INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON THE FINANCIAL PERFORMANCE OF AVIATION INDUSTRY IN KENYA (A CASE OF SELECTED AVIATION COMPANIES)

By

Richard Ngovi

This Dissertation is submitted in partial fulfillment of the requirements for the award of a Master of Business Administration (MBA) from St. Paul's University

September 2016

ST. PAUL'S UNIVERSITY

INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON THE FINANCIAL PERFORMANCE OF AVIATION INDUSTRY IN KENYA (A CASE OF SELECTED AVIATION COMPANIES)

By

Richard Ngovi

This Dissertation is submitted in partial fulfillment of the requirements for the award of a Master of Business Administration (MBA) from St. Paul's University

Supervisors: Mary Kibuine

Dr. John Muhoho

September 2016

ST. PAUL'S UNIVERSITY

DECLARATION

This Dissertation is a product of my own work and is not the result of anything done in collaboration. It has not been previously presented to any other institution. I agree that this Dissertation may be available for reference and photocopying, at the discretion of St. Paul's University.

NAME OF STUDENT: RICHARD NGOVI : STUDENT'S NUMBER:7938/13

SIGNATURE OF STUDENT _____ DATE _____

I/We confirm that the work reported in this Dissertation was carried out by the student under my/our supervision.

NAME OF SUPERVISOR 1: MARY KIBUINE

SIGNATURE OF SUPERVISOR _____DATE_____

NAME OF SUPERVISOR 2: DR. JOHN .MUHOHO

SIGNATURE OF SUPERVISOR _____DATE_____

ST. PAUL'S UNIVERSITY

DEDICATION

This Dissertation is dedicated to my loving Wife and Children for their toil, resilience and support during the entire course period, may the Almighty God bless you all abundantly.

ST. PAUL'S UNIVERSITY

ACKNOWLEDGEMENTS

Let me start by thanking the almighty God for enabling me to complete this project. The completion of this project has been made possible by the invaluable support I received from many people. Although it is not possible to name all, I am greatly indebted to my supervisors Mary Kibuine and Dr John Muhoho for their professional guidance, advice and unlimited patience in reading through my drafts and suggesting workable alternatives. My profound appreciation to you all. Also to the various airlines that provided both information and data. My sincere gratitude also goes to all MBA students, staff, lecturers and the entire St Paul's University fraternity.

ST. PAUL'S UNIVERSITY

TABLE OF CONTENTS

DECLARATION ..... **i**
DEDICATION ..... **ii**
ACKNOWLEDGEMENTS ..... **iii**
TABLE OF CONTENTS ..... **iv**
LIST OF TABLES ..... **vii**
LIST OF FIGURES ..... **viii**
ABBREVIATIONS/ACRONYMS ..... **ix**
ABSTRACT ..... **x**

CHAPTER ONE **1**
INTRODUCTION **1**
1.0 Introduction 1
1.1 Background of the study 1
1.2 Statement of the Research Problem 5
1.3 General objective 7
1.4 Significance of the Study 8
1.5 Assumptions of the Study 9
1.6 Limitations of the Study 9
1.7 Scope of the Study 9
1.8 Definition of Terminologies 10

CHAPTER TWO **11**
LITERATURE REVIEW **11**
2.0 Introduction 11
2.1 Theories of Corporate Governance 11
2.2 The Concept of Corporate Governance 14
2.3 Corporate Governance Practices 20
2.4 Contribution of Corporate Governance to Company Performance 23
2.5 Empirical Review 24
2.6 Critical Review of Corporate Governance and Organizational Performance 25
2.7 Research Gap 31

ST. PAUL'S UNIVERSITY

2.8 Conceptual Framework 33
2.9 Summary 34

CHAPTER THREE 36
RESEARCH DESIGN AND METHODOLOGY 36
3.1 Introduction 36
3.2 Research Design 36
3.3 Target Population 36
3.4 Sample and Sampling Design 37
3.5 Sample Frame 37
3.6 Data Collection and Research Instruments 38
3.8 Data Analysis 39
3.9 Ethical Issues 40

CHAPTER FOUR 41
RESEARCH FINDINGS AND DISCUSSION 41
4.1 Introduction 41
4.2 Background Information 42
4.3 Internal Control 45
4.4 Shareholder Rights 46
4.5 Board Composition 47
4.6 Recruitment Practices 48
4.7 Organizational Performance 49
4.8 Financial Performance 50
4.9 Regression Analysis 51

CHAPTER FIVE 54
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS 54
5.1 Introduction 54
5.2 Summary of the findings 54
5.3 Conclusion 56
5.4 Recommendations 57

ST. PAUL'S UNIVERSITY

REFERENCES **59**

APPENDICES **64**

Appendix I: Letter Of Introduction 64

Appendix II: Questionnaire 64

ST. PAUL'S UNIVERSITY

LIST OF TABLES

Table 3.1: Target Population..... 37
Table 4.1: Reliability Analysis 42
Table 4.2: Age Bracket 43
Table 4.3: Level of Education..... 44
Table 4.4: Period of Time Working with their Company..... 44
Table 4.5: Internal Control..... 45
Table 4.6: Shareholder Rights..... 46
Table 4.7: Board Composition..... 47
Table 4.8: Recruitment Practices 48
Table 4.9: Organizational Performance 49
Table 4.10: Financial Performance..... 51
Table 4.11: Regression Model..... 51
Table 4.12: ANOVA..... 52
Table 4.13: Coefficients..... 52

ST. PAUL'S UNIVERSITY

LIST OF FIGURES

Figure 2.1: Conceptual Framework 34
Figure 4.1: Response Rate 41
Figure 4.2: Gender Distribution.....43

ST. PAUL'S UNIVERSITY

ABBREVIATIONS/ ACRONYMS

ANSP	Air Navigation Service Provider
ATG	Air Transport Group
BSC	Balanced Scorecard
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
EBIT	Earnings Before Interest and Tax
GDP	Gross Domestic Product
GOK	Government of Kenya
HHI	Hirschman Herfindah l
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
JKIA	Jomo Kenyatta International Airport
KAA	Kenya Airports Authority
KCAA	Kenya Civil Aviation Authority
KQ	Kenya Airways
MTP	Medium Term Plan
NACOSTI	National Commission for Science and Technology
NGO	Non Governmental Organization
OECD	Organization for Economic Cooperation and Development
PSC	Passenger Service Charge
ROA	Return on Assets
SPSS	Statistical Package for Social Sciences
UK	United Kingdom
US	United States
USA	United States of America

ST. PAUL'S UNIVERSITY

ABSTRACT

The international airline line of business has continued to grow drastically, but with elusive returns and profitability. This has to a larger extent been driven by low-cost carriers that are now available in any country. Air transport in the East Africa Region has experienced significant changes in the past few years. Civil Liberalization policies have also been gradually introduced accompanied by restricted privatization of the hitherto state-owned carriers. However, some of the main airlines are currently in deep disarray after being run down and cannot even pay salaries in good time due to poor governance practices emanating from bad financial decisions, uncontrolled outsourcing, collusion and other unethical behavior. It is against the above backdrop that this research presents an investigation into the influence corporate governance has had particularly on the growth of the aviation industry in Kenya. This study targets a population of 447 Management staff selected from 6 Aviation airlines operating in Kenya and out of which, a sample size of 173 respondents was picked for the study. This comprised of 1 mainstream, 3 middle and 2 low performing Airlines in Kenya. Random sampling design was used to present a fair representation of the entire population under consideration. The sample size was deemed small enough for easy manageability of the study. The data collected was both qualitative and quantitative in nature. The data was then analyzed by use of Statistical Package for Social Sciences (SPSS) computer package besides regression analysis. This study found out that the organizations board members had established effective policies and internal control mechanisms that ensure accountability, transparency, responsibility and integrity, organizations always gave shareholders their rights to make crucial decisions affecting the company to maximize performance and the board size had a significant influence on company performance and there was always separation of power between the board and CEO. The study concludes that good corporate governance promotes an organization's chances of accessing capital for investment and meeting its obligations as and when they fall due, aviation industry in Kenya not only respected the rights of shareholders but also facilitates the effective exercise of those rights. The current boards have established audit committees so as to safeguard integrity of the financial reporting thus ensuring there is accountability in board size and composition. This was achieved by segregating the roles of the board chairman from the chief executive. The optimal consideration of both the inside and outside directors by proportion of external directors, participation of outside directors, and number of non-executive directors, executive remuneration and number of board directors influenced the financial performance of the organization. The study recommends that firms should maintain small board membership otherwise an increase would lead to decrease in the performance. Aviation industry should therefore adopt good governance practices to enhance their financial performance.

ST. PAUL'S UNIVERSITY

CHAPTER ONE
INTRODUCTION

1.0 Introduction

This section forms the underpinning of the research study. It highlights the background history of the Aviation industry Kenya thus introduces the topic by shedding light on the significance of Good Corporate Governance and its ramification on financial performance within Aviation Sector in Kenya. It also articulates the statement of the problem, determines the associated variables to inform the research objectives, questions, value of the study and in addition the limitations and scope of the research.

1.1 Background of the study

Following the collapse of the famous Enron Company in the USA in the year 2001, increased attention upscaling the function of corporate governance in the US and the world over has been observed. Beginning the year 1930s, academicians have attempted to come up with theoretical approaches to corporate governance using theories such as the theory of transaction cost, institutional and behavioral theories, resource dependency, and stakeholder management theories (Demieag, 2011). The collapse of Enron particularly ignited the concern for corporate culture owing to the culture and practices that caused its collapse hence the need for reforms. Since then, robust corporate governance has been deemed crucial in creating sustained stakeholder wealth in the corporate world. With today's agile technological developments, strong corporate governance transcends beyond business practices (Levitt, 2010). In the words of Cohen, Krishnamoorthy, & Wright (2012) contemporary investors are demanding greater accountability from board members and auditors in a bid to improve on the worth of firms' stewardships as well as gear companies towards efficient market structures (Rossouw, 2015). As a result of the 2001 USA episodes, sound corporate governance practices have become crucial globally in a bid to stabilize and improve global capital markets as well as protect investor interest.

1.1.1 Corporate Governance Globally

The key area of corporate governance is on ensuring means by which industry managers are held accountable by the suppliers of capital. The World Bank Group and the

ST. PAUL'S UNIVERSITY

Organization for Economic Co-operation and Development collectively set up the Global Corporate Governance Forum aimed at building a compromise in favor of the right governing policies, regulatory and business reforms aimed at coordinating as well as disseminating corporate governance behavior across different arenas; provide corporate development and human capacity building in the associated disciplines of corporate governance behavior, guide the various experts and other agents who are critical in bringing about a culture of conformity.

Corporate governance globally reflects the manner in which shareholders, managers, the board in so far as the manner they relate and craft the direction and performance of an entity is concerned. The value of good corporate governance originates from the ability of an organization to; offer checks and balances; shareholder engagement; efficiency and effectiveness; probity (adherence to the highest principles and ideals of behavior); Integrity characterized by leadership which is honest, faithful and diligent; responsibility related to the representative leadership that understands their mandate. Therefore, the survival and growth as well as future of any firm rest on good corporate governance (Chen, Chen, & Wei, 2014). It is therefore premised that more than a third of the value of goods traded internationally are delivered through air transportation system (Keino, 2014).

Although the aviation industry has experienced over the past aggressive expansion since the dawn of this epoch, the last 60 years and more have seen a incredible decline in critical accidents, caused by a many improvement in safety strategies noticeable today. Today, there are less than two passenger deaths for every 100 million passengers while airborne. By contrast, during an early decade of the jet period, (1962 to 1971), there were 133 passenger deaths in every 100 million passengers. By and large, analysis of aviation safety shows advancement in every decade since the 1950s. The long term advancement in global airline safety is owing to a blend of several encouraging trends. Today air transport has become more reliable while security and systems and culture have improved immensely. Corresponding to this, the standard of training of crew has become notably advanced. Superior air traffic control technology and better collision avoidance systems have also been set up.

