PERCEPTION OF EMPLOYEES ON CORPORATE GOVERNANCE AND PERFORMANCE OF KENYA AIRWAYS LIMITED

BY

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DECLARATION

STUDENT'S DECLARATION

This research project is my original work and has not been submitted for a degree in any other university or college for examination/academic purposes.

Signed ………………………………. **Date** …………………….

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SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as University Supervisor

Signed ……………………… **Date** ……………………….

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DEDICATION

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ABBREVIATIONS & ACRONYMS

CEO	Chief Executive Officer
COB	Chairman of the Board
EAA	East African Airways
KCC	Kenya Co-operative Creameries
KQ	Kenya Airways Ltd
LCC	Low Cost Carriers
MBV	Market to Book Value
NSE	Nairobi Securities Exchange
NSE	Nairobi Stock Exchange
ROA	Return on Assets
ROI	Return on Investment
SPSS	Statistical Package for Social Sciences
U.K	United Kingdom
U.S	United States of America

ABSTRACT

Recent global events involving the collapse of major world corporations continue to reverberate the significance of good corporate governance as a catch phrase essential for guaranteeing the viability and financial health of business entities. It ensures that all shareholder interests are safeguarded and guarantees equitable treatment of all stakeholders. Corporate governance needs to be emphasized as a means of increasing profitability and revitalizing the aviation industry. The study sought to ascertain the perception of employees on corporate governance and performance of Kenya Airways Ltd. Specifically, this study examined how board leadership, company ownership structure, board composition and CEO duality affect Kenya Airways Ltd in achieving performance. The research study used descriptive research design. The sample for the study was 266 respondents based at the Kenya Airways Headquarters in Nairobi. The data was collected using structured questionnaires. Regression analysis was applied; which is a statistical tool used when investigating the relationship between variables. The collected data was analyzed and presented in the form of charts, tables and narratives using the Statistical Package for Social Sciences and Microsoft Excel Package. The study concluded that board leadership, company ownership structure, board composition have a positive significant impact on the performance of Kenya Airways Ltd. CEO duality showed a negative relationship. 66% variations were explained by the independent variable 34% by factors that were not included in the study. This showed that the all the independent variables did affect the dependent variable. The study recommends that the ownership structure be strengthened and more power be given to the owners in demanding performance from the company management. The study also recommends that the board composition be of individuals who have the best interests of the company at heart. The board needs to be comprised of individuals who are well educated and experienced so as they can be able to change the companies direction towards profitability. The study recommends that the management comes up with an elaborate strategy backed by its key shareholders such as KLM and the government in order to facilitate turnaround of the company's fortunes. Finally the study recommends that the company evaluates its board leadership, the chairman and the CEO and ensure that they are good performers and good leaders who are able to oversee the troubled carrier's recovery from a massive financial loss.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In these uncertain economic times there have been some deep rooted global economic challenges which are heavily impacting the commerce and business industry. Responsible businesses need to adhere to practices and rules set to ensure that they operate without challenges (Hashim and Devi, 2008). Corporate governance practices are crucial in ensuring the boards of companies are fulfilling their responsibilities which are to represent the shareholders' interests. This is achieved by ensuring that managers and other insiders are always adopting mechanisms to maximize stakeholders' expectations.

Corporate governance has been defined by Bhagat & Bolton (2008) as the process and structure which is used in directly managing business operations in a company. These processes and structures are geared towards the enhancement of prosperity and corporate accounting. The ultimate goal being the realization of the shareholders' long-term benefit while at the same time considering the interest of the other stakeholders.

In this cutthroat world corporate firms are striving to instill the culture of good corporate governance in their organizations. A variety of theories in corporate governance have been implemented in modern day organizations; Agency Theory is one of the major theories in corporate governance and is concerned with the separation of ownership and control in the modern day organization (Berle & Means, 1932)

According to Jensen and Meckling (1976) agency theory which is one of the hallmarks of the modern day corporation will in many instances lead to firm managers using their experience and firm-specific knowledge to gain an advantage over the firm's owners, who are absent from the day-to-day operations of the firm and as a result pursue actions that satisfy their own selfish interests, and not the interests of the owners.

Resource Dependency Theory basic proposition is to provide a linkage between the organization and external resources. The board of directors is an essential mechanism for absorbing critical elements of environmental dynamism into the organization by bringing in resources such as information, skills, suppliers, buyers, decision makers of public policy, societal groups and as a result environmental uncertainty is reduced. This is achieved through the appointment of directors to several boards because of their ability to gather valuable, beneficial information and network in numerous ways.

Regulatory authorities must ensure conformity to good corporate governance practices and apply appropriate sanctions for those who don't comply. Corporate governance is receiving increased attention. According to Jensen (1993), Miller (1997) and Porter (1997) to start with, the effectiveness of the existing corporate governance mechanisms has been questioned. Secondly, the debate has also increased after reports of business failures and spectacular, high profile financial scandals. Thirdly, there have been a high number of accounting frauds allegedly perpetrated by managers. Finally, the studies undertaken on corporate governance in the aviation industry are few.

There is no gainsaying that the aviation industry in Kenya considerably contributes to the country's economic growth and prosperity by providing support to businesses, trade, tourism and social-cultural activities. In Kenya today there are many cases of mismanagement by the managers or administrators who have been found culpable in the failure of corporations and businesses in the country. This has resulted in scandals which have left various companies in Kenya in bad light. This research focused on corporate governance and performance Kenya Airways Ltd this is after it recorded a loss of 25.7B after tax for the financial year 2014-2015.

1.1.1 Corporate Governance

Cheffins (2013) pointed out that corporate governance came into fashion to curb or eliminate fraudulent activities among corporate organizations in early 1970s. According to Francis (2000) corporate governance was able to gain prominence in the 1980s due to many companies failing because of a poor governance system. This period was characterized with stock market crashes around the world and the failure of many corporations. This prompted the rise of corporate governance to combat the increasing number of failing companies. It's important to note that corporate scandals still persist even after implementing corporate governance in organizations.

Major corporate scandals such as Enron and Worldcom occurred in early 2000s. These corporate scandals resulted in organization failures and as a consequence put the shareholders' interests at risk. These corporate failures have become a worrying trend and have raised concerns among regulatory bodies, professionals, academics and even people in the industry. The biggest concern has been why corporate organizations are collapsing despite implementing and practicing corporate governance.

1.1.2 Organizational Performance

Firms continuously strive to enhance their performance as this is their greatest objective, this is because it is only through performance that organizations are able to develop and advance. Identifying the factors that contribute to improved performance is essential especially in the perspective of the existing economic catastrophe as it facilitates the recognition of those factors that ought to be treated with increased interest and as a consequence lead to enhanced organizational performance.

Morgan and Poulsen (2001) defined performance as the actual output or results the organization achieves when measured against the set goals and objectives. Regardless of the sector an organization operates in, it is essential to achieve the set goals and objectives. The three areas of a firm's outcome that define organizational performance include: Financial performance which is determined by profits, return on assets and return on investment; product market performance relates to sales and market share; and shareholder return focuses on total shareholder return and economic value added.

Several factors have an effect on the performance of an organization; these are divided into two categories: Internal environmental factors include strategy, structure, performance measurement, information technology, leadership, innovation, employees, quality and corporate governance. External environmental factors include clients, suppliers and competition.

Gompers, Ishii and Metrick, (2003) conducted a study in the 90s which consisted of a sample of 1,500 U.S. firms. The study showed a correlation between corporate governance and organizational performance. The study showed the existence of a positive relationship between the quality of corporate governance and organizational performance.

1.1.3 Corporate Governance and Organizational Performance

In order to facilitate accomplishment of national economic goals organizations need to be competitive, transparent and have superior governance structures this is because firms are the entities that generate economic value for the country. Standard setters globally have emphasized the need for organizations to operate in an honest and transparent manner; this has spurred renewed interest especially in relation to accountability and economic performance of modern day corporations.

Undeniably corporate governance has a positive impact on a nation's economic growth and development. In order to prevent managers from pursuing their own selfish interests' corporate governance is used as reinforcement by the owners. Implementation of corporate governance will act as a deterrent to managers from painting misleading pictures about the company's financial performance in order to entice unsuspecting investors. This will ensure the financial statements will show the true state of the company's affairs so that even potential investors can make informed decisions. Renewed worldwide emphasis on the importance of effective corporate governance has been necessitated by the increased frequency of corporate fraud related to exaggerated and fleeting financial statements.

1.1.4 Global Aviation Industry

Airline services are one of the best and easiest modes of transportation across the world for people flying to different destinations. Most of the developed continents like Europe, Asia and America have the finest air services in the world today. It is very much required that the airlines sector looks into various aspects to enhance efficiency and productivity in its operations.

