thus, the takeover market has been an important governance mechanism. As with other potential corporate governance mechanisms, however, the takeover market has its dark side for shareholders. In addition to being a potential solution to the manager/shareholder agency problem, it can be a manifestation of this problem. Managers interested in maximizing the size of their business empires can waste corporate resources by overpaying for acquisitions rather than returning cash to the shareholders.

On Legal and regulatory system, every external financing has legal agreement between the borrower and the lender. The agency conflict between managers, shareholders and creditors is sometimes resolved through use of legal agreement to ensure the interest of each party is protected. Jensen (1993) acknowledges the legal system as a corporate governance mechanism but characterizes it as being too blunt an instrument to deal effectively with the agency problems between managers and shareholders. Practically speaking, studies that examine evidence from a single country provide little scope for studying the effects of legal systems, as all of the firms in such a sample are subject to the

same national legal regime. LaPorta, Lopez-de-Silanes, Shleifer, and Vishny (1998) hypothesize that the legal system is a fundamentally important corporate governance mechanism. In particular, they argue that the extent to which a country's laws protect investor rights and the extent to which those laws are enforced are the most basic determinants of the ways in which corporate finance and corporate governance evolve in that country. This basic idea has spawned a growing body of research that examines differing legal regimes across countries. Such research allows for meaningful comparative studies of corporate governance.

#### **2.4 Accountability and Responsibility**

In governance terms, one is accountable at common law and by statute to the company, if one is a director, he is responsible to the stake holders identified as relevant to the business of the company. The stakeholder's concept of being accountable to all must be rejected for the simple reason that to ask boards to be accountable to everyone would result in being accountable to no one. The modern approach is for the board to identify the company's stakeholders, including its shareholders and to agree as to how the relationship with other stake holders should advance and managed in the interest of the company. The license to operate a company is much more complex. Boards have to consider not only to the regulatory aspect , but also industry and market standards , industry reputation , the media and the attitudes of customers , suppliers , consumers, employees , investors and communities (local) , national and international ethical pressure groups , public opinion ,

public confidence , political opinion etc. The inclusive approach recognizes that stakeholders such as the community in which the company operates, its customers, its employees and its suppliers need to be considered when developing the strategy of a company. This relationship between a company and its stakeholders is either contractual or non-contractual. The inclusive approach requires that the purpose of the company should be defined, and the values by which the company will carry its daily life should be identified and communicated to all its stakeholders. The stakeholders relevant to the company business should also be identified. The key challenge for good corporate citizenship is to seek an appropriate balance between the enterprise (performance) and the consultants (conformable) which takes into account the expectations of the share owners for reasonable capital growth and the responsibility concerning the company. Conforming to corporate governance standards results in constraints on management, boards have to balance this with performance for financial success and the sustainability of the company business.

## **2.5 Characteristics of Good Corporate Governance**

According to King (2002) “Good Governance is regarded as constituting the seven characteristics outlined below:

Corporate discipline is a commitment by a company’s senior management to adhere to behavior that is universally recognized and accepted to be correct and proper. This encompasses a company’s awareness of and commitment to, the underlying principles of good governance, particularly at senior management level.

Transparency is the ease with which outsider is able to make meaningful analysis of a company's actions, its economic fundamentals and the non financial aspects pertinent to that business. This is a measure of how good management is at making necessary information available in a candid, accurate and timely manner – not only the audit data but also general reports and press releases. It reflects whether or not investors obtain a true picture of what is happening inside the company.

Independence is the extent to which mechanisms have been put in place to minimize or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or large shareowner. These mechanisms range from the composition of the board, to appointments to committees of the board and external parties such as the auditors. The decisions made, and internal processes established, should be objective and not allow for undue influences.

Accountability is where individuals or groups in a company, who make decisions and take actions on specific issues, need to be accountable for their decisions and actions. Mechanisms must exist and be effective to allow accountability. These provide investors with the means to query and assess the actions of the board and committees.