ST. PAUL'S UNIVERSITY

However, issues of corporate governance are still being witnessed as is the recent case of Kenya Airways (KQ) in Kenya. The airline industry has been negatively affected by waning profit margins, forcing carriers to pay more attention on both cost reduction and revenue growth through better customer relations (IATA, 2014). Given unique circumstances that aviation operates in, they must go on to focus on top line growth because their limited margins rely almost exclusively on revenue gains, while increasing output in order to shore up and perhaps improve on margins. The manner in which individual commercial airlines respond to and counter several trends playing out across the globe will dictate carrier performance in future.

1.1.2 Airline Industry and Corporate Governance in Africa

Air transport in the East Africa Region has experienced significant changes in the past decades. Civil Aviation Authorities have been established as autonomous bodies in charge of regulatory and administering policies set by the Governments. Liberalization policies have gradually been introduced and have been accompanied by (partial) privatization of the former state-owned carriers (GOK, 2015). The airline industry in Africa is run by several airline companies including those operating international routes and local routes. The industry has become very competitive as more and more airline companies launched their operations in Kenya. Kenya Airways commands a good presence within the African region although there has been increased competition on key routes coupled with pricing pressure lately. Competitors have launched flights on major routes, for example British Airways flying in the Nairobi–London route with other destinations across the world.

In addition Qatar Airways has been effective in various Middle East and Europe destinations while Emirates Airlines has also been competitive in Africa and the rest of the world. Air Arabia also raised the bar on competition especially on the pricing front. It is also worth to note that the Middle East carriers have been competing with KQ on pricing. Rwanda air, Fly540, and Precision Air, among others, have enhanced their presence in the region on the back of new routes' expansion and increased frequency on existing destinations.

ST. PAUL'S UNIVERSITY

Research carried out by Africa Capital on state of Corporate Governance in Africa Markets Forum established that; Uganda, Zimbabwe, South Africa and Ghana have set up national institutional mechanisms to shore up good corporate governance. Both training, technical and awareness support has been extensively done by the World Bank and the Commonwealth Secretariat to various African countries, these include Mauritania, Mali, Cameroon, Zambia, Mozambique, Botswana, Senegal, Mauritius, Sierra Leone, Tunisia and Gambia. This has assisted them put in place requisite mechanisms to rationalize corporate governance within their institutions.

1.1.3 Corporate Governance in the Aviation Industry in East Africa

Air transport involves a set of tasks required to satisfy mobility needs by air. Today's major stakeholders includes and not limited to : the end consumers of various services such as passengers and freighters; the airspace operators consisting of scheduled and nonscheduled air operators; the aerodrome community and the Air Navigation Service Providers (ANSPs); the suppliers of the various airplanes which includes aircraft manufacturers; suppliers of equipment used in air traffic management and airports controls; ground handlers; regulatory authorities namely the International Civil Aviation Organization (ICAO) along with National Civil Aviation Authorities and airspace providers constituted by governments. These groups influence the behavior of others by defining the right policy frameworks. In summary, air transport is comprised of two main players; the airports, airlines, and general aviation and air navigation service providers, and civil aerospace sector which is made up of the manufacture and maintenance of aircrafts systems, frames and engines. This study concentrated only on one component, the airlines/air operators.

The increasing availability of affordable air travel has significantly opened up the aviation function in the communities. Air transportation today is no longer an opulence means but as a necessity in everyday lifestyle. Air transport has not only been a catalyst to wealth creation in the developed and developing countries, but has also brought massive benefits to the developing economies; this is by creating potential opportunities for trade and tourism within and out of the country destinations. First-class air transport links dictate where companies choose to put in money, therefore, good corporate

ST. PAUL'S UNIVERSITY

governance philosophy and practices in this sector are crucial for its survival and growth (Adams, 2012. One of the regional conferences which was held in Kampala, Uganda, in June 1998 and September 1999 brought about realization and promoted regional co-operation on issues of corporate governance. Countries came to agree that each member state be optimistic to develop both a framework and a code of best practice, promote national corporate governance, and that efforts be made to harmonize corporate governance in the East African region under the auspices of the East African Cooperation through the establishment of a regional apex body to promote corporate governance.

For example, Uganda has created an Institute of Corporate Governance of Uganda to formulate a national code of best practice dealing with corporate governance. In year 2000, Tanzania also organized an East African Regional Workshop on corporate governance practices. For Kenya, the Private Sector Initiative for Corporate Governance continue to coordinate with Uganda and Tanzania towards the founding of a Regional Center of Excellence in Corporate Governance.

1.1.4 Financial Performance

An entity's performance management system is a vital metric of its financial performance, operating performance and its valuation. These metrics are achieved by calculating the Financial and operating ratios such as: Return on Assets (ROA). Between 2009/10 and 2013/2014, total Kenya aviation industry returns rose from 5 billion KES to slightly over 9 billion (KES). During this period, the overall incomes before taxes increased from KES 4 billion to over KES.6.5 billion. Several measures are applied in financial management including: Profitability ratios like Return on Equity, Return on Assets, Margins among others.

1.2 Statement of the Research Problem

There is a mounting upsurge in demand for accountability and transparency in public and corporate life in the recent past in Kenya. Corporate boards today are attracting a great deal of attention because of corporate failures and performance concerns in the manner they are governed. Consequently, there have been considerable attempts to make changes in the rules and interaction between corporate executive, board of directors and the

ST. PAUL'S UNIVERSITY

stakeholders through enactment of various statutes. Over the years it has been noted that air transport in Kenya has continued to grow; local airlines as well as international airlines have grown in numbers and frequency of travel. Jomo Kenyatta international airport (JKIA), Moi International Airport and Wilson Airport have become hubs of air travel leading in cargo volumes for both exports and imports. However, the aviation industry in Kenya has also in recent years been plagued with falling incomes.

Research conducted by Bowen (2011) indicates that, Air transport industry and the networks it operates have been described as the most politicized. Schonberger (2007) posited that organizations are increasing efficiency and professionalism in their governance process. Best governance practices such as Enterprise risk management, planning and supply performance influence organizations in achieving capabilities while maintaining a flexible and responsive market oriented governance system. Madhavaram & Hunt (2008), indicated that the higher the degree of Corporate governance best practices led to improved inventory management, customer care, reduced operational costs, new product development, financial performance for the local manufacturing firm and information and material flows.

Hassanzadeh & Jafarian, (2010), asserted that corporate governance best practices are seen as a strategic function aimed at improving the organization's prosperity, reduce raw material wastage and costs, and crafting better sources of supply. Extensive research has been conducted on corporate governance best practice on organizational performance (Liker, 2005; Hines & Taylor 2006 ;). Lee, (2008) also expresses the objectives of best corporate governance practices as improving efficiency, quality and delivery performance of suppliers. Mark, Wilson & Ram (2009), investigated the implementation of lean procurement among small and medium sized enterprises.

Previous studies on Corporate Governance best practices have focused on procurement. For instance Njuki (2013) carried out a study on factors influencing procurement practices at UNEP Kenya and found that lack of top management support, government regulations, and lack of competent employees affected procurement practices at UNEP. Wambui (2008) conducted research on factors affecting the implementation of Information Communication technology on corporate governance within firms listed on the Nairobi Stock Exchange. This

ST. PAUL'S UNIVERSITY

study established that insufficient finances, employee's resistance, lack of capacity and failure by top management in allocating resources towards implementation of governance strategies affects performance. With an ever changing business environment, corporate managers are faced with new challenges of ensuring corporate governance process influence environmental sustainability. The fall in incomes aviation industry has been attributed to, among other things, terrorism, negative travel advisories, stiff competition, corruption and poor board decision making. These recent developments have made it necessary to anchor superior corporate governance practices.

The overarching research problem in this study was to determine the relationship between corporate governance practices and financial performance within the aviation industry in Kenya. The answer to this fundamental question is vital as it forms the overall research problem for the reason that, despite an upsurge in demand for transparent, accountable as well as ethical practices in the Kenyan aviation industry and establishment of statutory bodies such as Civil Aviation Authority and other regulatory agencies, the aviation industry in Kenya is still facing governance challenges. Unethical practices such as; rampant fraud, vested interest in recruitment and tendering processes, bungled board elections, skewed board composition, lack of requisite skills and incompetency to exercise oversight still thrive. The prevalence of these challenges has not been succinctly addressed. This research therefore sought to fill that gap in research and literature in this industry, which had been overlooked before.

1.3 General objective

The general research objective was to determine the influence of corporate governance on the financial performance in the aviation industry in Kenya.

1.3.1 Specific Objectives

i. To find out the influence of Internal Control practices on financial performance of the aviation industry in Kenya.
ii. To establish the influence of shareholder rights on financial performance in the aviation industry in Kenya.

ST. PAUL'S UNIVERSITY

iii. To determine the influence of the Board of Directors' composition on financial performance in the aviation industry in Kenya.

iv. To examine the influence of recruitment practices on financial performance in the aviation industry in Kenya.

1.3.2 Research questions

i. To what extent do board control practices influence the financial performance on the aviation industry in Kenya ?

ii. How do the shareholder rights affect the financial performance in the aviation sector in Kenya?

iii. Does the board of directors' composition influence the financial performance in the aviation industry in Kenya?

iv. How does the board recruitment practices influence the financial performance of the aviation sector in Kenya?

1.4 Significance of the Study

The study would serve as an invaluable tool to address that gap of literature on corporate governance practices in the aviation industry in Kenya, an industry which has undergone through various turbulence and business cycles in the recent past. In addition, it would be one of its kinds that estimated the correlation between corporate governance practices and financial performance within the aviation sector in Kenya. The outcome of the study was expected to aid the management of airlines in Kenya to attend to the shortcomings in their governance practices; challenges experienced in the appointment of directors and provide guidance in the mainstreaming of best practices for improved board performance and decision-making for enhanced service delivery.

To policy makers, the study would provide invaluable insight in the implementation of policies aimed at achieving effective board quality decision-making and checks and balances in the aviation sector. They would also gain knowledge of ethical issue management dynamics and the responses that are appropriate and specific for both management and board and secure guidance from the findings of this study in crafting appropriate ethical, recruitment approaches, talent management, social and governance policies that can ensure effective airlines' services delivery. The study would also

ST. PAUL'S UNIVERSITY

provide information to potential and current scholars on airline strategic leadership and those who wish to adopt the recommendations of this study as a basis for further study on Governance practices both in the public and business sector.

1.5 Assumptions of the Study

This study premised that:

i. The Aviation sector management had some knowledge of the prevailing corporate Governance issues in Kenya and their impact on financial performance.
ii. There was a link between financial performance and good corporate Governance practices in the aviation business in Kenya.

1.6 Limitations of the Study

Aviation management and boards' confidentiality policy might have restricted most of the respondents from answering some questions in the questionnaires since it might be considered to be against the confidentiality policy that can expose the organization confidential matters. The researcher mitigated this limitation by presenting an introduction letter obtained from the university to the respective respondents to allay any fears or suspicion and enable the management to disclose much of the information that was sought by the study on the subject matter. The researcher also got a research permit from The National Commission for Science and Technology (NACOSTI) to confirm that this was purely an academic study. To mitigate against any hindrances, the researcher relied on personal networks and experience in the Aviation sector. Reluctance by the respondents to give information for fear of victimization was mitigated by assuring the respondents on confidentiality of the information given and also by not identifying them through names in the data collection tool. The findings of the study therefore had some limitations in that the finding was based on information provided by a small sample subject to potential bias and prejudices of the involved respondents.

1.7 Scope of The Study

The study concentrated on governance practices influencing aviation industry management and financial performance with particular interest to 6 airlines operating in

ST. PAUL'S UNIVERSITY

Kenya. Namely; Kenya Airways; Blue Sky Aviation; Skyward Express; Fly 540; Safari link and Air Kenya.