There are various issues like outsourcing different types of business models which facilitate implementation of different cost structures, ownership and control, liberalization policy like de regulation and open sky policies. There are also various challenges facing the aviation industry such as; weather which is erratic and unpredictable and can sometimes lead to cancellation of flights which costs airlines money, fuel cost which is the second largest expense in the aviation industry and finally labor which is the number one cost for airlines. These are the core issues of this sector. Good corporate governance provides mechanisms to guarantee the management realizes their obligations in the form of return on investment.

In Kenya, remarkable growth has been recorded in the aviation industry thanks to expanding regional and global trade. However, the industry has faced a lot of challenges such as high fuel cost, inadequate number of technical personnel, insufficient investment in infrastructure to meet the growing demand, insufficient resources to keep up with new advancement in technology, insecurity, market access restrictions as well as policies that act as an impediment to opportunities to grow, expand and have a competitive edge.

Kenya Airways Ltd has done plenty to enhance connectivity across the world, however the high operating cost environment, market access restrictions continue to be major stumbling blocks to the airline's ability to grow and generate profit. It is important to note that the aviation industry contributes substantially to Kenya's economic growth and prosperity.

1.1.5 Kenya Airways Ltd

The history of Kenya Airways Ltd can be traced back to 1946 with the establishment of the East African Airways (EAA) which was owned by the governments of Uganda, Kenya, and Tanzania. In 1976, following the collapse of the East African Community the airline was declared bankrupt. Kenya Airways Ltd was incorporated as an organization entirely owned by the government of Kenya in January 1977.

Kenya Airways Ltd was instituted as the national flag carrier of Kenya and obtained some of the employees and assets of EAA. The Company engages in providing international, regional and local carrier services for passengers and shipment, the provision of ground handling services to other airlines, and the importation and exportation of shipment. KQ operates local flights and flies to approximately 62 destinations in Europe, Middle East, Asia and Africa, and has a fleet of 45 aircrafts, either owned or on operating lease.

Kenya Airways Ltd is the leading domestic carrier and operates 67 flights per week to 4 local destinations: Nairobi, Kisumu, Malindi and Mombasa. Kenya Airways Ltd as the national flag carrier operates flights to a total of 58 countries based on its rights under existing bi-laterial agreements. It is against this backdrop that the study purposed to examine the perception of employees on corporate governance and performance of Kenya Airways Ltd.

1.2 Research Problem

According to Hashanah and Mazlina (2005) a responsible board of directors who ensure that investors' interests are not put at risk is the result of good corporate governance practices. Firms would gain shareholders' and investors' trust based on the accountability and transparency component of corporate governance.

This is because shareholders need reassurance that the company will be managed in an honest and intelligent manner. As pointed out by Morck and Steier, (2005) corporate governance is crucial as it leads to decreased agency costs arising from protection of shareholder interests creating a greater willingness among the shareholders to accept lower returns on investment. More profits will be ploughed back into the company due to the low cost of capital and most importantly the firm ultimately benefits by becoming more lucrative to potential investors in direct comparison to an increase in their corporate governance profile.

Despite rapid growth in the global aviation industry, reliable and robust profitability is obscure. Low cost carriers (LCCs) are the major drivers of the growth and now control some 25 percent of the global market and have been expanding swiftly in emerging markets. Globally airline performance has been unpredictable. The deteriorating performance has led to shaken confidence among investors, governments and other stakeholders. Corporate governance plays a key role in airline performance and generally leads to increased cash flows and superior firm performance.

Corporate failures as a result of poor performance have become a major issue with respect to firms globally and have been attributed to poor governance practices. Despite strict regulations, corporate governance continues to deteriorate in Kenya. Poor corporate governance has seen Kenya lose a sum of up to Kshs156 million as per the Cytonn Investments Company Corporate Governance Index Report. Poor strategies have led to the demise of companies like Mumias Sugar, Uchumi Supermarket and Kenya Airways Ltd with the capital of these three entities shrinking by more than 90 percent and the companies operating with negative equity positions.

Theoretical and empirical studies on governance practices in the airline industry have been carried out in developed countries, however, little is known and documented on developing countries airline industry and in particular Kenya Airways Ltd. This study aimed to bridge the knowledge gap of corporate governance practises in developing countries airline industry a case of Kenya Airways Ltd.

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 the company management to act in the stakeholders' interests. Hendricks (2004) states that the corporate failures witnessed confirmed that many directors put their own interests before those of the firm and shareholders. Bell (2009) established that Southwest Airlines has exemplary customer service ratings and has devoted customers as well as the best financial returns in the aviation industry this is despite being the most unionized airline in the U.S. and not offering refreshments to its passengers in the cabin.

Ogoye (2002) study identified that there was a growing number of corporate failures and financial scandals around the world instigated by incompetence, fraud and abuse of office by the individuals mandated to run the corporations. In Kenya today there are many cases of mismanagement by managers or administrators who have been found culpable in the failure of corporations in the country. A case of siphoning of funds is by some directors at CMC Motors (Madiavale, 2011).

These numerous incidences have left the country wondering what has happened to good corporate governance. Manyuru (2005) pointed out that cases of corruption have become rampant in Kenya and have stirred up heated discussions both in the legal and business quarters and have resulted in dazed investor confidence globally.

Despite stringent regulations being put in place, corporate governance persists to deteriorate in Kenya (Mang'unyi, 2011). This is after he studied ownership structure and corporate governance and its impact on organizational performance. It is therefore necessary for Kenyan companies to integrate more the ethic of corporate governance into the culture of the corporations so as to have a mechanism in place for corporate governance.

It was therefore important to do this study to ascertain the perception of employees on corporate governance and the performance of Kenya Airways Ltd. This study helped in understanding the issues in Kenya Airways Ltd and also helped increase knowledge of corporate governance in the country by looking at how board leadership, company ownership structure, board composition and CEO (Chief Executive Officer) Duality affect the company in achieving performance and as a result answer the research question; Does corporate governance affect performance of an organization?

1.3 Research Objective

To determine perception of employees on corporate governance and performance of Kenya Airways Ltd.

1.4 Value of the Study

The findings of the study helped in the formulation of policy for government and non-government agencies since it acted as an eye opener for areas which might not have been addressed in the past. The study was also of importance to the airline industry and helped in the formulation of policies regarding corporate governance in that industry.

The study helped to solve the agency problem in the aviation industry by coming up with inducements to redirect the behavior of the agent to align his interests with the owner’s. Agents must have inducements encouraging them to act in unison with the owner's interests. Agency theory was used to come up with appropriate incentives by putting into consideration what interests motivate the agent to act. Incentives promoting the wrong behavior were eliminated.

This study was of importance to the managers in the aviation industry where they understood the importance of corporate governance on organizational performance. The study helped the managers appreciate how various factors such as board leadership, company ownership structure, board composition and CEO Duality affect companies in the industry. The study also helped them understand the value corporate governance in a company.

The findings of the study were important to researchers and future scholars and formed a basis for further research on matters of corporate governance in Kenya. The students and academics found the findings useful as a reference material for further research on corporate governance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature on corporate governance impact on performance as done by other scholars was reviewed in this chapter. This chapter focused specifically on the theories that explain corporate governance. It looked at the empirical literature available on the connection between corporate governance and company performance in Kenya and all over the world. The chapter ended with a summary of the reviewed literature.

2.2 Theoretical Framework

This section looked at the theories that explain corporate governance in an organization. Nueman (2006) defined a theory as a system of interrelated thoughts that compress and categorize information concerning the world. The study looked at Agency Theory, Resource Dependency Theory, Stakeholder Theory and Stewardship Theory.

2.2.1 Agency Theory

The Agency Theory also identified as the Principal – Agent Theory emphasizes the need for separation of ownership and management of the firm. Agency Theory as exposited by Alchian and Demsetz (1972) has its history in the theory of economics and was developed further by (Jensen and Meckling, 1976). The affiliation between the principals in an organization who are the owners/shareholders and the management of the company is known as Agency Theory. Shareholders want to control and lead the management into maximizing their value. But the management has other goals that are not in the interest of the shareholders. This ends up creating a conflict between management and ownership in the company.

Daily et al (2003) stated there are two factors which have an impact on the Agency Theory prominence; To begin with the theory is straightforward since it diminishes the company into two groups of participants, the management and the owners/shareholders. Secondly the theory implies that managers or employees in the company can be self-interested and lose sight of maximizing shareholders value.

According to Kaymak and Bektas, (2008) the theory suggests that having a board composition which includes representation of independent outside directors will help monitor and control managers' self-interest. Luan and Tang (2007) believe that this could lead to enhanced company performance. The theory also identifies that CEO duality has the effect of diminishing the monitoring role of the board which affects company performance (Elsayed, 2007). CEO duality further reduces the company's performance because of the CEO entrenchment which declines the board independence (Kang and Shivdasani, 2005).

2.2.2 Resource Dependency Theory

This theory is focused on the role played by the BOD in granting access to necessary resources required for achieving the organization's objectives. The theory concentrates on the function played by company directors in securing and making available all vital resources that a firm needs. Resource Dependency Theory encourages the employment of representatives of other organizations as a means of getting access to information and resources important for the firm's success (Johnson et al, 1996). Network governance can lower transaction costs which are associated with environmental interdependency.