Responsibility with regard to management pertains to behavior that allows for corrective action and for penalizing mismanagement. Responsible management would, when necessary, put in place what it would take to set the company on the right path. While the board is accountable to the company, it must act responsively to and with responsibility

towards all stakeholders of the company. Fairness – the systems that exist within the company must be balanced in taking into account all those that have an interest in the company and its future. The rights of various groups have to be acknowledged and respected. For example, minority shareowner interests must receive equal consideration to those of the dominant shareowners.

Social Responsibility is about a company being aware of and responding to social issues, placing a high priority on ethical standards. A good governance citizen is increasingly seen as one that is non-disciplinary, non-exploitative and responsible with regard to environmental and human rights issues. A company is likely to experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration. If there is lack of good corporate governance in a market, capital will leave that market with the click of a mouse. As Arthur Levitt, the former chairperson of the US Securities and Exchange Commission has said “If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country regardless of how steadfast a particular company’s practices may be, suffer the consequences. Markets must now honor what they perhaps, too often, have failed to recognize. Markets exist by the grace of investors. And it is today’s more empowered investors that will determine which companies and which markets will stand the test of time and endure the weight of greater competition. It serves us well to remember that no market has a divine right to investor’s capital.

## **2.6 Corporate governance and Leadership**

Leadership for efficiency in order for companies to compete effectively in the global economy and thereby create jobs. Leadership for probity because investors require confidence and assurance that the management of a company will behave honestly and with integrity in regard to their shareowners. Leadership with responsibility as companies are increasingly called upon to address legitimate social concerns relating to their activities and Leadership that is both transparent and accountable because otherwise business leaders cannot be trusted and this will lead to the decline of companies and the ultimate demise of a country's economy.

## **2.7 Ethics and Values**

A company's ethics refer to the principles, norms and standards that it promotes for the guidance and conduct of its activities internal relations and interactions with external stakeholders, in accordance with its corporate values. King Code(2002) states that each company should demonstrate its commitment to organizational integrity by codifying its standards of ethical behavior in a code of ethics. Commitment to the code of ethics will be demonstrated by creating systems and procedures to introduce, monitor and enforce its code of ethics, assigning high-level individuals to oversee compliance with the code of ethics, assessing the integrity of new appointees in selection and promotion procedures, exercising due care in delegating discretionary authority, communicating with and auditing safe systems for reporting of unethical or risky behavior, enforcing appropriate discipline with consistency and responding to offences and preventing re-occurrence,

establishing compliance standards and procedures otherwise known as a code of conduct or ethics. The Act mandates that companies put in place a mechanism for employees to raise concerns about financial reporting matters confidentially and anonymously. Establishing a process for frank and file employee to confidentiality report code violations is critical component of any ethics program.

## **2.8 Internal Accounting and Financial Audit**

This internal system has, as its main objective, the facilitation of early detection of errors or fraud. The internal audit is an integral element of corporate governance and is carried out by an internal auditor who reports to the chief executive officer and is supposed to assist the executive management and the board in the discharge of their obligations relating to safeguarding assets, risk management, operation of adequate controls and reliability of financial statements and stewardship reporting. The Audit Committee plays a vital role in financial and operational controls in the whole system of corporate governance, by making recommendations to the board concerning the appointment and remuneration of external auditors, reviewing auditors' evaluation of the system of internal control and accounting, and considering and making recommendations on the conduct of any aspect of the business of the company which should be brought to the notice of the board. Budgetary control is another internal control tool, which involves two levels of activity, namely planning and control. Control is complementary to planning and it involves monitoring actual performance against planned (projected) milestones or targets, extracting variances from trends and exploiting further sources of favourable variances from target.

Internal auditing functions differ among small, medium and large organizations. Most African listed companies are too small to sustain their own internal audit department. In their circumstances, services provided by third parties may be the only means of obtaining auditing support. The main object of the external audit is to give a report on the view presented by the financial statements prepared by the managers. The detection of fraud and errors are incidental to this main object. The audit may also prevent the commission of fraud and errors by reason of the deterrent and moral check that it imposes. Regulators' reliance on external auditors is premised on the belief that the auditors are public spirited and will act on behalf of either the public or the state, and that auditors are independent of the management. To engender public confidence in the integrity of the external auditor, he must be skilful, careful, diligent, faithful and honest. Such an auditor bolsters the perception of corporate governance. If the external audit firm provides this support then the most critical consideration must be whether the internal audit department is staffed by different personnel from the external audit and also headed by a partner not involved in external audit activities.