1.8 Definition of Terminologies

Corporate Governance: are seen as a strategic function aimed at improving the organization's prosperity, reduce raw material wastage and costs, and crafting better sources of supply (Hassanzadeh & Jafarian, 2010).

Financial Performance: are related to the measurement of increase and growing of market share, increase and growing of return on investment (ROI), growing sales and increase of profit margin and overall competitive position (Stock, 2012).

Return on Assets (or simply ROA): This refers to the amount of net income returned as a percentage of total assets. It can be interpreted by the formula (Return on Assets= EBIT / Average Total Assets).

Aviation sector: Comprises the cargo and passenger airlines both local and International.

Internal Controls: encompass all systems and procedures be it financial or otherwise that the board and management have put in place so as to guarantee the organization processes are managed in an effective and efficient pattern and to protect the assets of the firm (Malvern, 2002). It will ensure compliance to policies, safeguard the assets and secure as far as possible the accuracy of the records

ST. PAUL'S UNIVERSITY

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this section, literature that has been published in relation and which is consistent to the research problem is reviewed. The chapter discusses theoretical and empirical literature pertaining to the influence of corporate governance practices on Aviation sector financial performance in Kenya as observed within the industry. The sub section of this chapter is determined by the variables and research questions being investigated to show the relationship of the variables by use of a model. The last part includes the review of the critical literature that has a direct relationship with the research. The chapter further identifies the research gaps. Lastly, the conceptualization of the research problem are identified, explained and operationalized.

2.1 Theories of Corporate Governance

Management staff of organizations small, medium or big are not the real owners of the organization. They may be partial stakeholders by mean of nominal share in the asset portfolio. Moreover, they are elected by the stakeholders called shareholders as their agents to manage the organization on a daily basis. According to Wheeler *et al* (2012) once engaged questions such as how reliable are the executives is common. Whether they put the firm first or their interest? As a result, several theories are available to tackle such questions .This is the main point of focus on this discussion in this section.

2.1.1 Agency Theory

This theory is attributed to Adam Smith (1776) and his discourse concerning the challenge of separation of ownership and entity control. The author portends that management safeguarding the shareholders interest cannot be expected to protect it with the same concerned vigilance as could be construed by the stakeholders. The author argues that the degree of negligence always creep up more or less in the management of such companies. According to the neoclassical economics, aggregation of both returns margins and rational consumers would have a domino effect in equilibrium within a perfectly competitive market. Therefore, perfectly competitive markets require relative

ST. PAUL'S UNIVERSITY

homogeneity of suppliers and buyers since differentiation will result into possibilities of excessive returns on investment (Kohen, 2012).

Nonetheless, when companies are maximizing profit, they don't have free hand to set own prices as in a highly competitive market structure, a company that charges too high will lose customers to competitors unless the market clears or they lower prices or go down in business .Thus, these theories are interested in power and politics in running a business. It is a superior-subordinate tug-of-war to control stakes (Scott, 2012). This theory is premised that both parties are controlled by divergent self-interest. In reality, managers are mere 'hired hands' who may be attracted in focusing on their own personal interest other than that of shareholders. They may in an instance recommend acquisitions, mergers or restructuring strategies to gain power or demand salary increment and benefits. In this regard, management will need the support of the shareholders to do their work.

Agency theory shows an entity as connection between agents (managers) against principal (owners). Agency theory seeks to recognize the causes and effects of goal incompatibility and principal and agent wars. The challenge is that the delegated authority to the agent is problematic owing to divergent interests, lack of adequate monitoring by the principal and because people are motivated by financial gains and status, community and so on, hence agency theory is unrealistic. People are ever opportunistic seekers and never rational. Agency theory is more investor mania with investors capable of accessing information and monitoring management actions.

2.1.2 Positive Accounting Theory

In accounting, many studies are labeled as either positive research or normative research. Positive research tries to envisage and discover explanations for a particular phenomenon. Deegan & Unerman (2006) portends that theories that are related to such research are referred to as positive theories. These typologies of theories are largely vested on observations, that is, they can empirically be tested and improved through further observations. Unlike positive theories, other theories are not based upon observations. These types of theories called normative and beached upon the premises of

ST. PAUL'S UNIVERSITY

the researcher. Deegan & Unerman (2006) assert that normative research theories are geared towards providing a remedy on how a particular practice should be undertaken. This research deviates from a positive theory because it uses empirical data to expound on corporate sustainability practices.

Positive accounting theory was advanced by Watts & Zimmerman (1986), it portends that: "the positive accounting theory is concerned with explaining accounting practice. It is designed to explain and predict which firms will and which firms will not use a particular accounting method but says nothing about which method a firm should use." Deegan & Unerman (2006) asserts that the theory is premised on "the assumption that all individual actions are driven by self-interest and that individuals will always act in an opportunistic manner to the extent that the actions will increase their wealth". Consequently positive accounting theory predicts that industries will strive to put systems up to minimize selfish habits. This is required to align the interest of managers/ (agents with that of the principals. The costs of dealing with issues pertaining to the agency relationship and putting in place appropriate mechanisms are called 'monitoring cost'.

2.1.3 Stakeholder Theory

Stakeholder theory and legitimacy theory are related in a way in that they are both a derivative of a broader theory. While the legitimacy theory describes the expectation of the Social entity, the stakeholder theory shows the relationships among various task groups that have interest in the actions which make up the entity (Freeman, 2012). This orientation is about how stakeholders, such as suppliers, managers, employees, communities, customers and financiers interact to create value. These interactions between groups are subject to various dynamics over time. The senior manager has to manage and shape these relationships to ensure that even when value is created for stakeholders, this value is relayed fairly. If trade-offs has to be realized, what sometimes take place, then the executive has to find out how to make these trade-offs balanced (Freeman, 2008). It is worth noting that the stakeholder theory has two arms, the ethical (moral) or normative arm and a positive (managerial) arm. The two have different perspectives on how trade-offs between groups should be established. The moral (and normative) notion suggests that all stakeholders are equal and should be treated on equal

ST. PAUL'S UNIVERSITY

footing by an entity, regardless of the economic power it stands for. From the descriptive managerial standpoint some stakeholder parties are honored, and the companies will not respond on equal footing to all stakeholders, but respond to those who are deemed as powerful (Bailey *et al.*, 2012).

2.1.4 Resource Dependence Theory

Resource dependence theory concentrates on the role of board of directors in providing access to resources needed by the firm. Hillman, Canella & Paetzold (2000) contend that resource dependence theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment. Indeed, Johnson, Daily & Ellstrand, (1996) concurs that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure.

2.2 The Concept of Corporate Governance

Barnhart & Rosenstein (1998) defined corporate governance as the way in which the power of and the power over a corporation is exercised in the management of its resources aimed at increasing and sustaining shareholder value and satisfying the aspirations and objectives of the company. Corporate Governance therefore refers to the relationship among owners, managers and the board in crafting the direction and performance of the entity. According to Monks & Minnow (2012), corporate governance as the processes surrounding the election of board members, their compensation and the evaluation in supervision of management.

Corporate governance is also defined as the art of governing, in anticipated manner, so as to maximize the welfare of the company and its stakeholders (Adams (2012).Corporate Governance consequently entail the entity's authority, accountability, leadership, leadership, direction and control practiced by the organization. Aviation Governance is thus concerned with the business processes, systems, practices and rules both formal and

ST. PAUL'S UNIVERSITY

informal that direct Aviation sector, it also pertains to the manner in which these rules and regulations are exercised and complied with, the links that these rules and regulations determine or establish, and the pattern of these relationships. Ideally, governance addresses the leadership roles together with existing checks and balances. For Aviation sector, corporate governance seeks to promote; efficient, effective and sustainable Aviation sector which contributes to the wealth creation, employment and providing solutions to emerging pertinent issues. It attempts to create a responsive and accountable Aviation sector that is legitimate and led with probity, integrity, transparency; and appreciation and safeguarding of shareholders' interests. Lastly, corporate governance facilitates better decision-making, ensure divergent interests of stakeholders are unprejudiced and that judgements and use of power are exercised in a rational, responsible, transparent and balanced manner. The essence is to ensure trade-off- ensure that Aviation sector sacrifices financial performance to meet societal obligations.

2.2.1 Pillars of Good Corporate Governance Practices

Simply corporate governance concerns the way in which the power of the organization is used to manage the entity's total portfolio of assets and resources with the object of maintaining and increasing shareholder wealth within the dictates of company mission (Barnhart & Rosenstein, 1998). Power here refers to the capacity to effect changes (Armstrong, 2010). The most frequently accepted principles or elements of good corporate governance include accountability, openness and recognition of stakeholder interests. Other crucial corporate governance indicators include; efficiency, integrity, stewardship, leadership and emphasis on performance and compliance, shareholder inclusiveness and consultation.

Besides, separation of roles, optimum board size, a balanced mix of director's skills and capabilities, effective performance evaluations as well as effective communication with stakeholders are seen as crucial determinants of good corporate governance. Different organizations give different weights to good governance elements. The most contentious issue is trying to balance external and internal accountability, transparency and inclusiveness. More often than not, there is tension between those who are governed and

ST. PAUL'S UNIVERSITY

those governing in terms of role conflicts (Monks *et al.*, 2012). This calls for proper clarity of roles, responsibilities and expectations between agent and principal. Hence, good corporate governance is all about offering checks and balances.

A good system of corporate governance helps and aid decision-making, accountability and responsibility within and outside a corporation. Effective corporate governance practices assist firms improve performance and instill investor confidence. Corporate governance help firms achieve their corporate mission, protect shareholders' rights, meet their legal mandate and create public confidence (International Chamber of Commerce, 2012).

Principles of good corporate governance entail; ethical approach, balanced objectives, each party playing its part addressing stakeholder concerns based on accountability, integrity and transparency. Pundits in corporate governance assert that there is a direct link between good corporate governance practices and long-term shareholder wealth. However, there are no universal sets of governance practices. The conventional wisdom of right-sized ones has never been realized but success depends on such factors like company's mission, size, and stage of growth, resources, shareholder aspirations, and legal and regulatory environment (Adams, 2012).

The central governance best practices that positively impact every entity's performance and long-term viability include: Building a strong body of qualified board of directors and assessing their performance. It aspires Board of directors who are knowledgeable, astute, autonomous, skilled, and competent and have relevant professionalism, strong ethical and integrity background, Multi-disciplinary backgrounds, and business mind-set, as well as reasonable time to obligate to their duties. Consequently, constant board of directors education and performing periodic and significant performance evaluations is crucial (Baker, 2007).

Then, clearly defining roles and responsibilities; clarifying lines of authority, responsibility and accountability among them is critical. Delegating certain responsibilities to director committees, such as audit and compensation committees should be encouraged. Separating the roles of the board chair and the CEO are critical.

ST PAUL'S UNIVERSITY

The chair should lead the board and ensure that it is meeting the company's long-term mission; the CEO should lead management, develop and implement Strategic plans, and reports directly to the board. The overall tone should be geared towards emphasizing integrity and ethical practices and developing a general culture of integrity, transparency and open democracy in business dealing and of respect and compliance with laws and policies without fear of reprimand. Ensuring implementation of crafted strategies and policies without conflicts of interest, code of best practices, accountable reporting with full disclosure and whistle blowing mechanisms (Chen *et al*., 2014). Corporate governance pillars also entail evaluation of Board performance and making principled pay decisions, setting measurable performance outcomes for the CEO and periodically evaluating their performance.