2.2.3 Stakeholder Theory

Interest in stakeholders has increased considerably ever since Freeman (1984) published a book called Strategic Management: A Stakeholder Approach. The book identified and modeled the groups of people who can be considered to be stakeholders of an organization and also described and recommended methods by which management can give consideration to the interests of these stakeholders. A theory of organizational management and business ethics that addresses morals and values in running a company is called stakeholder theory.

The traditional perspective of a company is to put the interests of the owners or shareholders first in order to increase value for them. This is because the company has a binding obligation to do so according to the shareholder view. The stakeholder theory emphasizes the need to also consider other parties in the organization other than just the shareholders. These parties include suppliers, employees, financiers, communities, customers, government agencies, political groups, trade associations, and trade unions and even competitors (their status being derived from their capacity to affect the firm and its other morally legitimate stakeholders).This is because these parties play a vital role in the achievement of the organization's goals and objectives.

Many researchers have recognized that the activities of a corporate entity have an impact on the external environment. As a consequence organizations need to be accountable to a wider audience than merely its shareholders. As a result stakeholder theory has become renowned. The organization therefore has responsibilities to the society because organizations are no longer a mechanism for shareholders alone but exist and operate within a society. Therefore management should act in a responsible manner in order to ensure that their actions are not detrimental to other stakeholders.

According to Freeman (2004), people who willingly come together and cooperate to improve every individual's position create economic value. Stakeholder theory was criticized by Jensen (2001) due to the fact that is assumes a single valued objective that is the gains accrued to an organization's constituents. According to Jensen (2001) the performance of a firm should not be solely determined by the gains accrued to its stakeholders. Other pertinent issues also need to be put into consideration such as information flow from top management to lower levels, interpersonal relations, working environment are all critical issues that should also be put into consideration.

2.2.4 Stewardship Theory

Davis, Schoorman and Donaldson (1997) refer to the stakeholder theory as one involving a management that seeks to protect and maximize the shareholders wealth through ensuring company performance; this is because by doing so it maximizes the steward's utility functions. Stewards refer to the company managers and executives who are working to safeguard shareholders' interest. Stewardship theory doesn't stress the perspective of individualism such as the agency theory (Donaldson and Davis, 1991). It rather shows the managers as part of the organization and seeks to have the organization achieve its goals and objectives.

According to Davis (1997) the Agency Theory being a leading perspective in understanding corporate governance studies has been disparaged in the past because of its limited ability to elucidate the psychological and sociological mechanisms which are found in the interactions between the principal-agent. Stewardship theory is therefore a proposed alternative to Agency Theory.

Donaldson and Davis (1994) stated that managers are perceived to be good stewards of the organization as they work diligently to attain high levels of performance. They are trustworthy and work diligently to attain high corporate profit and shareholders' returns according to stewardship theorists .This theory is based on the postulation that managers are not opportunistic, not individualistic and not self- serving. This theory implies by serving the interests of the company managers are able to achieve their objectives (Robins, 2008). The theory's emphasis is on achieving organization goals and objectives rather than individual and self-serving goals.

This theory asserts that there is no need for outside independent directors since the management is geared towards achieving and maximizing shareholders' value. This theory continues to assert that there should be CEO duality to achieve good results in performance whereby the fate of the organization and the power to determine strategy is the responsibility of a single person. A structure that facilitates and empowers rather than monitors and controls is the main focus of the stewardship theory.

2.3 Measures of Corporate Governance and Organizational Performance

In board leadership the boards of directors' form one of the most central parts of corporate governance. The board is a crucial forum through which innovative companies are able conceive and establish a competitive advantage through strategies (Randoy & Goel, 2003). The board of directors is the dominant and primary mechanism for internal corporate governance (Brennan, 2006). The board's duty is to monitor and supervise management by giving strategic guidelines and may ratify and review decisions made by management, Jonsson (2005) pointed out. Zahra and Pearce II, (1989) stated that the boards have legally vested responsibilities to work towards the enhancement of the organization's performance. It is their responsibility to spot problems and make them known so as to have a solution (Salmon, 1993).

Geneen (1984) through his study was able to find out that 95% of board members are negligent in their duties and are not living up to what they are morally, ethically and legally supposed to in Fortune 500 companies. According to Weidenbaum (1986) the board is a rubber stamp; it is dominated by a CEO, and is overwhelmed with conflicts of interest. The board is also seen to only respond to the controlling shareholders' interests (Jesover and Kirkpatrick, 2005). Leadership skill is an important factor in a chairperson as it helps determine the board process, overall effectiveness and optimal decision making of a board. The CEO is tasked with the responsibility of conducting and ensuring performance of the entire company (Finkelstein and Hambrick, 1996)

Company ownership structure being one of the key dimensions of corporate governance is determined by the company's vision. Corporate governance is an essential effort toward ensuring responsibility and accountability through set guidelines which need to be incorporated in each company (Kumar, 2003). Ownership structure is equity distribution with relation to capital and votes as well as the shareholders' identity (Jensen and Meckling, 1976).

Company ownership can be developed through capitalization which may be achieved through various ways such acquisition of loans from financial institutions, retained earnings or even through initial public offerings. Each of these options has its own strengths and weaknesses. Every business organization has a crucial role of generating profits. This is because the capacity of an organization to generate profits in this cutthroat society is determined to a bigger extent in its capacity to endure environmental challenges and continue operating in the foreseeable future. The company's choice on the capital base to be implemented determines the choice of either pursuing equity or debt financing.

The empirical proof of non executive directors and their effect on organizational performance is varied. A number of studies conducted showed that possessing more non executive directors on the board enhances the organization’s performance as was the case with Daily and Dalton (1992) and Luan and Tang (2007). Other studies conducted by Fernandes (2005), Cho and Kim (2007) and Davidson III and Rowe (2004) did not find any connection between firm performance and board composition in form of representation of non executive directors.

CGN (2006) recommends the appointment of at least one non executive director to the board of a company. This results in inequitable power distribution between internal and external directors which is reliant on the size of the board. Generally, a board that is big in size is cumbersome to manage and inefficient leading to increased agency problems. This is because management actions are not monitored and controlled, whereas a smaller board size is easier to manage and plays a controlling function (Hermalin and Weisbach, 2003).

CEO Duality in corporate governance is a feature of the firm that is receiving renewed interest. CEO duality is defined as a board leadership structure in which the CEO is also the Chairman of the Board (COB). It has been argued that CEOs do not always act in the best interest of the shareholders despite being their agents. Entrusting CEOs with the office of COB demonstrates extreme conflict of interest seeing that the board is the top decision making organ in an organization. Those in support of dual leadership emphasize that is enables the firm to respond quickly to changing environmental conditions due to dual leadership.

In Dual leadership, CEOs accumulate unparalleled firm-specific information by participating in the daily activities of the firm resulting in lower costs in information processing, transmission and acquisition when compared to separate leadership (Jensen and Meckling, 1995). There has been enormous pressure for firms to eliminate CEO Duality this is because separate leadership has become the norm in many countries.

2.4 Empirical Studies and Knowledge Gaps

Several studies have been done by various scholars on corporate governance practices and company performance both international and local, however they present mixed results. Some researchers such as Daily et al (2003) examined the impact of only one governance mechanism on performance, whereas others investigated the influence of several mechanisms together on performance. According to Abor and Adjasi (2007) most of the studies conducted on the connection between corporate governance and firm performance confirm causality. However, a strong and very weak relationship is shown from the evidence derived from the studies. When Black (2001) conducted a study to assess the relationship between corporate governance and firm performance with regards to stock valuation he found that a strong correlation existed. Some other studies such as Ferreira & Laux, (2007) have however argued against the existence of a positive relationship between corporate governance and firm performance

Mutia (2011) did a study on corporate governance practices by Kenya Airways Limited. The research was carried out using a case study design and the data required was qualitative. Primary data was collected using an interview guide. The data which was collected was qualitative in nature and was analyzed using content analysis. The results of the research established that the Corporate Board and management of Kenya Airways Limited practices acceptable corporate governance practices.

The study also established that the 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 Limited has three board committees which are independent and their responsibilities are clearly defined making them discharge their mandates effectively.

In a research done by Wanjiru (2013), the main objective of her study was to investigate the effect of Corporate Governance on financial performance of companies listed at the Nairobi Securities Exchange (NSE). The study examined how various mechanisms such as CEO duality, board size, board composition and leverage affect the financial performance of companies listed at the NSE. The study established that a strong relationship exists between the Corporate Governance practices under study and the organization’s financial performance.

The study established that there exists a positive relationship between board composition and an organization’s financial performance. Experience, skills and expertise of the board members are the most critical aspects of board composition as opposed to whether they were executive or non-executive directors. Similarly, leverage was found to have a positive impact on financial performance of insurance firms listed at the NSE. On CEO Duality the study found that division of the role of CEO and Chairman positively influenced the financial performance of listed firms.