## **2.9 Conclusion from Literature Review**

Corporate governance enhances the performance and ensures the conformance of corporations. The financial scandals and collapses in developed economies triggered most of the reviewed literature on the airline sectors and that corporate governance practices used in developed countries are not directly applicable in developing economies because of political, economic, technological and cultural differences (Mensah 2002; Rabelo & Vasconcelos, 2002). This means that there is a need to develop models of



corporate governance that consider the conditions in each developing country and that are not directly borrowed from developed countries. This paper examines how corporate governance principles have evolved in the African airline industry taking a case of Kenya Airways Limited and how well the airline has embraced the generally accepted principles. Also the issues identified in this paper can form a research topic for future researchers.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

The research was carried out using a case study design and the data required was qualitative. A case study was a very powerful form of qualitative analysis that involves a careful and complete observation of social units (Young, 1960). Cooper and Schindler (2003) assert that case studies place more emphasis on a full contextual analysis of fewer events or conditions. The qualitatively approach was aimed at establishing what corporate governance structures Kenya Airways has put in place. This approach was appropriate to this study since the study was involving fact finding and enquiries of different kind of practices to describe the state of affairs as they exist at present.

### **3.2 Data Collection Method**

Primary data was collected using an interview guide in order to comprehensively study the corporate governance practices applied by Kenya Airways and make valid conclusions. This was an important approach in a case study design as it requires that several sources of information be used for verification and comprehensiveness (Cooper and Schindler, 2003). Personal interview was selected as the most appropriate primary data collection method taking into account the strategic approach of the study, as well as the complexity and the predominantly qualitative dimension of the phenomenon under investigation. This method is suitable for intensive investigations (Kothari, 1990).

Personal interviews was conducted to two members of the board of directors that is Group Finance Director and Group Human Resource Director, five senior level of management Head of Learning and Development, Head of Internal Audit, Head of Corporate Quality and Safety, Head of Financial Control, Head of Corporate Communication and Marketing, and four middle level Manager Hub, Manager Financial Accounting, Manager Financial Reporting and Manager Standards and Procedures, and five unionized staff of the company. The interviews were conducted to management because they are concerned with making strategic decisions of the organization and also the unionized staff would give their opinion on leadership style in regards to corporate governance within Kenya Airways Limited. The interview guide was open-ended and was accompanied by probing questions when the need arises to allow for elaboration and in order to get in-depth information.

### **3.3 Data Analysis**

The data which was collected was of qualitative in nature and was analyzed using content analysis. The information obtained from the interview was grouped into themes and categories (concepts) that define the corporate governance applied by the firm. Nachmias and Nachmias (1996) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends. The researcher made meanings from interviewees' responses through conceptualization and explanation building.

## CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

### 4.1 Introduction

This chapter presents primary data findings of the study. The study was done using interview guides and probing the interviewees. The total number of respondents interviewed was ten managers. The study had one main objective to determine the corporate governance practices by Kenya Airways Limited. The presentation of this chapter starts with the analysis of the corporate governance practices as provided by the respondents.

### 4.2 Board of Directors

According to the Finance Director, the table below summarizes the shareholders holdings with whom the board is responsible to safeguard and balance their vast interests through corporate governance.

<b>SHAREHOLDERS</b>	<b>PERCENTAGE HOLDINGS</b>
Individual Kenyan Shareholders	30.94%
Air France - KLM	26%
Kenyan Government	23%
Kenyan Institutional investors	14.2%
Foreign Institutional Investor	4.47%
Individual foreign investors	1.39%
Total Employees	4,442

Kenya Airways Board is composed of two insiders executive board; the Chief Executive Officer/Group Managing Director and Group Finance Director and nine other outsiders board members representing all major shareholders.