Good corporate governance is anchored on the ethics, best practices, positive attitudes and values of the society and pertains to: Accountability of power, in that power should be exercised to promote human wellbeing; Democratic principles in respect to the sharing of that power, popular participation and representation; crafting a sense of right and wrong, fair and just and continuing corporate social responsibility. Efficient and effective use of public resources for the production valuable products to consumers; Guarding of human rights and freedoms and compliance with essential order and security for the person and his/her property (Chen, 2014). This also pertains to the acknowledgment of the government as the only entity to which the society gives authority to use coercive power to maintain public order and national security, collect statutory taxes, reallocate society's resources optimally for various public needs and to use that coercive power to confiscate property if need be, deprive a person of liberty or life with a reason; controls that such power and authority are not used to subjugate, oppress and deny basic human rights and freedoms to its public.

In short, the main tenets of corporate governance encompass effective, responsible governance, separate and independent of management aimed at promoting fairness, efficiency, effectiveness, probity, accountability, and integrity, good leadership which is faithful, honest and compliant. It also entails an all-inclusive public participation in decision making and recognition of the rights of its stakeholders. All institution must be

ST. PAUL'S UNIVERSITY

governed and managed in accordance with the mandate granted to them by their founders, owners and society and take cognizance of their mandate to enhance sustainable prosperity in an enabling environment within which its human habitat can contribute and bring to bear their full innovative powers towards finding creative solutions to common problems.

Effective corporate governance is reflected in an effective risk management that includes; assessing the risks the company contends with in all facets be it financial, operational, reputational, environmental, industry-related, and legal risks. The board is responsible for crafting the company's risk tolerance and developing a framework and accountabilities for managing risk and setting the tone (Cohen, 2012). With ineffectual boards, the only mechanism is having strong corporate governance tenets (Cohen, 2012). Corporate CEOs sometimes abuse their powers based on the individual political, social and economic inclinations. Research however show that even though the correlation between corporate governance and economic performance is contestable, good corporate governance practices offer a crucial agenda for timely response to a firm's board of director's challenges towards positive return on investment (OECD, 1999).

The absence of strong corporate governance practices may make thriving firms vulnerable to effects of financial distresses (Business Roundtable, 2005). This is because effective corporate governance practices are more proactive, focused and uphold high standards of responsibility and ethics. Good corporate governance demonstrates commitment, team spirit, effective decision-making, goal setting and appropriate mechanisms for monitoring and evaluating performance. This facilitates collaboration, teamwork and proactive interventions before things get out of hand. In retrospect, corporate boards worldwide have been putting more efforts in the past epochs owing to corporate downturns and issues pertaining to financial performance, checks and balances and governance of the entities. Regulators and organizations now pay a lot of premium on how best to anchor good corporate governance through various reforms and put emphasis on integrity at recruitment in a bid to maintain stakeholder confidence and protect investor interest. Various scandals such as those witnessed in the USA concerning; Enron, World Com and Tyco and in the UK ;the collapse of Maxwell

ST. PAUL'S UNIVERSITY

publishing company while in Germany the cases of Holtzman, Berliner Bank, & HIHare attestations to the significance of practicing good corporate governance. Still in Korea Banking distress (1997), and Australian Airlines among others have continued to call into disrepute the accuracy of financial information and forced state parties to interrogate and come in with effective governance policies.

Black *et al*. (2012) contends that firms with robust corporate governance philosophy have better chances of performance than those with poor corporate governance culture. Good corporate governance blends incentives to board of directors and management to move towards achieving aspired objectives. This also assists in lowering the cost of capital while achieving efficiency (OECD, 2004). Corporate Governance is thus a concept that is currently receiving a great deal of interest worldwide (Heracleous, 2011). Most studies have been done on US, India, Japan, Turkey and UK firms with limited thresholds and voluntary compliance outcomes, but limited research has been done in Kenya hence the gap this study aims to fill.

2.2.2 Corporate Governance Practices and Company Performance

In the Kenyan context, corporate governance gained prominence towards 1990s and in the 2003, when the office of Permanent Secretary for Ethics and Governance was created by the government. This office saw the formulation of the Public Officers Ethics Act (2003) and other reforms which have seen their way to both private and public institutions including Co-operative societies. This means that corporate governance is concerned with both the internal and external stakeholders of any firm with regard to internal control, and external aspect of the company to the shareholders and other stakeholders return on their capital injection. According to Monks & Minow (2012), a competent board of directors can derive substantial difference in the performance of an institution with emphasis on the qualities of strong character, practical wisdom, an inquiring and independent mind set.

According to Roussouw (2009), the relationship between corporate governance and business ethics is quite ambiguous. Ethics simply stated by Gichure (1997) is a systematic study of human actions from the point of view of their rightness or wrongness

ST PAUL'S UNIVERSITY

as a means for achievement of man's ultimate good. Ethical actions therefore means that one should not only consider what is good for oneself but also what is good for the institution thus corporate governance is instituted upon moral obligations and the core values of corporate governance which are accountability, responsibility, fairness and transparency create the impression that corporate governance imposes ethical obligations upon corporate entities.

2.3 Corporate Governance Practices

2.3.1 Internal Controls and Financial Performance

Internal controls encompass all systems and procedures be it financial or otherwise that the board and management have put in place so as to guarantee the organization processes are managed in an effective and efficient pattern and to protect the assets of the firm. They include; procedures, processes, security fences, safe custody of resources, pre-numbering of receipts, policies and manuals among others. They are indispensable as they develop an atmosphere of organization and guidance in operations of an organization leading to effectiveness in financial accounting process (Malvern, 2002).

Internal control pertains not only to internal check or internal audit, but a whole gamut of system of control, financial and otherwise, put in place by the management in endeavour to carry on the business of the company in an orderly pattern, protect its assets and secure as far as possible the accuracy and reliability of its records management. Internal control is thus the process designed and affected by those mandated with governance, management, and other personnel to provide concerted assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and statutes (Kumar & Sharma, 2011).

The goal of internal controls is to provide an overall framework for a robust and efficient management of wealth in all institutions and provide checks and balances against excesses. The object of having a strong system of financial control is to promote the company's ability to reach its mandate, providing reliable financial information, protecting assets and records, evaluating operational efficiency through budget

ST. PAUL'S UNIVERSITY

compliance, organizational control and encouraging adherence to prescribed policies and statutes. An entity's system of internal control has the main role in managing risks that are significant to the fulfillment of its operational objectives. A robust system of financial control contributes towards protecting the stakeholders' investment and the firm's assets; facilitates effectiveness and efficiency of operations, thus helping to ensure the reliability of internal and external financial reporting and assist in compliance with statutes and procedures.

2.3.2 Stakeholder Rights and Financial Performance

Stakeholders in this case refers to all interested parties or those who have a stake in an entity such as; owners/Shareholders, Management, Creditors, Trade Unions, Customers, Employees, Suppliers, Local community and future generations with a stake. They aspire transparency, fairness, accountability and responsible dealings. Employees have rights for compensation and consultation. The modern business entity is a contested entity. According to OECD (1999), there is minimal consensus as to who should be involved in an entity's governance or how the risks and rewards connected to its activities ought to be assigned (Cohen, 2011). One standpoint portends that the firm is just a bundle of assets whose real value is to be evaluated by the cash flows that it provides to stockholders, the principals for whose main benefit the firm should be managed. Consequently, transfers in corporate control are deemed to be not only justifiable but economically advantageous, provided that such dealings remove underperforming or self-serving managers and increase shareholder value.

In contrast, the entity is an essential part of the social structure and is characterized by the intersecting interests of various stakeholders, including not only shareholders and managers but also personnel and the surrounding community. More than a mere business endeavor, the company is a public with its own social obligations and responsibilities. On that note, the benefits to shareholders that might accrue from changes in management and control need to be evaluated against any costs that would be imposed upon other publics. Good corporate governance assists to ensure that a company takes into account the interests of a wide range of community, as well as of the entire stakeholder groups within which they operate, and that their boards are accountable to the firm and the shareholders.

ST. PAUL'S UNIVERSITY

This in turn, helps to assure that companies do business for the benefit of society as a whole (OECD, 1999).

2.3.3 Board of Directors Composition and Firm Performance

Boards in most instances comprise of executive and non-executive directors. Executive directors pertain to dependent directors and non-Executive directors to independent directors (Caton, 2012). In common practices, at least one third of independent directors are preferred in board, for effective functioning of board and for a fair monitoring. Dependent directors are also crucial because they have insider knowledge/information of the organization which is not accessible to outside directors, but they can misuse this knowledge by transferring assets of other stockholders to themselves. An independent board is normally made up of members who have no links to the firm in any way, therefore there is no or minimum chance of having a conflict of interest because independent directors have no material interests in a firm. It is arguable as to whether board composition does influence company performance although its relationship with performance was determined to be positive (Demirag, 2011).

2.3.4 Ownership Structure

Bowen (2011) argues that the governance is weak if there is no clear role distinction between Senior management and the board of directors. Senior management of most organizations is weak and the board is seen as a climbing lane to join national politics thus the board members priority is their personal interest as opposed to the 'principal' role to safeguard/investors interests. Chang (2011) found out that a good number of institutions comply less with corporate governance guidelines, and concluded that was why many organizations experience poor financial performance. The structure and mix of the board of directors in many organizations faces many challenges, specifically because of their institutional structure. Annual General Meeting (AGM) is the apex body of governance in many organizations, and major investment decisions which could be of help to the firm has to wait for the approval of AGM before the board can proceed with implementation (OECD,1999). While much focus has been on the issue of optimal board size, there is no agreement about what the actual ideal size of the board is. It is premised that a not-too-large board will assist in efficient decision-making by minimizing negative

ST. PAUL'S UNIVERSITY

board changes (Monks *et al*, 2012). Monks & Minow (2008) recommends engagement of an independent director as an inclusive approach to governance taking into cognizance of all the stakeholders' needs. If an independent director opts to engage in constructive ends, then it works for the betterment of the organization and it broaden the talents and objectivity and transparency of the board (KPMG, 2011).

The public outcry over the recent global and local scandals has made it clear that the *status quo* is no longer acceptable. For example in 2002 the US congress approved the so-called Sarbanes-Oxley Act, imposing among other things financial controls and reporting requirements for the public trading companies. In majority of the developing countries the corporate governance systems are mostly 'relationship-based' which can make insider trading and corruption thrive. Thus, the main challenge is to develop and implement a more 'rules-based system (Oman and Blume, 2005). In Africa the surprise is that board members are still voted in by the shareholders thereby having to protect their stake, which sometimes may be to the detriment of the business (Alukwe *et al*., 2015). The government on the other hand may use its political power to interfere with the organization's operational decisions. For example either directly or through the proxy of its representative in the board, government may put pressure on managers to destabilize employment or provide other 'benefits' to supporters (for political gain) and drift them from their key role of profit maximization (Salleh, 2009).

2.4 Contribution of Corporate Governance to Company Performance

According to Center for Corporate Governance in Kenya (2012) a nation's capacity to achieve sustainable wealth, which is progressive economic development and social progress over a long period of time, relies on decisions concerning the allocation, utilization and investment of state resources. In today's global marketplace, a nation's capacity to create and generate wealth is closely related to the process by which an entity's resources are allocated, utilized or invested. Strategic decisions concerning the allocation and utilization of corporate resources are the bedrock of investments in productive capabilities that can make innovation and economic development a reality (Heracleous, 2011).

ST. PAUL'S UNIVERSITY

Corporate decisions as whether to invest, when to invest, how soon to invest, what to produce, and whether to employ eventually affect incomes, employment and livelihoods of the entire nation. Corporate governance ensures compliance with legal mandate and safeguard for stakeholders against corruption, fraud or failure of the entity. In the absence of good governance framework in place, management may run away with profits (Weston, 2012). Good governance minimizes the possibility of poor organizational performance. Good corporate governance can improve organizational bottom-line that is revenues by highlighting the strategic duty of the board of directors, ensuring compliance and financial probity as well as transparency and accountability. In retrospect, corporate governance ought not to be executed merely because of need to comply with legislations but to engender growth and survival of an organization in the market place. Good corporate governance enables investors to put their money in blue-chip companies. Black (2012) asserts that institutional investors will pay as much as 28% more for shares in well managed companies in emerging markets.