Gitari (2008) did a study on corporate governance and the financial performance of state corporations: The case of new Kenya Cooperative Creameries (KCC). The target population interviewed included the head of departments, supervisors in milk processing plants, depot managers and reports submitted to the Auditor General of Government of Kenya.

Data was collected from two sets of data, namely from questionnaires from respondents and data from financial statements. The study established that the Board of New Kenya Cooperative Creameries adopted practices of good corporate governance which were reviewed and improved over time and had yielded improved financial performance. Some of the corporate governance principles that were identified include appointment and leadership of the Board, structure of the organization, purpose and values, balance of power in the Board, corporate communication, assessment of performance of the Board, responsibility to stakeholders and social and environment responsibility.

Though some practices of good corporate governance were found and have yielded improved financial performance, there is need for more structured mechanisms of handling various issues that arise. The relationship between the Board and the management needs to be continuously monitored to ensure that the corporation remains cordial to realize the mission and objectives set out.

Kigotho (2013) studied the relationship between corporate governance practices and earnings management for companies listed at the Nairobi Securities Exchange (NSE). The purpose of the research was to analyze whether there is a relationship between corporate governance and financial performance of the 62 companies listed at the NSE. Data was obtained from 48 companies listed at the NSE for the period January 2009 to December 2013 using a check list to obtain data relevant to the study. The data obtained was analyzed on a multiple linear regression model using Statistical Package for Social Sciences (SPSS). The analysis included descriptive statistics, correlation coefficients, beta coefficients of the variables and the coefficient of determination.

The regression analysis revealed that if Board Size, CEO duality, size of the firm and Board Composition were a constant zero ,the financial performance of listed firms would stand at 0.567 , decreased financial performance (ROA) of listed companies would result if there was a unit increase in board size by a factor of 0.017,a unit increase in Board Composition would lead to increased financial performance of listed companies by a factor of 0.172 , a unit decrease in CEO duality would lead to increased financial performance of listed companies by a factor of 0.057 and unit increase in size would lead to increase in financial performance of listed companies by a factor of 0.109. The data analyzed showed that there was a positive relationship between corporate governance attributes and firm performance. The relationship was found to be significant at the 95% level. It can therefore be concluded that it would be beneficial for a firm to institute corporate governance practices and measures.

Mutisya, (2006) did a studied the relationship between corporate governance and financial performance of firms listed at the Nairobi Stock Exchange. The methodology employed comprised running a multivariate regression model. Return on Investment (ROI) and Market to Book Value (MBV) were used to measure the dependent variable which is the company’s performance.

Independent variables during the study included, board size, proportion of inside directors, proportion of outside directors, number of meetings held by the board per annum, average age of directors, proportion of shares held by the directors, proportion of shares held by the top 10 shareholders and the number of women in the board, also investigated was the ages of the chairpersons, their professions and the number of chairmanships held.

The regression model showed that 4.3 percent of the changes in profitability were accounted for by the aspects of corporate governance studied when profitability was measured using ROI and 22 percent when profitability was measured using MBV. Board size, number of meetings in a year and the proportion of shares held by the top directors were the most significant variables in the model. The women representation on the corporate boards was found to be very small, just 2 percent.

Corporate governance enhances firm performance and ensures conformance of corporations. The financial scandals and collapses in developed economies triggered most of the reviewed literature. It is important to note that due to political, technological, economic and social-cultural differences, corporate governance practices in developed economies are not applicable in developing economies. Considering the prevailing condition in each developing country is essential to especially when developing corporate governance models. This paper examined how corporate governance principles have evolved in the African airline industry taking a case of Kenya Airways Ltd 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 Introduction

The methodology implemented by the researcher in order to carry out the study and achieve the research objective is highlighted in this chapter. The research focused on the perception of employees on corporate governance and performance of Kenya Airways Ltd. The chapter is comprised of the research design, population of the study, sample, data collection, and data analysis.

3.2 Research Design

Descriptive research design was adopted as a means of data collection in order to test hypotheses and answer questions concerning the existing status of the subjects in the study. The researcher was therefore able to generalize the results of the study to the larger population.

The qualitative approach was a major focus of the study and was employed to gain a deeper understanding of the underlying reasons, opinions and motivations and enabled a more insightful understanding of the research results.

3.3 Population of the study

The entire group of individuals, events or objects having common observable attributes is referred to as a population (Mugenda & Mugenda, 2003). The study was carried out at the Kenya Airways Ltd Headquarters in Nairobi. The respondents of the study were the employees. The company's global population is made up of 3986 employees (Kenya Airways Ltd website) with 2657 employees based in Nairobi.

3.4 Sample

A small group obtained from the accessible population is referred to as a sample (Mugenda & Mugenda, 2003). Simple random and convenient sampling was used to get the sample size in the accessible population. According to Mugenda & Mugenda (2003) a sample of 10% is adequate for a study. The sample for the study was 266 respondents.

3.5 Data collection

Data collection was done through structured questionnaires in order to comprehensively study corporate governance practices applied by Kenya Airways Ltd and how they affect the company's performance and as a result make valid conclusions.

This was appropriate because the researcher left the respondents with the questionnaires and collected them after they were filled up. The questionnaires were anonymous and were issued to 266 employees of Kenya Airways Ltd based at their headquarters in Nairobi.

3.6 Data Analysis

The data collected through questionnaires was analyzed and summarized to answer the research question of the study. The collected data was evaluated, assessed and judgment made so as to select the most accurate, reliable and quality information from the respondents.

The researcher used regression analysis which is a statistical tool used to investigate the relationship between variables. The common purpose of multiple regressions is to ascertain the relationship between a number of predictor variables and the dependent variable (s).

Microsoft Excel package was used to analyze and present the research findings which were in the form of charts, tables of frequencies and narratives.

The function was: - $Y \approx f\ (X, \beta)$

Where Y was the dependent variable, X the independent variable(s) and β the unknown parameters.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_{2+}\ \beta_3 X_{3+}\ \beta_4 X_{4+}\ \varepsilon$

Where; Y= Corporate Management

X_1= Board Leadership

X_2= Company Ownership Structure

X_3= Board Composition

X_4= CEO Duality

ε is an error term normally distributed about a mean of 0

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

Information processed from the data collected during the study on perception of employees on corporate governance and performance of Kenya Airways Ltd is portrayed in this chapter. The findings are based on responses from the self-administered questionnaires. Data collected through questionnaires and analysis of the findings is presented in this chapter. The findings are presented in the form of charts, tables and narratives.

4.2 Response Rate

Out of the 266 questionnaires sent to the respondents, 198 were successfully retrieved. This is displayed in Table 4.1 which shows that the response rate was 75% from the total questionnaires sent to respondents. According to Mugenda & Mugenda (2003) a response rate of 50% is considered sufficient for a descriptive study. This means that the response rate of 75% is adequate for analysis.

Table 4.1 Response Rate

Questionnaires	No. of respondents	Percentage (%)
Given	266	100
Collected	198	75
Not Collected	68	25

4.3 Demographic Information

4.3.1 Gender of Respondents

The study sought to determine the gender distribution of the respondents. From the findings as presented in Table 4.2, Majority (52%) were male while 48% were female respondents. This is an indication that all genders were well represented in the study.

Table 4.2 Gender of respondents

Gender of Respondents	No. Of Respondents	Percentage (%)
Male	103	52
Female	95	48

(Source: Research Data, 2016)