The corporate governance according to both the Directors of Human Resource and Finance was the process by which companies are directed, controlled and held to account, and added that Kenya Airways Board of Directors was responsible for the overall management of the governance of the airline and is accountable to the shareholders for ensuring that the company complies with the law and the highest standards of best practices in corporate governance and business ethics. They affirmed that the directors are committed to the need to conduct the business and operations of the airline and the group with integrity and in accordance with generally accepted corporate practices and endorse the internationally developed principles of good corporate governance.

The directors interviewed cited that the full board meets at least five times a year and they receive all information relevant to the discharge of their obligations in accurate, timely and clear form so that they can guide and maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the Board has delegated authority for conduct of day-to-day business to the Group Managing Director and Chief Executive Officer. The Board nonetheless retains responsibility for establishing and maintaining the airline's overall internal control of financial, operational and compliance issues as well as implementing strategies for the long term success of the airline. Nine out of the eleven members of the Board are non-executive including the Chairman of the Board, and all others except the Group

Managing Director, Group Finance Director and two KLM Directors are subject to periodic reappointment in accordance with the company's Article of Association. The Directors have a wide range of skills and experience and each contributes independent judgment and knowledge to the Board's discussions.

### **4.3 Board Committees**

According to the respondents, the Kenya Airways Board has three standing committees, which meet regularly under the terms of reference set by the Board. The Board has constituted an Audit and Risk Management Committee which meets four times a year or as necessary. Its responsibilities include review of the integrity of the financial statements and formal announcements relating to the group's financial performance, compliance with accounting standards, liaison with the external auditors, remuneration of external auditors and maintaining oversight on internal control systems. According to the Head of Internal audit the external and internal auditors, the Group Managing Director and the Group Finance Director attend all meetings of the committee. Other service line Directors attend as required to brief the committee.

There is a Staff and Remuneration committee of the Board. The committee meets quarterly or as required, its responsibilities include monitoring and appraising the performance of senior management including the Group Managing Director, review of all human resources policies, determining the remuneration of senior management and making recommendations to the Board on the remuneration of non executive Directors.

The Group Managing Director and the Director of Human Resources attend all meetings of the committee.

There is a Nomination committee of the Board which meets once a year or more if necessary. The committee is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. In so doing, consideration is given to succession planning, taking into account the challenges and opportunities facing the company, and to ensure the necessary skills and expertise are available on the Board in the future. This committee also appraises the role, contribution and effectiveness of the non-executive Directors. The Group Managing Director may also be invited to attend this meeting.

#### **4.4 Financial Statement, Information and Audit**

Head of Internal Audit and Manager Financial Control cited that the group has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulation that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organization remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal control, the Board takes into account the results of all the work carried out to audit and review the activities of the Group. A comprehensive management accounting system is in place providing financial and operational performance measurement indicators.

Weekly meetings are held by executive management to monitor performance and to agree on measures for improvement.

#### **4.5 Code of Conduct**

Head of Corporate Quality and Safety and Manager Standards and Procedures cited that the airline is committed to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. A formal code of ethics has been approved by the Board and is fully implemented to guide management, employees and stakeholders on acceptable behavior in conducting business. All the employees of the airline are expected to avoid activities and financial interests that could undermine their responsibilities to the airline.

#### **4.6 Communication with Shareholders**

The Finance Director asserted that the company is committed to ensuring that shareholders and the financial markets are provided with full and timely information about its performance. This is achieved by the distribution of the company's annual report, the release of notices in the press of its half yearly and annual results, and quarterly disclosures of operating statistics to the stock markets and capital markets authorities. There is a minimum of two investor briefings per annum for institutional investors. Periodically there are press releases announcing other major company developments which could be considered price sensitive information. In this regard the company also complies with the continuing listing obligations of the Capital Market Authorities and Stock Exchanges applicable in Kenya, Uganda and Tanzania. Also



Annual Report is published each year in the Company's website together with the notice and minutes of the Annual General Meeting.