2.5 Empirical Review

Beiner, Drobetz, Schmid, & Zimmermann (2006) studied Corporate Governance and firm valuation by use of broad Corporate Governance metrics and variables related to board characteristics and ownership structure to provide an account of firm intensity of Corporate Governance. The study found proportionate correlation between Corporate Governance and organization development. A rise in Corporate Governance effort was found to cause an increase in the market capitalization by about 8.6%, on average of a firm's book asset value.

Zheka (2007) studied the influence Corporate Governance on performance by constructing an overall index of Corporate Governance and established how it predicts firm level of productivity. The outcome showed that an increase in the index resulted in about 0.4%-1.9% increase in the firm's performance; worst to best scenarios indicated that a 40% increase in organization performance. Baker (2007) employing a unique dataset from Alliance Bernstein, which is an international asset management company, indicated a considerably positive correlation between firm level (and country-level)

ST. PAUL'S UNIVERSITY

Corporate Governance ratings and market valuation, indicating lower cost of equity for better governed organization.

Ongore & K'Obonyo (2011) undertook a similar research in Kenya to establish the correlation among ownership, board and manager features and firm performance in a sample of 54 firms listed at the Nairobi Securities Exchange. The outcomes from this study demonstrated a positive relationship between managerial discretion and performance. However in Public Policy and Administration, the relationship between ownership concentration and government on firm performance was found to be significantly negative.

Mang'unyi (2011) undertook a study to find out the relationship between ownership structure and Corporate Governance and its effects on the organization performance. The study focused on selected banks in Kenya. In this research, there was significant difference between Corporate Governance and financial performance in banks. The study proposed that corporate entities should promote Corporate Governance to send positive signals to potential investors and those regulatory agencies including the government should promote and socialize Corporate Governance and its relationship to firm's performance across industry divides. Muriithi (2009) analyzed the effects of Corporate Governance on performance of commercial state corporations in Kenya. Using a descriptive research design and a sample of 30 State Corporations out of 41 state corporations in Kenya and studied the relationship between financial performance, board composition and size. The study established a positive relationship between Return on Equity (ROE) and board compositions of all State Corporations.

2.6 Critical Review of Corporate Governance and Organizational Performance

Corporate governance as a concept has in recent past attracted public attention over the last few decades. The concept has been gaining wide recognition for its relevance and contribution to industry and national economies. Corporate governance contributes to both business enterprises as well as to the expansion and development of a country's economy. Organizations have deliberately put in place systems of corporate governance because of the following; Studies in countries such as UK, India and other continents

ST. PAUL'S UNIVERSITY

have showed that markets and investment partners take notice of well governed firms and react favorably to them which allow autonomy to the board and management to take time to improve their firms, innovate and ensure accountability.

Research by Leblanc *et al*., (2012) portend that practical research has unsuccessfully demonstrated a clear connection between the segregation of CEO/Chair position and enhanced firm performance. However, research on emerging markets demonstrated an encouraging relationship between corporate governance and financial ratios, valuations and performance of share price. The implication is that a firm's corporate governance practices can make a huge difference in under-developed regulatory environment. However, as much as this also implies good regulatory environment is favorable for positive performance, it does not show what constitutes the greatest regulatory regime.

Another issue arises on boards' independence that emanates from the necessity to guard stockholder stake from management greed. This is important in ensuring oversight and holding managers accountable to shareholders. This according to agency theory rests on the notion of rationality and underscores that individual self-interest is paramount and must be guarded at all costs. The appointment of independent directors will ensure counterbalancing act on the supremacy of the CEOs in decision-making and safeguard stockholder interest. Another reason for selecting independent directors to the board is to ensure an appropriate skills mix and expertise for effective governance and decision-making, diversity and stop group think. However the issue of maximizing stakeholder wealth still suffers owing to conflicts of interest. Studies by Bhagat *et al* (2012) found out that entities with more independent boards do not do better than other firms. This brings into disrepute a link between firm's board independence and its value addition.

According to Black *et al* (2012) firms with high proportion of independent directors may achieve far much worse results. On board size same studies recommended a limited board size for efficient decision making. For Kiel *et al*., (2003) conducted a study in Australian and found out that large board sizes are not necessarily impediments to good performance as markets reward larger boards as well as with relatively lower proportion of outside directors. Regarding CEO remuneration, the assumption is that he/she will act to

ST. PAUL'S UNIVERSITY

maximize shareholder value and enjoy huge perks. However, research by other scholars found no relationship but depends on market forces. Researchers portend that there is no connection between high CEO remuneration and company performance. Dobbs *et al*. (2006) contends that total returns to shareholders is not necessarily a good performance metric and recommend that other variables such as underlying performance, financial markets' evaluation of a company performance and expected future return.

To revisit the issue of ownership and management separation, managers who run the daily corporation affairs and make most of the decisions are not in most instances the owners. This becomes a concern in large firms particularly if no shareholder holds a controlling stake in the firm. This separation of ownership generates conflict of interest between management mandate to maximize owner's value and its interest in personal income maximization. At times, a CEO may be forced to get huge salary at the expense of the firm. Another issue pertains to illegal insider trading. This refers to a firm's directors, officers and employees having proximity to confidential, non-public information about the corporation that might hamper the value of shareholders. Company insiders are not restricted from trading corporate shares but must report their intentions to Security exchange authorities. Since access to confidential information is cumbersome to regulate, laws against them become cumbersome to enforce. Presentation of misleading financial statements to investor is a common practice by CEOs in such a manner that it is hard to spot this is an issue that complicates financial performance metrics (Leblack, 2012). As a consequence, neglect of corporate governance has triggered enactment of plethora of laws worldwide.

However, compliance with such laws is hectic and expensive. Therefore, many corporate governance practices are ineffective and impose a great risk to stakeholders thereby denying them a competitive advantage. In conclusion, corporate governance practices need to induce self-interested managers to maximize shareholder wealth. When governance mechanisms entice managers to mitigate actions in tandem with shareholders' interest, this has a positive repercussion on performance and shareholder value (Dobbs, 2012).

ST. PAUL'S UNIVERSITY

2.6.1 Organizational Performance

An organizational performance can be conceived as to how well the organization work on improving its financial condition and subsequently ability to compete against the competitors. For the purpose of this study, the organizational performance is segregated into financial performance [lag indicators] and non-financial performance [Lead indicators], both of whose dimensions are defined as: Financial performance means performance related to the financial prosperity such as measurement of increase in market share, returns of investment growing, increase profitability and enhanced competitive advantage (Stock, 2012).

2.6.1.1 Financial Performance

Financial performance is measured based on enhanced profit maximization, return on assets (ROA) and return on investment (ROI). In contrast, product market performance is gauged on market share proportion compared against the competitors. Shareholder return is measured by total shareholder return in the form of dividends and share price/ value. When an investor puts money in an organization, the economic value is added based on the organization foreseen growth. Essentially, others than product market performance and shareholder return, non-financial performance that related to aspect of strategy and operational performance such as productivity, delivery, response time and distribution is also one of the firm results that will dictate the organizational performance. Various researchers (Yamin, 2007; Stock, 2012) have proved that the financial performance are related to the measurement of increase and growing of market share, increase and growing of return on investment (ROI), growing sales and increase of profit margin and overall competitive position. Organizational financial enhancements are all commonly related to the sales and market share as well as the growth of ROI.

2.6.1.2 Non financial performance

Non-financial performance is defined as that performance which is related to operational prospect of the organization and can lead to a feeling such as processes accurate orders, increase speed of order handling, turnaround time on product; new design, time for product volume growth which are related to the operational performance and which

ST. PAUL'S UNIVERSITY

cannot directly affect on the financial performance but will indirectly impact on the organizational overall performance (LaLonde, 2010).

2.6.1.3 Background to Performance Measurement

Many organizations are using performance measurement tool called Balance Score Card (Kaplan & Norton 2006). The users of this metric believe that the tool provides a great mechanism for executing an organization's strategy effectively and relays strategic intent and evaluates performance against established strategic targets. Balanced score card is a Corporate Governance framework that allows entities to clarify their strategy and change them into achievable targets. It develops a feedback loop around both internal business processes and external outcomes in order to constantly improve performance. The balance score card that saw its initial crafting during the years of 1987-1992. (Art Schneider man, 2002), relates performance with business's strategies using four orientations thus; customer, financial, innovation and learning and internal business process .The four perspectives instead supplement the objectives of various institutional methodologies for example; total quality management, strategic planning and core competence which were in application during many epochs surroundings the balance score card's usage.

According to Shortell & Kaluzny (2000), firms that have a developed core business strategies to meet their customer objectives are likely to be better within their industry. The foremost organizational success and growth is grounded in its capability to transform organizational strategy into operational tasks and the capacity to determine performance and achievement of strategic goals. Executives within the business world are therefore the connection between cascading critical targets down the organizational structure and to other stakeholders. Staff are on the pole position of the entity representing the values of the entity to the customer and are thus in a significant position to make positive or negative outcomes on customers perceptions and satisfaction. A performing aviation institution therefore must be able to communicate its strategies to its stakeholders that are thereafter translated to meet customer needs and achieve competitive advantage.

ST. PAUL'S UNIVERSITY

According to Deming (1986) the balance score card consequently represents a metric/tool for communicating strategy and defining levels of organization competitive advantage. It consists of a set of performance measures that signal the board a comprehensive view of the company based on the following for orientations; (a) Financial perspective: This comprises of conventional financial measures such as return on investment (ROI) or return on assets (ROA), market share, and earnings per share, revenue growth (b) Customer perspective: This encompass measures related to customers such as quality, performance, cost, timeliness, and service delivery. (c) Internal business process perspective: This is a measure of the significant internal activities and processes that the entity employs to meet its customers' aspirations. (d) Learning and growth perspective: This measures the entity's ability to adapt and innovate for the future; this could entail time to market for new product development, workforce training and development, and process improvement. These orientations provide a multi-dimensional balance between internal and external perspectives, objective versus subjective measures, current versus future needs, qualitative versus quantitative indicators etc. Tradeoffs become explicit business decisions based on strategy.

2.6.1.4 Balanced Scorecard and Organizational Performance

Balance score card (BSC) is a managerial tool that scans out an entity's strategies into performance. This is based on four orientations are; internal business, customers, financials, and learning and growth which provide relevant response as to how well the strategic plan is implemented so that fine-tuning can be made if need be. BSC has acquired increasing approval as a useful management instrument that is able to align employee activities and anticipated goals with corporate governance. Atkinson et.al (1997) views this as a great development in management accounting and which every organization should adopt.

The balance score card is fundamentally a performance tool with two key Governance objectives; (a) Converting strategy into specific targets for different sections of the entity, and (b) Relaying that strategy to all segments of the entity (Milgliorato *et.al*, 1996). Various research have been undertaken on the use and utility of BSC but no enough studies have been conducted in The Kenyan Aviation industry.

ST. PAUL'S UNIVERSITY

The use of scorecard tool particularly, encompass a re-examination of the conventional institutional management model and a move away from reliance on purely lag indicators such as financial metrics as a basis for strategy measure. It may be said that the scorecard tries to take a genuine marketing idea by making sure a cooperative institutional framework subsists ensuring customers get value addition.

Migliorato, Natan, & Norton (1996) in recent literature includes three attempts to relate score card application to enhanced institutional performance. Hoque & James (2012) surveyed manufacturing firms in Australia on their usage of non-financial measures or so-called lead indicators and found in discussions of balance score card development. The study found that firm's performance was a self- reported metric relative to peers within the same sector. Their results showed a significantly positive relationship between the usages of classical score card as used to measure board performance.