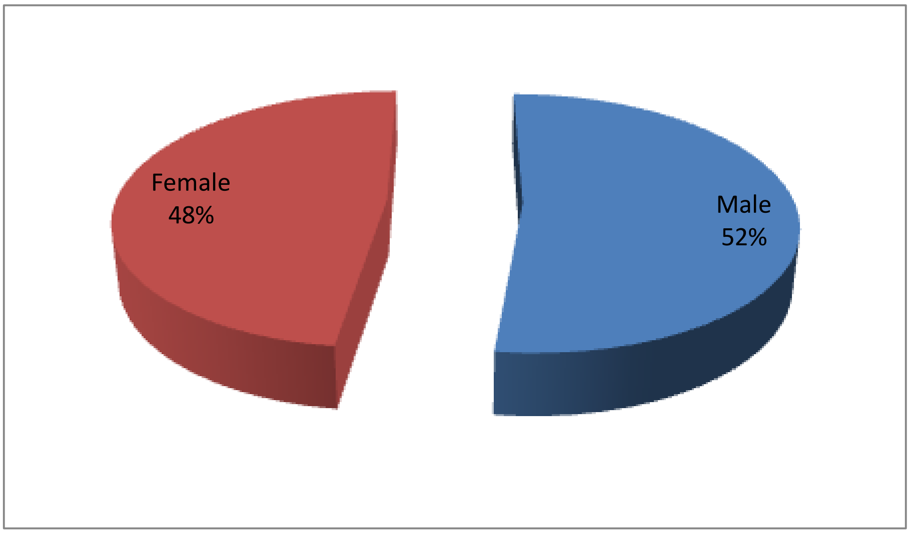
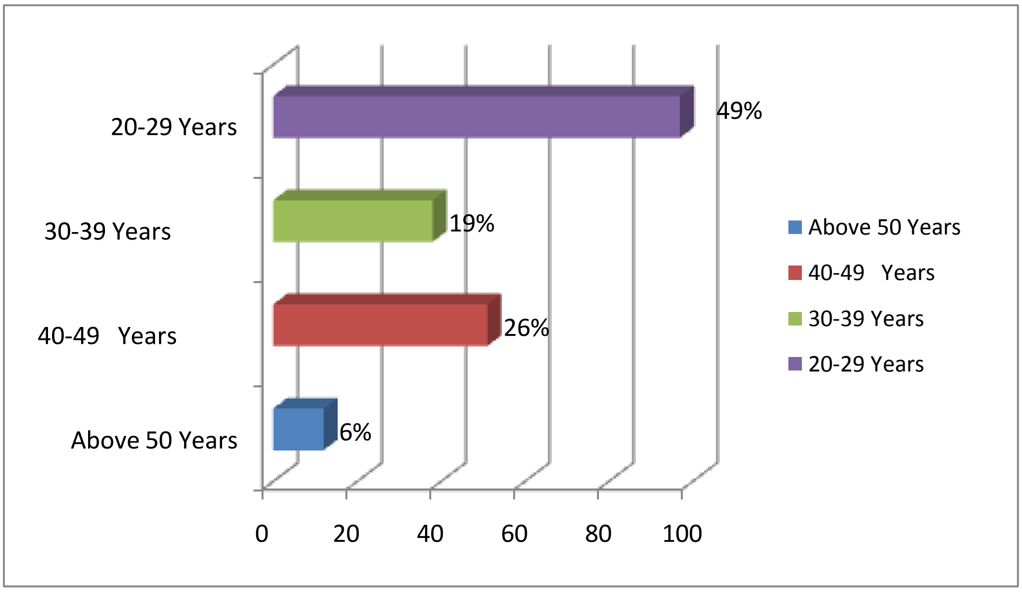


Figure 4.1 Gender of Respondents

4.3.2 Age of Respondents

The findings were presented in Figure 4.2 below which showed that 49 percent of the total respondents were between the of age 20-29 years, 19 percent were between 30-39 years, 26 percent were between 40-49 years, and 6 percent were of above 50 years. Majority (49%) of the respondents were from the age brackets of 20-29 years of age.

Figure 4.2 Age of Respondents



4.3.3 Level of Education

The study further sought to determine the academic qualification of the respondents in order to understand their qualificatiions and their ability to provide the study with the information the study needs. From the findings shown in Figure 4.3, 4% indicated that they had secondary education as their education back ground, 44% indicated that they had a diploma as their highest academic qualification, 41% of the respondents indicated that they had degree as their highest level of education, 11% had a master's degree.

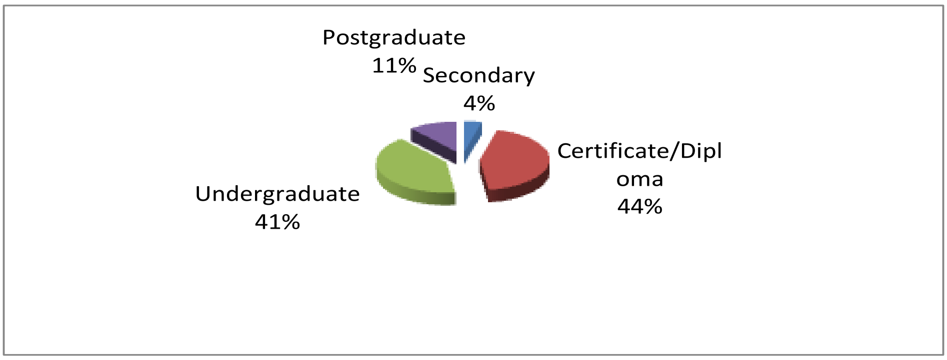


Figure 4.3 Level of Education

4.3.4 Career Level

The study sought to determine career level of the respondents and from the responses given in Figure 4.4, majority (75%) are employees, 14% were senior management and 11% were mid-level management. This showed that the respondents came from different career levels and the study would get different opinions on information sought by the study.

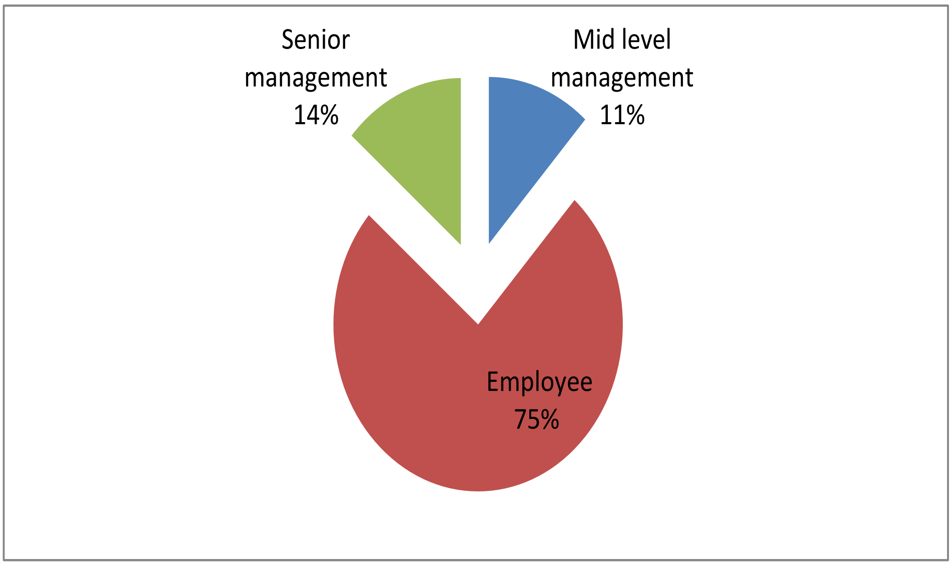


Figure 4.4 Career Level

4.3.5 Years of service

The study went further to determine how many years the employees had in service in the organization and from the responses given in Figure 4.5 shows a majority (46%) had worked for less than 5 years, 26% had worked for 5-10 years, 22% had worked for 10-15years and 6% were above 15 years. This showed that the respondents had necessary information needed by the study since they had worked there for some time.

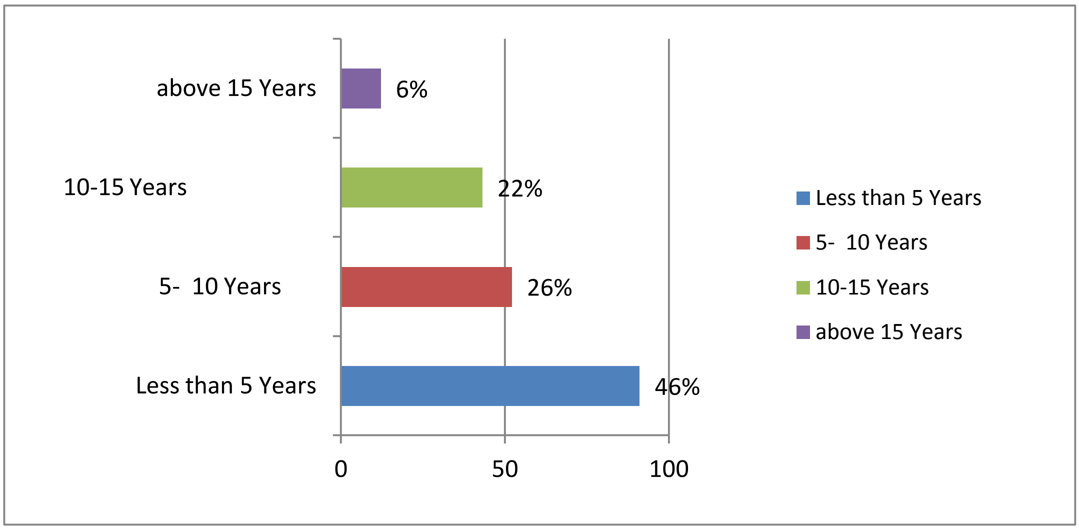


Figure 4.5 Years of service

4.4 Board leadership

The study sought to determine the extent to which board leadership impacts corporate governance in Kenya Airways Ltd. From the responses as presented in Figure 4.6 shows majority (49%) of the respondents indicated that the effect was to a great extent, 25% indicated to a very great extent, 20% to a moderate extent, 5% to a little extent and 1% to a small extent. This collaborated with findings from Heenetigala (2011) who also identified board leadership to be a factor affecting corporate governance achievement in companies. Similar results were also gotten by Ellington (1997) and Epps & Cereola (2008) in their studies.