#### **4.7 Insider Trading**

The aggregate amount emoluments paid to Directors for services rendered during the financial year are disclosed in the notes of the financial statements. The Company has a strict insider trading policy to which Directors and senior management must adhere and the Directors interests in the shares of the company are disclosed in the financial statements.

#### **4.8 Customer and Service Delivery**

According to the Manager Hub and Head of Corporate Communications, customers were important to Kenya Airways and various methods had been put in place to maintain the existing customers and attract more. Kenya Airways used various methods to ensure that it met the varied changing demands of customers. Firstly, this was done through continuous audits and self assessments. Secondly, customer surveys and involvement such as open days and loyalty program were used. Third, the organization ensured frequent customer survey and action to customer feedback. Fourth, the organization ensured monitoring of prevailing market sentiments through customer surveys and keeping up with the latest air travel trends and product offering such as online check – in.

#### **4.9 Corporate Social Responsibility**

According to the Human Resource Director, Kenya Airways had recently constituted a Corporate Social Responsibility (CSR) Committee charged with spearheading and managing the Organization's CSR strategy. The Committee is chaired by the company CEO and over the years Kenya Airways have sponsored and supported initiatives in education, environment, health, water.

According to the unionized employees whom i classified as junior non-management staff in this research, in their opinion they expressed dissatisfaction with the management style of leadership which has led to recent publicized strike notices and slow down in the operations of the company, they termed low pay structures and poor working conditions and employees welfare as the main areas of concern.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter summarizes the results of the research work. First, it gives a summary, discussion and conclusion of each objective. Recommendations and suggestions for further research are also discussed. Finally, the limitations of the study are provided.

### **5.2 Summary**

There was one main objective of the study and in order to arrive at the result, the researcher conducted in-depth interviews with the management. It was observed from the study findings that Kenya Airways Limited practices good and acceptable corporate governance practices and the Board of Directors together with the management balances the interest of all the stakeholder's interests.

Several useful observations can be deduced from the above conceptual analysis of the findings regarding the manner in which Kenya Airways incorporate corporate governance practices.

Firstly, Responsibilities and Accountability of both Board of Directors and Management are clearly set out with defined roles. Secondly, the company has a system of disclosing all relevant information to all stakeholders with reports such as press releases, monthly CEO newsletter e.t.c , Thirdly, Kenya Airways Limited have in place policies, system and rules where one can register interest and raise concerns and issues for different

stakeholders. Fourthly, the company has shown its commitment towards social responsibility through funding of projects such as education, water, health, environment conservation. Fifthly, Kenya Airways Limited has established code of conducts policies that governs the way the management and staff within the organization ought to behave in their day-to-day activities and the underlying ethics and values that uphold the vision and mission of the company. Finally the management and the workers union are working closely to address the concerns of the unionized employees.

### **5.3 Conclusions**

The contextual analysis of the data provided and the summary above helped the researcher build up to the conclusion that Kenya Airways Limited corporate board and its management practiced generally acceptable corporate governance practices. However, there is a need for the regulators of airline industry in developing economies to emphasis and have a blue print guidelines on corporate governance for all players to benchmark and measure themselves against.

### **5.4 Recommendations**

It is important for organizations to embrace the importance of good governance hence the need to sensitive and create a culture of good corporate governance practices by incorporating the office of governance in the structure of the organization to spearhead. Also the organization should have clear policy on corporate governance and the organization should incorporate effective systems to protect and encourage whistle blowers.

It is clear from the study that the issue of corporate governance practices needs to be understood by management in order to identify the appropriate business practices to be used and in order to relate appropriately with all the players and the stakeholders. Further research could be conducted using a different airline in the developing economies since organizations have different cultures, management and resource capabilities. The respondents used in this study were mainly internal stakeholders whom helped the researcher to understand the corporate governance practices within Kenya Airways; hence suggest further research to determine the opinion of external stakeholders such as shareholders, government, suppliers, customers on corporate governance in Kenya Airways and how they interest are safeguarded.