Banker, Potter, & Srinivasan (2014) on the other hand studied the relationship between increased financial performance and non-financial measurements (NFM) within a hotel chain industry in which a new incentive program included an emphasis on customer needs and its satisfaction. In an all-embracing research study of a large manufacturing firm, Malina & Selto (2011) studied the value of the scorecard in communicating objectives, strategies and acting as a management control tool in an organization. The finding showed an indirect relationship between balance score card management control functions and improved performance on balance score card metrics. Moreover, managers in the study industry perceived improved performance on the balance score card would translate into enhanced efficiency and productivity within the organization.

2.7 Research Gap

Corporate Governance practice is similarly important in all institutions; this disregards their dimension or level of growth. Good Corporate Governance practice has a positive economic pointer to the improved organization performance and more precisely in this research study area of aviation. It aims at saving the organization from declining revenues triggered by frauds, corruption activities together with other management malpractices. In addition, Corporate Governance is a catalyst for entrepreneurial culture and innovation

ST. PAUL'S UNIVERSITY

helping organizations to better capture great competitive and strategic opportunities as they arise. The major Corporate Governance dimensions that are currently receiving great appreciation is an attempt to separate organization management distinct from the board. This it is hoped will ensure that the board is directing and supervising management, including separating the chairperson and chief executive roles; ensuring that the board has an effective combination of independent and non-independent Board of directors; and putting in place the independence of the auditor and thus the integrity of financial reporting process, including establishing an audit committee of the board. Good Corporate Governance in this regard aspires to maximize stakeholder's returns and efficiency gains of organizations and their enhanced capacity to create wealth for shareholders, increased employment opportunities with better terms and benefits to employees.

The most important tasks of Corporate Governance therefore is lowering the risk for investments while providing high returns to investors and delivering a system for managerial accountability and assuring corporate efficiency and mitigating arising conflicts providing for transparency and legitimacy of corporate activity. The studies cited in most literature concentrate on the developed countries whose strategic models and Corporate Governance mechanisms are not sync with that of Kenya. In Kenya, the studies have narrowed more on other sectors such as banks other than Aviation, for instance, Jebet (2011) undertook a study of Corporate Governance practices among Kenyan listed companies in the NSE.

Muriithi (2011) carried out research on the link between Corporate Governance mechanisms and performance of firms quoted on the NSE. Manyuru (2005) surveyed Corporate Governance and organizational performance, the case of companies quoted at the NSE and Matengo (2008) undertook a research on the relationship between Corporate Governance practices and performance: the case of banking industries in Kenya. None of these studies have focused specifically on the relationship between Corporate Governance and financial performance of Aviation sector in Kenya. Many other specialties have researched on the relationship between variety of governance

ST. PAUL'S UNIVERSITY

mechanisms and firm performance. Nonetheless, the results have received mixed reactions. Other researchers have examined only one governance mechanism on performance while others investigated the influence of several mechanisms on performance per se.

2.8 Conceptual Framework

A conceptual framework considers the theoretical and conceptual issues surrounding research work and forms a coherent and consistent foundation that will underpin the identification and development of existing variables. A variable is that which the researcher can control in order to investigate its effect, impact or influence in order to determine its effect or influence on the dependent variable (Mugenda and Mugenda (2009). In fig.2.1 the independent variables are; internal control practices; Shareholder rights; Board composition and structure and ownership structure. The dependent variable is financial performance of aviation industry in Kenya.

ST. PAUL'S UNIVERSITY

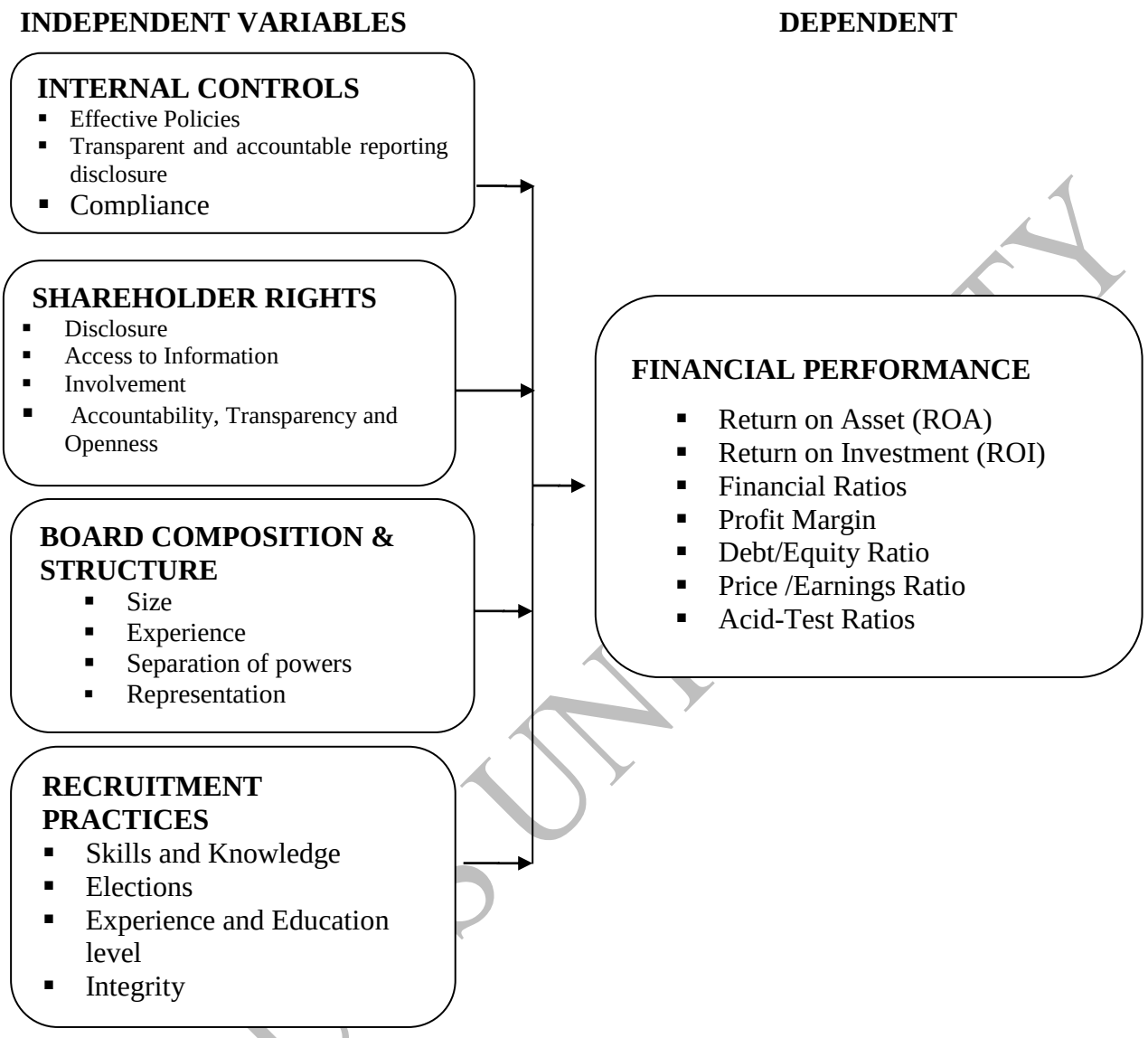


Figure 2.1: Conceptual Framework (Source Author 2016)

2.9 Summary

The chapter reviewed and highlights the variables of corporate governance by other scholars in other continents. It also gives an insight to the principles and the pillars of good corporate governance practices and philosophy together with factors that influence corporate governance. The chapter also revisited previous studies on relationship between corporate governance practices and firms' performance. In addition, the chapter also gave a brief understanding of the air transport industry in Kenya. It is perceived by the

ST. PAUL'S UNIVERSITY

researcher that this research will add enormous value to the field of study in the context of developing social, economic as well as political environment.

The section concludes that weak legal structures, culture, social norms, vested interest, political interference, lack of professionalism and weak tradition of corporate governance are evident hindrances to effective social and economic development. Good corporate governance depends on internal and external factors and is crucial in gauging company performance, return on investment, investor confidence, trust and loyalty. Good corporate governance framework can only flourish if it is supported by robust legal system devoid of influence, strong economy, effective boards and political will as well as appropriate education system that engender strong cultural norms. As a result, strong corporate governance can only be realized when there is partnership among stakeholders such as government agencies, academics, NGO sector, and strong civil society that work together to eradicate obstacles on the path to good corporate governance that provide checks and balances.

ST. PAUL'S UNIVERSITY

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This section describes methods used in data collection and a justification of the research design that was adopted in the study. Specifically, the section highlights the methods of data collection, measurement and analysis. The chapter also describes the research design, target population, the research instruments, the sampling design, as well as means of collecting data and data analysis methods used.

3.2 Research Design

The study employed a descriptive cross-section research design aimed at explaining the connection between research problems and the various independent variables identified. This approach was considered to be crucial in assessing and collecting data for this particular study since it is suitable for an in-depth study of the target population. The design was able to indicate the causal relationship between variables in the study and hence the researcher could tell how one variable explains or is explained by another. Research design is thus defined as the arrangement of conditions for collecting and or analyzing data in a way that combines relevance to the research purpose with economy in procedure (Kothari, 2009). It enabled the researcher to relate the research problem to the missing gaps of other research work which have been covered and also show what the other researchers overlooked possibly due to time differences or economics and social factors.

3.3 Target Population

A population is made up of the entire group of people or items a research is going to be carried out on before a sample size is selected (Mugenda & Mugenda 2003). Population is defined as the community of people or objects that have common features and that have been chosen for study (Kothari, 2009). The population should be carefully chosen and defined in a manner that it yields the best findings. The population therefore composed of management personnel of 6 Airlines within the Aviation sector in Kenya.

Target population is deemed to have observable features to which the researcher aims to generalize the outcomes of the research (Mugenda & Mugenda, 2003). Consequently, the

ST. PAUL'S UNIVERSITY

researchers target population of the study was 447 management personnel of 6 aviation airlines in Kenya comprising of 1 mainstream, 3 middle and 2 low performing Airlines in Kenya. The managers have been selected upon because of their role in strategy formulation and implementation in the respective airline companies. The target population was as shown in Table 3.1:

Table 3.1: Target Population

Target Group	Management Personnel	% Taken	Sample size
Kenya Airways	300	40	120
Blue Sky Aviation	8	40	3
Skyward Express	19	40	8
Fly 540	55	40	22
Safari Link	34	40	14
Air Kenya	31	40	13
TOTAL	**447**	**40**	**173**

Source: Author, (2016)

3.4 Sample and Sampling Design

A sample is defined as the representative of total population chosen for analysis (Kothari, 2009; Bryman & Bell, 2003). The study used a simple random sampling technique to generate a sample for the study. This technique was chosen on the basis of its ability to reduce sampling error since each element in the target population had an unbiased chance of being selected. Through the use of probabilistic sampling, each member of the target population has a known chance of being picked and included in the sample frame. As such, statistically, for generalization to occur, a sample of at least 30 respondents ought to be selected (Cooper & Schindler, 2003). However, the larger the sample, the lower the error margin gets. Each organization was given 40% chance where at least an employee from management is picked. The sample size was 40% of the sampling frame to carter for any non-response.

3.5 Sample Frame

A sample frame refers to a list of the members of the population from which the study intends to select a sample. In this research, the sampling frame consisted of the Mainstream, middle and lower airlines in Kenya. A sample of management personnel of the airline industry was selected. It is important that the sample be reasonably big enough

ST. PAUL'S UNIVERSITY

to enable reasonable estimates of variables to be obtained, capture variability of responses and facilitate comparative analysis.

3.6 Data Collection and Research Instruments

The study collected the primary data with the objective of determining the influence of corporate Governance practices on the aviation sector in Kenya. The primary data was collected through the use of questionnaires as well as follow up questions. The questionnaires included both open and open ended questions with close ended questions providing structured responses which later facilitated recommendation.