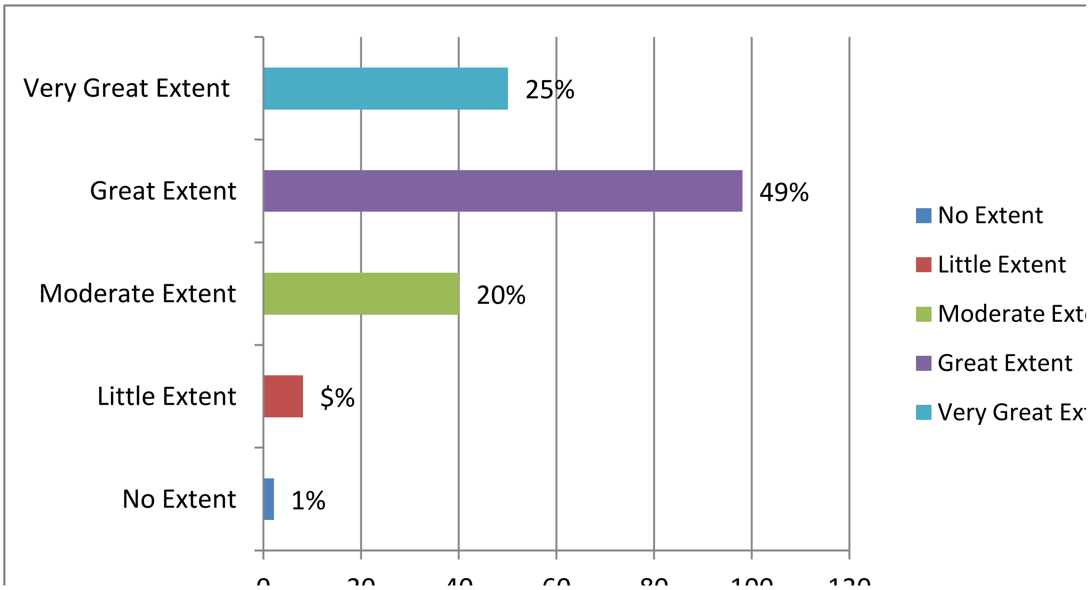


Figure 4.6 Board leadership

The study went further to determine the extent to which the respondents agreed or disagreed with the statements on board leadership. The results are presented in Table 4.3 below.

Table 4.3 Board leadership

Statements	**Mean**	**Std dev**
The board has an approved strategic plan for the organization	3.9596	0.82989
The board appraises the effectiveness of the organization’s governance practices.	2.8232	1.23981
Board members act in the best interest of the organization and stakeholders	3.8485	1.35455
The board is able to control the management	4.7121	0.69293

The board of directors appoint, supervise and replace executives when needed	4.9091	0.51556
The board monitors and manages potential conflicts of interest of management, board members and shareholders	2.2374	1.28609
Board members are provided with accurate pertinent information about the organization and make the right decisions	1.2879	0.86849
The board provides solutions to problems faced by the company	3.6869	0.98359
The board works towards enhancement of the company performance	2.8687	1.18918
There is openness and integrity in regard to the board leadership	3.6465	1.31615
Board members and key executives disclose material information affecting the company.	4.3131	0.95212
There are inductions and regular trainings of members of the board to improve their skills on leadership	4.5657	0.88026
Board leadership has a significant impact on performance of KQ	2.6061	1.36168

(Source: Research Data, 2016)

4.5 Company Ownership Structure

The study sought to determine the extent to which company ownership structure affects corporate governance. Figure 4.7 shows majority (46%) of the respondents indicated that the effect was to a great extent, 29% indicated to a very great extent, 19% to a moderate extent, 5% to a little extent and 1% to a small extent. The findings are in line with Juliana (2006), Drobetz, Schillhofer and Zimmermann (2004), Cheffins (2013), Bhagat and Bolton (2008) who also found that company ownership structure has an effect on corporate governance.

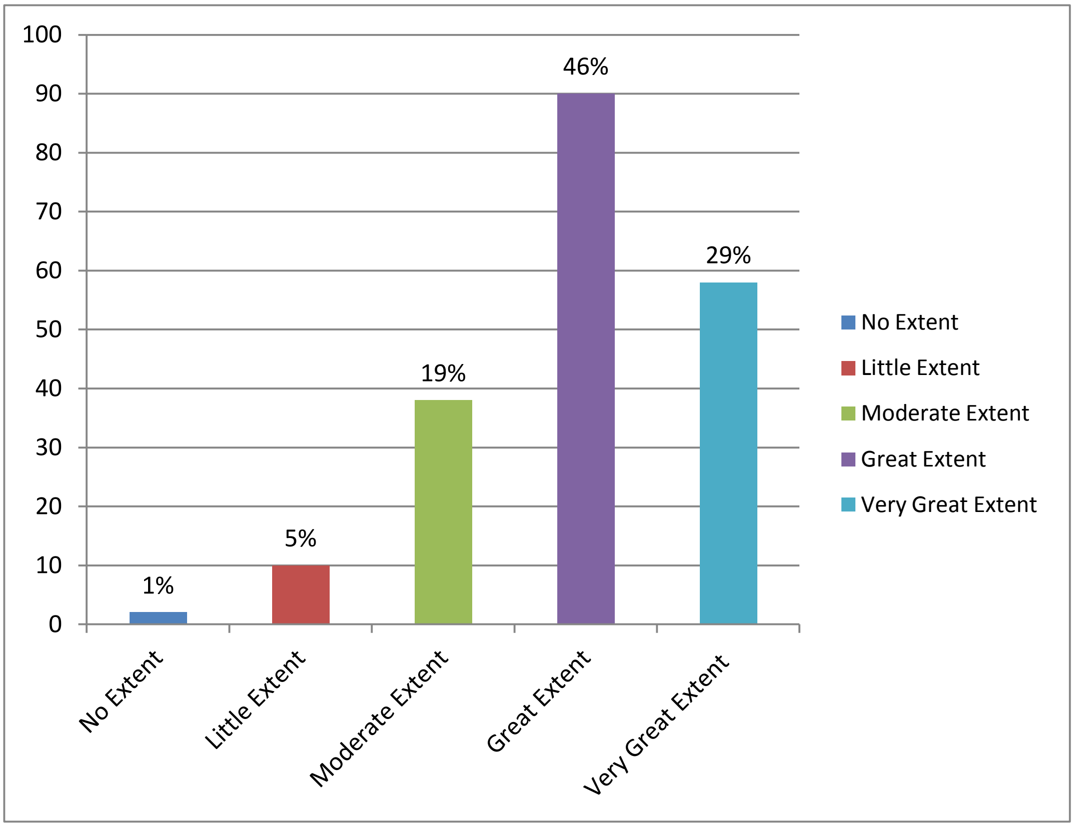


Figure 4.7 Company Ownership Structure

(Source: Research Data, 2016)

The study further put out some statements to the respondents so as to find out their opinions on the company ownership structure. The results are shown in Table 4.4 below.

Table 4.4 Company Ownership Structure

Statements	**Mean**	**Std dev**
Company ownership ensures responsibility and accountability of management.	2.3434	1.38638
Company ownership offers incentives to management for performance.	3.4141	1.09461
Company ownership helps align the interests of the management to that of the owners.	2.7071	1.01514
Company ownership affects decisions made in the company.	3.6566	1.25978

4.6 Board Composition

The study sought to determine the extent to which board composition affects corporate governance in Kenya Airways Ltd. The study was able to get the following responses as presented in Figure 4.8 which shows majority (43%) of the respondents indicated that the effect was to a great extent, 33% indicated to a very great extent, 16% to a moderate extent, 5% to a little extent and 3% to a small extent. These findings are collaborated by Hermalin and Weisbach (2010), Barnhart and Rosentein (1998) and Brown and Caylor (2009) who found similar results on the effect of board composition on company performance.