Also a survey can be conducted within the airline industry in Kenya to determine the corporate governance practices in the industry and use the findings to rank airlines from the best practice airline to the least based on the generally accepted principles of corporate governance.

### **5.5 Limitations of the Study**

This was a case study and therefore may not be used for generalization purposes. The corporate culture of Kenya Airways may not be the same with other organizations. This is because organizations have different values and resource capabilities. They also have different leadership styles and therefore are likely to respond differently to different aspects of corporate governance practices.

The study may also have some weaknesses inherent in using interview guides for data collection purposes. First is the misinterpretation of words by respondents. This results in some answers which reflect an ideal situation rather than the actual occurrence. Some respondents may also withhold some information which is important for the study. There is also likelihood of bias as some respondents may not be willing to disclose information which might give a negative impression of the organization to the public.

The respondents were not willing to disclose some of the information which they termed as confidential based on the privacy policy of the organization. The researcher had to be cautious not to appear to be getting information to give to a competitor firm by making the respondents understand that it was an academic research project.

Time constraint was also another limitation which resulted in having some managers very busy and not willing to give the researcher enough time to probe further in order to get in-depth information. Most of the respondents postponed the researcher till when they were available for the interview to be carried out. The researcher was also limited to the time allocated to complete the study.

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## APPENDICES

### Appendices I: Biggest Airlines in Africa Based On 2009 Passenger Numbers

1. South African Airways: “The Gateway to Africa”! Africa’s former ‘pariah’ airline carried 9.85 million passengers in 2009 to 81 destinations.(includes low cost subsidiaries)
2. Egypt Air:”Insha’Allah Airlines”(If God Wills Airlines) carried 8.2 million passengers in 2009 to 76 destinations.
3. Air Algerie: Algeria’s national airline carried 7.72 million passengers to 68 destinations.
4. TunisAir: Tunisia’s national airline carried 3.78 million passengers to 53 destinations
5. Ethiopian Airlines:” The New Spirit of Africa”, ambitious and impatiently waiting for it first African Dreamliner carried 2.8 million passengers to 54 destinations.
6. Kenya Airways:”The Pride of Africa” carried 2.6 million passengers to 47 destinations.
7. Atlas Blue: Morocco’s budget airline carried 1.6 million passengers to 25 destinations.
8. Air Mauritius: Carried 1.2 million passengers to 26 destinations.
9. TAAG Angola: Carried 1,000,000 passengers in 2009 to 33 destinations.
- 10.Libyan Airlines: Carried 890,000 passengers to 27 destinations.

**Source:** <http://www.flight-africa.com/2010/05/which-is-biggest-airline-in-africa.html>

## **The Best of the Best in the World: Ranked in Order of Score**

01 –Singapore Airlines

02 - Emirates Air

03 - Cathay Pacific

04 - Qatar Airlines

05 - Virgin Atlantic

06 - Qantas

07 - Thai Airlines

08 - Lufthansa

09 - British Airways

10 - ANA (All Nippon Airways)

**Source:** <http://www.traveltruth.com/articles/topten-airlines.html>

## **Appendices II: Interview Guide**

### **GENERAL**

1. What is the main business of the company?
2. What is the nature of the company?

### **RESPONSIBILITY**

1. To what extent do members of the board understand their responsibilities?
2. Are board members and management staff responsibilities clearly set out in writing?
3. Does the company differentiate between what the board can do, and what managers and employees of the company can do?
4. Do the Board and the relevant sub-committees have clearly defined roles

### **AUDIT**

1. Is there an Audit committee?
2. Is there an external auditor of the company?
3. Is there an independent internal audit function within the company?
4. Are there any provisions in the Companies Articles of Association mandating rotation of external auditors?
5. Does the Audit Committee produce a report on the internal audit function?
6. Is it mandatory to prepare an internal audit plan?
7. Is the internal audit plan reviewed on an annual basis?

## **COMPOSITION OF THE BOARD**

1. What is the size of the board?
2. What do you think should be the ideal size of the board?
3. What is the composition of the board?
4. Does the organization have any kind of mechanism for rotating board members?
5. How often are the board members rotated?