3.6.1 Reliability

This pertains to the extent to which the data collection instrument can be relied upon. For example reliability of the questionnaire refers to the ability of the questions to give the same results if administered to the same respondents under the same conditions i.e. consistency of the results. A questionnaire was ensured to have internal consistency which refers to a set of questions that give same results whether applied as a total or partially. The researcher selected a pilot group of 10 individuals to test the reliability of the research instrument. The aim was to correct inconsistencies arising from the instruments, which ensured that they measure what was intended.

3.6.2 Validity

Validity this pertains to the extent to which an instrument measures what it is supposed to measure. Internal validity tests the reliability of the scale used in the questionnaire. To ensure reliability and validity of the research outcome, the researcher ensured that research instruments actually measure what was intended. To accomplish this, a pre-test (Pilot testing) of the research instruments was undertaken. For this study, the researcher readily sought opinion from study supervisors in order to assess the research instruments validity. This process ensured that proper corrections and editing of errors (errors of Omissions and Commissions) and sensitive questions are dealt with before administering the questionnaire.

ST. PAUL'S UNIVERSITY

3.8 Data Analysis

Data analysis commenced by editing the completed questionnaires for relevance and consistency; the collected data was coded so as to group the responses into various classes for easy analysis. The data collected included qualitative data from the open ended questions and quantitative aspects from the close ended ones. Consequently, a descriptive statistics was used to summarize and analyze the data. The analysis was in the form of frequencies, measure of central tendencies such as mean and standard deviation, and percentages using Statistical Package for Social Sciences or (SPSS), and regression analysis. Data was presented in tables as well as graphs to present the situation as was provided by the data. The qualitative data was described briefly as triangulation is established between the quantitative and qualitative data. Regression analysis was thus be applied based on variables chosen.

Regression analysis was therefore extensively used for prediction and forecasting. It was also applied to understand which among the independent variables are related to the dependent variable and to investigate the forms of relationships. The study therefore used regression model to analyze corporate governance and firm value using various mathematical tools like the mean, standard deviation and ordinary least square (OLS). The regression equation was

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Whereby

Y =Financial Performance

$\mathbf{X_1}$ =Internal Control

$\mathbf{X_2}$= shareholders rights

$\mathbf{X_3}$= Board Composition

$\mathbf{X_4}$= recruitment Practises

$\boldsymbol{\varepsilon}$ = Error Term

ST. PAUL'S UNIVERSITY

3.9 Ethical Issues

The term ethics is used to denote the study of the right and wrong and the morality of choices individuals' make. The study took into consideration key ethical issues to cushion the rights of research participants. The principle of voluntary participation was a complied with that requires that people would not be coerced into participating in the research. Also considered was related to the notion of voluntary participation is the need to comply with informed consent and confidentiality. The principle of anonymity of the respondents was also respected which essentially meant that the participant remained anonymous throughout.

ST. PAUL'S UNIVERSITY

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents an analysis and interpretation of the study as set out in the research methodology. The study outcomes were presented to investigate the influence of corporate governance on the financial performance of the aviation industry in Kenya. The data was collected using questionnaires as the research instrument. The questionnaires were in line with the objectives of the study. The findings from the study are presented using descriptive statistics, which included frequencies, percentages, means and standard deviations. The data are presented using pie charts and frequency tables.

4.1.1 Response Rate

A total of 173 questionnaires were distributed out of which 134 questionnaires were fully filled and return giving a response rate of 77%. This response was considerable and representative of the population. This response was good enough and representative of the population and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 70% and above is excellent. These findings are well illustrated in Figure 4.1.

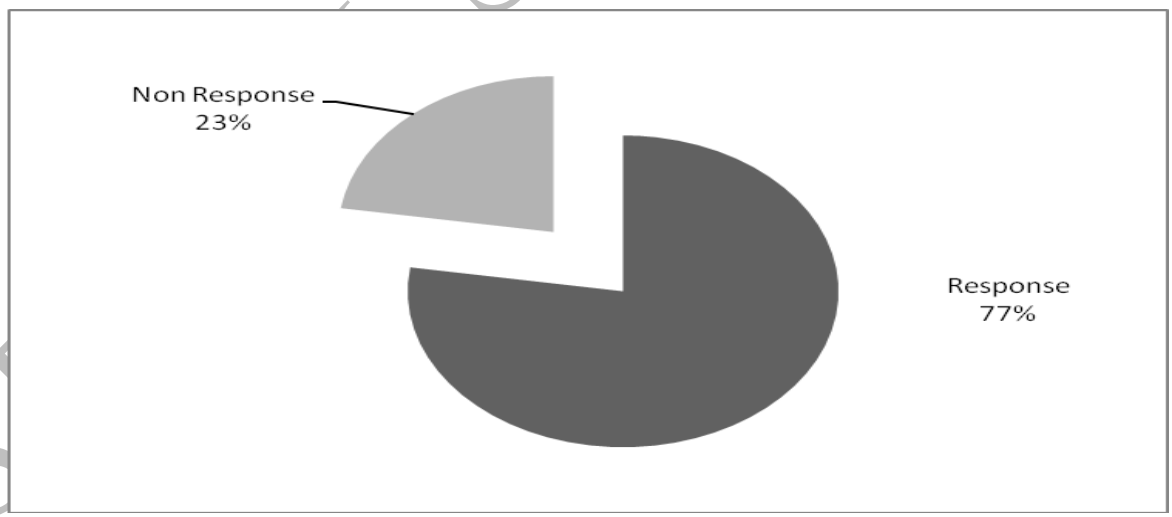


Figure 4.1: Response Rate

Source Author (2016)

ST... 'S UNIVERSITY

4.1.2 Reliability Analysis

A pilot study was carried out to determine reliability of the instrument used in the collection of data. The pilot study sampled 10 management staff of 6 aviation airlines in Kenya comprising of 1 mainstream, 3 middle and 2 low performing Airlines in Kenya. These were not included in the main study. This ensured that the instrument collects reliable and valid data. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain item within a scale measures the same construct. Gliem (2003) confirms that the Alpha value threshold as 0.7, which forms the study's benchmark. Cronbach's Alpha was established for every objective in the study which formed a scale. The findings are shown in Table 4.1.

Table 4.1: Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Internal Controls	0.786	7
Shareholder Rights	0.857	6
Board Composition	0.752	5
Recruitment Practices	0.849	7

Source Author (2016)

The findings in Table 4.1 shows that the internal controls was reliable as exhibited by the reliability co-efficient value of 0.786, shareholders right had a scale of 0.857, board composition had a coefficient of 0.752 and recruitment process had a scale of 0.849. This alpha values were above the stipulated value of 0.70 hence reliable to provide consistent results.

4.2 Background Information

This section shows the respondent's background information as regards their gender, age bracket, level of education and the period they had been working in their companies.

4.2.1 Gender Distribution

The respondents were asked to indicate their gender. The findings are illustrated below in Figure 4.2.

ST. PAUL'S UNIVERSITY

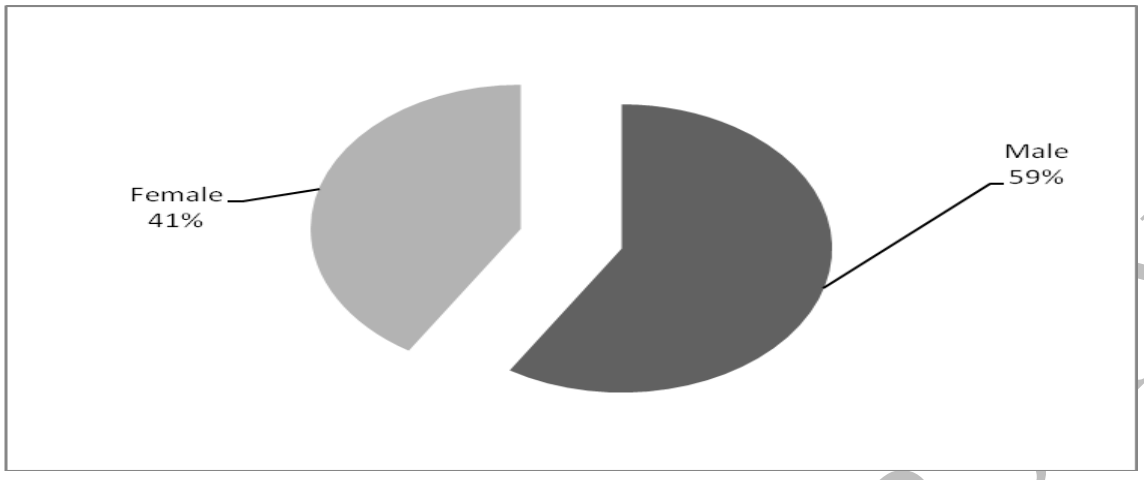


Figure 4.2: Gender Distribution

Source Author (2016)

From the findings in Figure 4.2, the study found out that 59% of the respondents were male while the remaining 41% were female. It is clear that the male respondents dominated, this shows that all gender were represented thus the information collected was reliable for the study.

4.2.2 Age Bracket

The respondents were asked to indicate the age bracket. The findings are well illustrated in the Table 4.2.

Table 4.2: Age Bracket

	Frequency	Percent
Below 20	2	1.5
20-30 years	26	19.4
30-40 years	61	45.5
40-50 years	37	27.6
50-60 years	8	6.0
Total	**134**	**100.0**

Source Author (2016)

From the findings in table 4.2, 1.5% of the respondents were below 20 years, 19.45 were between 20-30 years, 45.5% were between 30-40 years, 27.6% were between 40-50 years and 6% were between 50-60 years. These finding shows that all age groups were covered thus the findings are reliable for the study.

STRATHMORE UNIVERSITY

4.2.3 Level Of Education

The study sought to determine the level of education of the respondents. The findings are shown in Table 4.3.

Table 4.3: Level of Education

	Frequency	Percent
Certificate	14	10.4
Diploma	52	38.8
Degree	44	32.8
Postgraduate	24	17.9
Total	**134**	**100.0**

Source Author (2016)

From the findings in Table 4.3, 10.4% of the respondents had certificate as their highest level of education, 38.8% had diplomas, 32.8% had degrees and 17.9% had postgraduate level. This shows that the respondents had relevant knowledge on corporate governance on the financial performance thus the information they provided were relevant for the study.

4.2.4 Period of Time working with their Company

The study sought to determine the period of time the respondents had been in working in their respective aviation companies. The findings are shown in Table 4.4.

Table 4.4: Period of Time Working with their Company

	Frequency	Percent
1-5 years	53	39.6
5-10 years	43	32.1
10-15 years	34	25.4
15-20 years	4	3.0
Total	**134**	**100.0**

Source Author (2016)

As shown in Table 4.4, 39.6% of the respondents had been working in their respective companies' for a period of between 1-5 years, 32.1% for between 5-10 years, 25.4% for between 10-15 years and 3% for between 15-20 years. This shows that the respondents had worked long enough thus had clear understanding on the corporate governance as applied by their organization thus provided reliable information for the study.

ST. PAUL'S UNIVERSITY

4.3 Internal Control

Several statements on internal control as corporate governance practice were identified and the respondents were required to indicate the extent to which it applied to their companies. A scale of 1 to 5 where; 5=strongly agree, 4=agree 3=neither agree nor disagree, 2= strongly disagree and 1=disagree was used. From the findings mean and standard deviation was calculated for ease of interpretation. The findings are shown on Table 4.5.