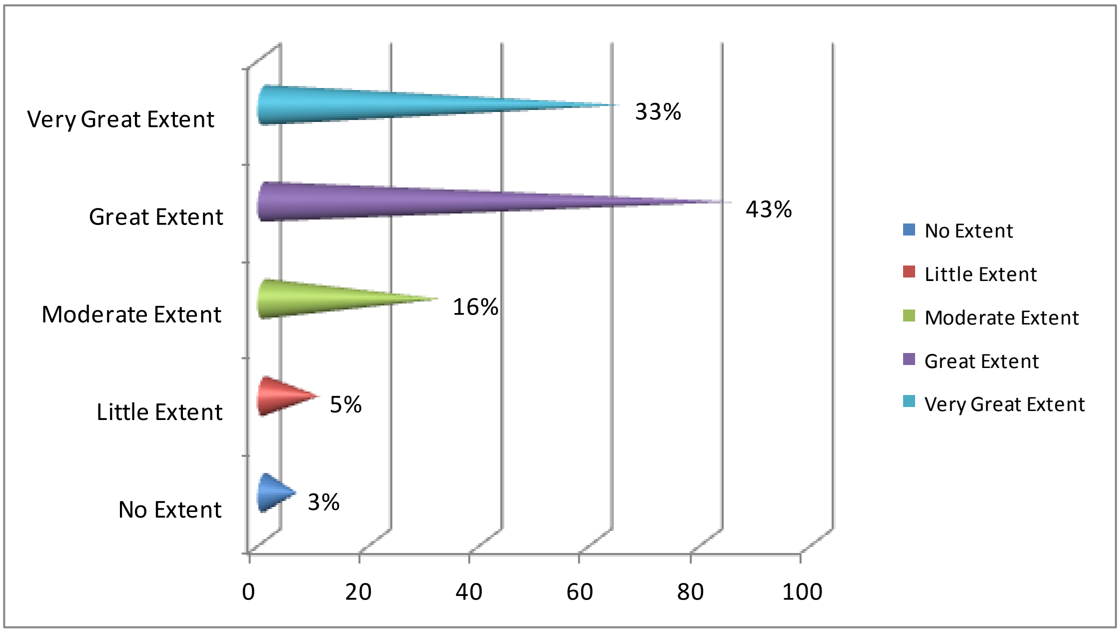


Figure 4.8 Board Composition

The study went further to use statements to determine the extent to which board composition affects corporate governance in Kenya Airways Ltd. The findings are shown in Table 4.5 below.

Table 4.5 Board Composition

Statements	**Mean**	**Std dev**
The procedure of constituting members of the board is open and fair with a clear job description	3.5152	.12723
Board size is between 6-9 members	4.3788	.08661
The board also comprises of outside members	2.2374	.09140
Merit in terms of skill and experience are highly considered to constitute the board.	1.2879	.06172
Gender distribution in board composition is fair	3.6869	.06990

There are mechanisms to ensure that non-executive (independent) directors constitute at least one third of the board.	3.8485	.09626
The board as constituted has a positive impact on the performance of Kenya Airways Ltd	3.4141	.07779

(Source: Research Data, 2016)

4.7 CEO Duality

The study went ahead to determine to what extent CEO duality affects corporate governance in Kenya Airways Ltd. The study responses are presented in Figure 4.9 below which shows majority (47%) of the respondents indicated that the effect was to a great extent, 32% indicated to a very great extent, 13% to a moderate extent, 6% to a little extent and 3% to a small extent. These findings are in line with Turki and Sedrine (2012) study on Ownership Structure, Board Characteristics and Corporate Performance in Tunisia which found similar results of CEO Duality having an effect on the corporate governance.

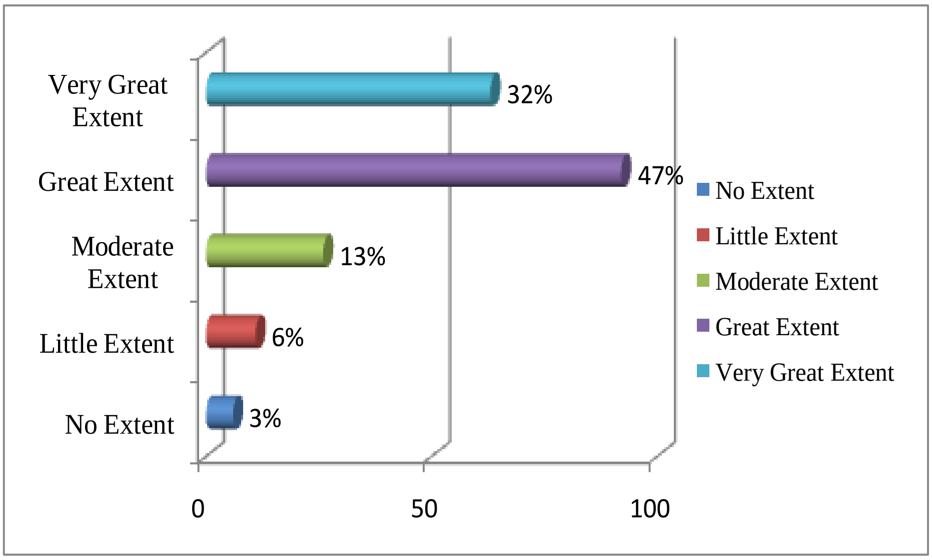


Figure 4.9 CEO Duality

The study used statements to determine the extent to which CEO duality affects corporate governance in Kenya Airways Ltd. The results are shown in Table 4.6.

Table 4.6 CEO Duality

Statements	Mean	Std dev
The Chairman and CEO roles are separated	3.6465	1.31615
CEO compensation is disclosed	3.6869	.98359
There is a mechanism to monitor activities of executive managers	2.7071	1.01514
There is whistle blowing mechanism to report managers' fraud	3.6566	1.25978
CEO Duality positively affects firm performance	4.5657	.88026
CEO compensation is disclosed	3.8485	1.35455

(Source: Research Data, 2016)

4.8 Correlations of the effect of the independent variables on dependent variable

The study performed a correlation analysis and the results are shown in Table 4.7. Using the Pearson correlation, all variables show a positive correlation with significant (sig 0.000). This shows that all variables did have a positive relationship, these results are collaborated by studies by Gomper and Metrick (2003), Ghazali (2008), Gul and Tsui (2012), Spira and Bender (2004) who in their studies also got a positive correlation with similar variables.

Table 4.7 Correlations of the effect of the independent variables dependent variable

Correlations						
		Corporate Governance	Board Leadership	Company Ownership	Board Composition	CEO Duality
Corporate Governance	Pearson Correlation	1	.591**	.511**	.561**	.305**
	Sig. (2-tailed)		0	0	0	0
	N	198	198	198	198	198
Board Leadership	Pearson Correlation	.591**	1	.167*	.174*	0
	Sig. (2-tailed)	0		0.018	0.014	1
	N	198	198	198	198	198
Company Ownership	Pearson Correlation	.511**	.167*	1	.323**	.264**
	Sig. (2-tailed)	0	0.018		0	0
	N	198	198	198	198	198
Board Composition	Pearson Correlation	.561**	.174*	.323**	1	.762**
	Sig. (2-tailed)	0	0.014	0		0
	N	198	198	198	198	198
CEO Duality	Pearson Correlation	.305**	0	.264**	.762**	1
	Sig. (2-tailed)	0	1	0	0	
	N	198	198	198	198	198

**. Correlation is significant at the 0.1 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

(Source: Research Data, 2016)

4.9 Regression Model Summary of the Effect of Independent Variables on the Dependent Variable

The study went further to perform a regression analysis to be able to establish the relationship between the independent variable and the dependent variable. Table 4.7 shows that all factors taken into account, the independent variables (Board leadership, Company ownership structure, Board composition and CEO duality) have an impact on corporate governance and performance of Kenya Airways Ltd.

The adjusted R squared is known as coefficient of determination and it indicates the variation in the dependent variable due to changes in the independent variables, from Table 4.8 the adjusted R squared was 0.66 which means that 66% variation was explained by the independent variable, 34% by factors that were not included in the study. Other studies such as Kigotho (2014) with similar variables had gotten similar results with R squared which was above 60% showing similarity.

Table 4.8 Regression Model Summary of the Effect of Independent Variables on the Dependent Variable

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.812[a]	0.66	0.653	0.70053

Model Summary
a. Predictors: (Constant), Board Leadership , Company Ownership Structure, Board Composition and CEO Duality

(Source: Research Data, 2016)

The table below shows the Anova Table 4.9. From the table the p-value is less than 0.05 which shows that the relationship is statistically significant.

Table 4.9 ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	183.871	4	45.968	93.669	.000[b]
	Residual	94.714	193	0.491		
	Total	278.586	197			
a. Dependent Variable: The board works towards enhancement of the company performance						
b. Predictors: (Constant), Board Leadership , Company Ownership Structure, Board Composition and CEO Duality						

(Source: Research Data, 2016)

The Table 4.10 shows the coefficient of determination of the independent and dependent variable. The results of the coefficient estimates show that Board leadership, Company ownership Structure and Board composition have a positive significant relationship with the dependent variable at both significant 5% and 10% levels. CEO duality shows a negative relationship though not significant since it is higher than 0.05.

Table 4.10 Regression Coefficient Of Determination Of The Effect Of Independent Variables On The Dependent Variable

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	-1.282	0.496		-2.584	0.011
	Board Leadership	0.686	0.067	0.45	10.242	0
	Company Ownership	0.268	0.038	0.315	7.049	0
	Board Composition	0.446	0.06	0.504	7.394	0
1	CEO Duality	-0.278	0.114	-0.162	-2.438	0.016
a. Dependent Variable: The board works towards enhancement of the company performance						

(Source: Research Data, 2016)

The regression equation ($Y = \beta 0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$) was:

$Y = -1.282+0.\ 686X_1 + 0.\ 268X_2 + 0.\ 446X_3-0.\ 278X_4+ 0$

While the independent variables were:-Y= Corporate management

X_1= Board leadership

X_2= Company Ownership Structure

X_3= Board Composition

X_4= CEO Duality

ε is an error term normally distributed about a mean of 0

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

The chapter begins with a summary of the findings , followed by drawn conclusions based on the results obtained from the study.It also provides the limitations faced while undertaking the study, recommendations and areas for further research.