## **BOARD AND SENIOR MANAGEMENT REMUNERATION**

1. Is there a remuneration committee?
2. What is the composition of the remuneration committee?
3. What is the size of the remuneration committee?
4. Is there a written remuneration policy?
5. Does the company disclose the remuneration policy in the annual report?
6. Does the company disclose remuneration of individual board members and senior management?

## **MEETINGS**

1. Is there a set quota for meetings of the board?
2. How often do board and sub-committees conduct meetings?
3. What are the quorum requirements for board and board committees?

## **INFORMATION**

1. How are the public kept informed of company informations?
2. Is there an information disclosure policy,which indicates the type of information that could be disclosed to the public.
3. What type of information can be disclosed to the public pursuant to the information disclosure policy?
4. What information is provided to the board of directors in advance of board meetings?
5. What information is revealed to shareholders in advance of the Annual General Meeting(AGM)?
6. Who is responsible for recording minutes of meetings?
7. Are minutes of the previous meeting approved at the following meeting?
8. Is responsibility for action clearly indicated in the minutes?
9. Does the organization undertake a review to ensure that actions decided at the meetings have been taken?
10. How does the company disclose transactions made by directors or management that conflicts with the interests of the company or that has the potential for conflicts of interest?



## **REGISTER OF INTERESTS**

1. Are there policies/rules which require directors to disclose personal interest in the company?
2. What type of personal interest is required to be disclosed?
3. Does the company maintain a register of interests?
4. How is the register of interest reviewed and updated?
5. Is it mandatory for members to sign the register?

## **SYSTEM TO RAISE CONCERNS**

1. Does the organization have an established system to raise concerns?
2. What type of system has been established to raise concerns?
3. Is the system reviewed regularly to ascertain effectiveness?
4. Who is responsible for reviewing the system?

## **PERFORMANCE MEASUREMENT /REVIEW**

1. How is the performance of the board/sub committees/ management reviewed?
2. Does the organization undertake a review of terms of reference of board, subcommittees?
3. How often is the review undertaken?

4. Are there set performance indicators?
5. Are reports produced detailing the board's/sub committee's/management's
6. Who evaluates the Board?
7. How often is the review undertaken?
8. Does the organization benchmark the policies for review of the board against international best practices?

### **VOTING AT SHAREHOLDERS MEETINGS**

1. Does the company have proxy voting guidelines or rules?
2. Are shareholders allowed to vote in absentia?
3. How are resolutions put before shareholders for voting?
4. Are there separate resolutions for separate matters?

### **FINANCIAL STATEMENTS**

1. Does the company apply International Accounting Standards (IAS) in the preparation of financial statements?
2. Are financial statements, balance sheets and profit and loss accounts signed by Chairman, CEO and CFO?
3. How does the company maintain accounting records?

### **BOARD APPOINTMENT**

1. Does the organization have a nomination committee, which is responsible for Board nominations?

2. Does the organization have a written nomination policy for board appointments?
3. Who makes recommendations for the appointment of board directors?
4. Is there a formal process for application to the Board?
5. How does the nomination committee ensure that the potential members are suitable to serve on the board?
6. Is the background of the potential board members investigated?
7. How is it ensured that only individuals with the right skills and attitudes are selected?
8. How are members inducted?
9. Are the board members trained during their term of office?
10. How does the organization ensure that training is suitable or effective?

**Appendices III: Introduction Letter**

Kenya Airways Limited,

P.O BOX 19002- 00501,

Nairobi.

Dear Sir,

**RE: Permission for Robert Mutia to Collect Data from Kenya Airways Ltd**

The above named is a student at the University of Nairobi in the school of business and he is pursuing a Master's degree in Strategic Management.

Mutia needs data from Kenya Airways Limited to be able to work on his project on "Corporate Governance Practices by Kenya Airways Limited."

Any assistance accorded to him will be highly appreciated.

Yours Faithfully,

MBA-Co-ordinator

Dr.X.N.Iraki

Project Supervisor

Mr E.Mududa