5.2 Summary

Corporate governance is crucial as it facilitates effective, entrepreneurial and prudent management that can facilitate the achievement of an organization's long term objectives. Good governance is fundamental as it improves transparency and accountability within the existing system and helps avoid major disasters before they occur. The renewed interest in corporate governance has been necessitated by major corporate failures, wealth destruction, performance deterioration, fraud and corruption in both the public and private sector brought about by weak governance mechanisms. The objective of the study was to determine the perception of employees on corporate governance and performance of Kenya Airways Ltd.

The target population for this study was the Kenya Airways employees based in Nairobi. The company's global population is made up of 3986 employees with 2657 employees based in Nairobi. A total of 266 questionnaires were sent to the respondents, 198 were successfully retrieved. The collected date was analyzed and presented using Statistical Package for Social Sciences (SPSS) and Microsoft excel package.

From the findings as presented above majority of the respondents agreed that board leadership, company ownership structure, board composition and CEO duality did affect corporate governance to a great extent. All the independent variables did show a positive correlation with significant (sig 0.000) correlations among the variables. The regression model was seen to be significantly significant with the significance level being lower than 0.05.

The adjusted R squared was 0.66 which means that 66% variations were explained by the independent variable 34% by factors that were not included in the study. The coefficient of determination of the independent and dependent variable showed that board leadership; company ownership structure, board composition has a positive significant relationship with the dependent variable at both significant 5% and 10% levels. CEO duality shows a negative relationship is also not significant since it is higher than 0.05. From the above analysis it was found that the independent variable did have a significant influence on the dependent variable.

5.3 Conclusion

The study concluded that board leadership did affect corporate governance this was also collaborated by Kigotho (2014) who also found similar results in his study on corporate governance of companies listed in the Nairobi Securities Exchange. From the findings the study concluded that company ownership structure does affect corporate governance, this was supported by Yeqin (2007) in his study on the effect of corporate governance in the China Stock Exchange. The study concluded that board composition did affect the corporate governance; this was also supported by Wu (2009) when he conducted a study on the effect the board composition has on firm performance of Chinese listed firms.

The study concluded that CEO duality did affect corporate governance this also collaborated findings by Shapiro, Tang, Wang, and Zhang (2015) study on the impact of Corporate Governance and Ownership on the Innovation Performance of Chinese Small and Medium Size Enterprises. The adjusted R squared was 0.66 which means 66% variations. This showed a strong relationship between the independent variables with a statistical significant less than 0.05.

5.4 Limitations of the Study

The study encountered several challenges such as time and financial constraints. There wasn't enough time and resources to conduct the study exhaustively but the researcher used the time and resources available to undertake the research the best possible way ensuring that the study was successful.

The researcher faced challenges accessing some of the respondents due to busy work schedules. The researcher left the questionnaires with the respondents so they could be able to fill the questionnaires at their free time. This gave them enough time to fill the questionnaire and be able to take part in the study.

Some respondents were reluctant to participate in the study despite the questionnaire being anonymous. They were hesitant because of the negative publicity the company had faced after some of its workers went on strike. They were suspicious that the results would reveal the shortfalls of the organization but the researcher reassured the respondents that the information will be used for academic purposes and not for any other purpose.

5.5 Recommendations

The study recommends that the company evaluates it board leadership. The chairman and the CEO and ensure that they are good performers and are good leaders. This will go a long way in improving the decision by the boards which have been seen to be questionable.

The study also recommends that the board composition be of individuals who have the best interests of the company at heart. The board needs to be comprised of individuals who are well educated and experienced so as they can be able to change the companies direction towards profitability.

The study recommends that the management comes up with an elaborate strategy backed by its key shareholders such as KLM and the government in order to facilitate turn around the company's fortunes. This after the company attributed the massive loss incurred to intense competition Middle Ease carriers, exchange rate fluctuations, terrorism as well as fluctuations in fuel prices.

The study recommends that the ownership structure be strengthened and more power be given to the owners in demanding performance from the company management.

5.6 Area for Further Research

The current study looked at the perception of employees on corporate governance and performance of Kenya Airways Limited. The study recommends another study to be done after 10 years to investigate any changes in the company. The study further recommends more studies on other government owned corporations to investigate issues regarding corporate governance.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 10/10/2016

TO WHOM IT MAY CONCERN

The bearer of this letter CHRISTINE MORAA OTARO

Registration No. D61/65581/2013

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
10 OCT 2016
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX II: RESEARCH QUESTIONNAIRE

PERCEPTION OF EMPLOYEES ON CORPORATE GOVERNANCE AND PERFORMANCE OF KENYA AIRWAYS LIMITED

This questionnaire will be used as a method of data collection from employees in Kenya Airways Ltd

Information collected from this questionnaire will be handled with high confidentiality and will strictly be used for academic purposes.

Kindly answer the questionnaire questions appropriately by ticking on the choices provided or filling in the answers in the blank spaces provided.

Section A: Demographic Information

1. What is your gender? ☐ Male ☐ Female
2. Which age category do you belong?

   ☐ 20-29 Years ☐ 30-39 ☐ 40-49 ☐ Above 50
3. Career Level ☐ Senior management ☐ Mid level management

   ☐ Employee
4. Years of service ☐ Less than 5 Years ☐ 5- 10 Years

   ☐ 10-15 Years ☐ Above 15 Years
5. Highest level of education ☐ Primary ☐ Secondary

   ☐ Certificate/Diploma ☐ Undergraduate ☐ Postgraduate

Section B: PART 1

1.) Board leadership

This refers to the Board of Directors of a company tasked with the responsibility of monitoring and supervising management by giving strategic guidelines.

a) To what extent does board leadership affect corporate governance in Kenya Airways?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

b) What is your level of agreement with the following statements?

Statements on Board leadership	Agree	Strongly Agree	Disagree	Strongly Disagree	Neutral
The board has approved a strategic plan for the company					
The board monitors the effectiveness of the company's governance practices.					
Board members act in the best interests of the company and the stakeholders					
The board is able to control the management					
The board of directors elects, monitors and replaces executives when necessary					
The board monitors and manages potential conflicts of interest of management, board members and shareholders					
Board members are provided with accurate relevant information about the company and make the right decisions					
The board has solutions to problems faced by the company					

Statements on Board leadership	Agree	Strongly Agree	Disagree	Strongly Disagree	Neutral
The board works towards enhancement of the company performance					
There is openness and integrity in regard to the board leadership					
Board members and key executives disclose material information affecting the company.					
There are inductions and regular trainings of members of the board to improve skills on leadership					
Board leadership has a significant impact on performance of KQ					

Any comment on board leadership
……

2.) Company Ownership Structure

This refers to the distribution of equity with regard to both capital and votes as well as the identity of the equity owners.

a) To what extent does company ownership structure affect corporate governance in Kenya Airways?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

b) What is your level of agreement with the following statements?

Statements on Company Ownership Structure	**Agree**	**Strongly Agree**	**Disagree**	**Strongly Disagree**	**Neutral**
Company ownership ensures responsibility and accountability of management.					
Company ownership offers incentives to management for performance.					
Company ownership helps align the interests of the management to that of the owners.					
Company ownership affects decisions made in the company.					

Any comment on company ownership structure?

....

3.) Board Composition

This is concerned with issues related to board independence, diversity (firm and industry experience, functional backgrounds) of board members and CEO duality.

a) To what extent does board composition affect the corporate governance in Kenya Airways Ltd?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

b) What is your level of agreement with the following statements?

Statements on Board Composition	**Agree**	**Strongly Agree**	**Disagree**	**Strongly Disagree**	**Neutral**
The procedure of constituting members of board is open and fair with clear job description					
Board size is between 6-9 members					
The board also comprises of outside members					
Merit in terms of skill and experience are highly considered to constitute the board.					
Gender distribution in board composition is fair					
There are mechanisms to ensure that non-executive (independent) directors constitute at least one third of the board.					
The board as constituted has a positive impact on the performance of Kenya Airways					

4.) CEO Duality

This refers to a board leadership structure in which the Chief Executive Officer (CEO) is the Chairman of the Board (COB).

a) To what extent does CEO duality affect the corporate governance in Kenya Airways?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

b) What is your level of agreement with the following statements?

Statements on CEO Duality	**Agree**	**Strongly Agree**	**Disagree**	**Strongly Disagree**	**Neutral**
The Chairman and CEO roles are separated					
CEO compensation is disclosed					
There is a mechanism to monitor activities of executive managers					
There is whistle blowing mechanism to report managers fraud					
CEO Duality positively affects firm performance					