Table 4.5: Internal Control

	Mean	Std. Dev
Our company board members have established effective policies and internal control mechanisms that ensure [Accountability, transparency, responsibility, integrity etc	3.82	1.051
Our Company has a board charter that guides transparent board behavior	3.91	1.010
The company embraces accountable and transparent practices	3.90	.980
Internal controls greatly affect Financial performance	3.95	.874
Our board always conduct self-evaluation	3.54	.897
Our company displays full disclosure of report by independent auditors	3.62	1.016
Our company operates within legal compliance	4.20	.890

Source Author (2016)

As shown in Table 4.5, company board members had established effective policies and internal control mechanisms that ensure accountability, transparency, responsibility, integrity etc had a mean of 3.82 with a standard deviation of 1.051, company had a board charter that guides transparent board behavior had a mean of 3.91 with a standard deviation of 1.010, company embraces accountable and transparent practices had a mean of 3.90 with a standard deviation of 0.980, internal controls greatly affect Financial performance had a mean of 3.95 with a standard deviation of 0.874, board always conduct self-evaluation had a mean of 3.54 with a standard deviation of 0.897, company displays full disclosure of report by independent auditors had a mean of 3.62 with a standard deviation of 1.016 and company operates within legal compliance had a mean of 4.20 with a standard deviation of 0.890.

ST. PAUL'S UNIVERSITY

It can be concluded that the mean ranges from 3.54 to 4.20 indicating that the respondents agreed with the statements. This finding concurs with that of Kumar & Sharma (2011) that internal control pertains to the process designed and affected by those mandated with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

4.4 Shareholder Rights

Several statements on shareholders right as corporate governance practice were identified and the respondents were required to indicate the extent to which it applied to their companies. From the findings mean and standard deviation was calculated for ease of interpretation. The findings are shown on Table 4.6.

Table 4.6: Shareholder Rights

	Mean	Std. Dev
Our company always give shareholders their rights to make crucial decisions affecting the Company to maximize performance	3.68	.993
Shareholders rights is always upheld in making strategic decisions	3.61	1.017
Shareholder rights is critical in determining performance of our company	3.67	1.060
The company always strive to maximize shareholder value	3.78	.843
The company always involve stakeholders in making decisions	3.74	1.023
The board always create environment conducive for dialogue and access to information	3.60	.988

Source Author (2016)

From the findings in table 4.6, companies always give shareholders their rights to make crucial decisions affecting the company to maximize performance had a mean of 3.68 with a standard deviation of 0.993, shareholders rights was always upheld in making strategic decisions had a mean of 3.61 with a standard deviation of 1.017, shareholder rights was critical in determining performance of the company had a mean of 3.67 with a standard deviation of 1.060, the company always strive to maximize shareholder value had a mean of 3.78 with a standard deviation of 0.843, company always involve

ST. PAUL'S UNIVERSITY

stakeholders in making decisions had a mean of 3.74 with a standard deviation of 1.023 and the board always create environment conducive for dialogue and access to information had a mean of 3.60 with a standard deviation of 0.988.

The mean values ranged from 3.60 to 3.78 showing that the respondents were in agreement with the statements thus the finding is consistent with that of OECD (1999) that asserts that, good corporate governance helps to ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate, and that their boards are accountable to the company and the shareholders. This, in turn, helps to assure that corporations operate for the benefit of society as a whole.

4.5 Board Composition

Several statements on board composition as corporate governance practice were identified and the respondents were required to indicate the extent to which it applied to their companies. From the findings mean and standard deviation was calculated for ease of interpretation. The findings are shown on Table 4.7.

Table 4.7: Board Composition

	Mean	Std. Dev
Board size has a significant influence on company Performance	3.61	.839
There is always separation of power between the board and CEO	3.70	1.039
Our Board has optimum mix of skills, experience and competency	3.68	1.014
Board elections always consider skills, experience and competency	3.26	1.061
The company always elect board based on merit	3.05	1.038

Source Author (2016)

As indicated in Table 4.7, board size had a significant influence on company performance had a mean of 3.61 with a standard deviation of 0.839, there is always separation of power between the board and CEO had a mean of 3.70 with a standard deviation of 1.039, board has optimum mix of skills, experience and competency CEO had a mean of 3.68 with a standard deviation of 1.014, board elections always consider skills, experience and competency had a mean of 3.26 with a standard deviation of 1.061

ST. PAUL'S UNIVERSITY

and the companies always elect board based on merit had a mean of 3.05 with a standard deviation of 1.038.

From the findings it can be concluded that the mean ranges from3.05 to 3.70 an indication that the respondents were in agreement with the statements thus concurs with the finding of Demirag (2011) that, board composition does indeed affect firm performance although its relationship with performance was found to be positive.

4.6 Recruitment Practices

Several statements on recruitment as corporate governance practice were identified and the respondents were required to indicate the extent to which it applied to their companies. From the findings mean and standard deviation was calculated for ease of interpretation. The findings are shown on Table 4.8.

Table 4.8: Recruitment Practices

	Mean	Std. Dev
Our Board and management recruitment is based on competency	3.37	1.027
Employee growth and development greatly influence the company Financial Performance	3.66	1.040
Our Board members clearly understand their roles	3.61	1.047
Board and management recruitment practices greatly affect company financial performance	3.77	.947
Our board has established prudent performance measurement and evaluation system	3.47	.987
Our board and management recruitment is always free and fair	3.17	1.142
There is an effective talent management in our company	3.35	1.125

Source Author (2016)

As shown in table 4.8, board and management recruitment is based on competency had a mean of 3.37 with a standard deviation of 1.027, employee growth and development greatly influence the company financial performance had a mean of 3.66 with a standard deviation of 1.040, board members clearly understand their roles had a mean of 3.61 with a standard deviation of 1.047, board and management recruitment practices greatly affect company financial performance had a mean of 3.77 with a standard deviation of 0.947, board had established prudent performance measurement and evaluation system had a mean of 3.47 with a standard deviation of 0.987, board and management recruitment was

ST. PAUL'S UNIVERSITY

always free and fair had a mean of 3.17 with a standard deviation of 1.142 and there was an effective talent management in the companies had a mean of 3.35 with a standard deviation of 1.125. The mean values in the findings ranges from 3.35 to 3.77 showing that the respondents were in agreement with the statements.

4.7 Organizational Performance

Several statements on organizational performance were identified and the respondents were required to indicate the extent to which it applied to their companies. From the findings mean and standard deviation was calculated for ease of interpretation. The findings are shown on Table 4.9.

Table 4.9: Organizational Performance

	Mean	Std. Dev
Strong internal controls has reduced the number of pilferages in our organization	4.24	.770
Meeting shareholder rights has reduced the number of pilferages in our organization	4.46	.794
Optimum board composition has reduced the number of pilferages in our organization	3.57	.904
Good corporate practices have fundamentally improved the number of air passengers in our organization	3.96	.835
Having skilled board of directors has greatly improved the number of shares in the organization	3.61	.957
Good leadership has reduced the number of employees leaving our organization	3.82	.799
Good corporate culture has improved shareholder profitability in our organization	3.76	.764
Our effective customer care practices have significantly improved organizational customer service turn around	4.02	.719
Our effective operational efficiency has significantly improved the number of weekly cargo landing	3.94	.697
Our effective safety measures have greatly improved the passenger traffic	4.15	.793

Source Author (2016)

As indicated in Table 4.9, strong internal controls had reduced the number of pilferages in the organization had a mean of 4.24 with a standard deviation of 0.770, meeting

shareholder rights had reduced the number of pilferages in the organization had a mean of 4.46 with a standard deviation of 0.794, Optimum board composition has reduced the number of pilferages in our organization had a mean of 3.57 with a standard deviation of 0.904, good corporate practices have fundamentally improved the number of air passengers in our organization had a mean of 3.96 with a standard deviation of 0.835, having skilled board of directors has greatly improved the number of shares in the organization had a mean of 3.61 with a standard deviation of 0.957, good leadership had reduced the number of employees leaving the organization had a mean of 3.82 with a standard deviation of 0.799, good corporate culture had improved shareholder profitability in the organization had a mean of 3.76 with a standard deviation of 0.764, effective customer care practices had significantly improved organizational customer service turn around had a mean of 4.02 with a standard deviation of 0.719, effective operational efficiency had significantly improved the number of weekly cargo landing had a mean of 3.94 with a standard deviation of 0.697 and effective safety measures have greatly improved the passenger traffic had a mean of 415 with a standard deviation of 0.793.

The mean values ranges from 3.57 to 4.46 indicating that the respondents were in agreement with the statements thus the finding are consistent with that of Stock (2012) asserting that financial performance is perceived as performance related to the financial prospect such as measurement of increase in portion of market share, returns of investment growing, increase profit margin and enhances competitive positioning.

4.8 Financial Performance

Several financial performance indicators were identified and the respondents were required to indicate the extent to which it applied to their organization. From the findings mean and standard deviation was calculated for ease of interpretation. The findings are shown on Table 4.9.

ST. PAUL'S UNIVERSITY

Table 4.10: Financial Performance

		Frequency	Percent
Profitability	Yes	129	96
	No	5	4
Increase in market share	Yes	119	89
	No	15	11
Return on assets [ROA]	Yes	119	89
	No	15	11
Increase in customer base	Yes	131	98
	No	3	2
Return on Investment [ROI]	Yes	126	94
	No	8	6

As indicated in Table 4.10, 96% of the respondents indicated that profitability of the organization had increase while 4% indicated it had not increase, 89% indicated that there was increase in market share, 89% indicated increase in return on assets, 98% indicated increase in customer base and 94% indicated increase in return on investment. This finding concurs with that of Stock (2012) that financial performance are related to the measurement of increase and growing of market share, increase and growing of return on investment (ROI), growing sales and increase in profit margin and the overall competitive position.

4.9 Regression Analysis

A regression analysis was conducted to determine how internal control, stakeholder's right, board of directors' composition and recruitment practices relates to financial performance. The statistical package for social sciences (SPSS) was used to code, enter and compute the measurements of the multiple regressions for the study.

Table 4.11: Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.654[a]	.427	.409	.14620

Table 4.11 shows a model summary of regression analysis between four independent variables internal control, stakeholder's right, board of director's composition and recruitment practices and dependent variable financial performance. The value of R was 0.654 and the value of R square was 0.427. From the findings, 42.7% of changes in the

ST PAUL'S UNIVERSITY

financial performance were attributed to the four independent variables in the study. Positivity and significance of all values of R shows that model summary is significant and therefore gives a logical support to the study model.

Table 4.12: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2.056	4	.514	24.049	.000[b]
Residual	2.757	129	.021		
Total	**4.813**	**133**			

ANOVA statistics of the processed data at 5% level of significance shows that the value of calculated F is 24.049 and the value of F critical at 5% level of significance was 2.46 Since F calculated is greater than the F critical (24.049>2.46), this shows that the overall model was significant.

Table 4.13: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.187	.071		16.675	.000
Internal Control	.043	.017	.236	2.552	.012
Stakeholder's Right	.091	.015	.483	6.107	.000
Board of Directors Composition	.120	.020	.616	5.992	.000
Recruitment Practices	.032	.016	.146	1.999	.048

From the regression findings, the substitution of the equation:

$$\mathbf{Y=1.187+0.043X_1+0.091X_2+0.12X_3+0.32X_4+ \varepsilon}$$

Where Y is the financial performance, X_1 is internal control, X_2 is shareholders right, X_3 is board of directors composition, X_4 is the recruitment practices and ε is the error factor.

From the findings of the regression analysis if all factors (internal control, stakeholder's right, board of director's composition and recruitment practices) were held constant, financial performance of the firms would be at 1.187. An increase in internal control would lead to an increase in the financial performance by 0.043. An increase in the

stakeholder's right would lead to an increase in the financial performance by 0.091. An increase in the board of director's composition would lead to an increase in the financial performance by 0.120. An increase in recruitment practices would lead to an increase in the financial performance by 0.32. Internal control had a p value of 0.012; stakeholder's right recruitment practices, board of director's composition had a p value of 0.00 and recruitment practices had a p value of 0.48. All the variables were significant as the P-values were less than 0.05 an indication that all the factors were statistically significant.

ST. PAUL'S UNIVERSITY

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the key findings and draws conclusions from the findings based on the objectives and research questions. The Chapter also presents the recommendations made from the findings.

5.2 Summary of the Findings

The purpose of this study was to investigate the influence of corporate governance on the financial performance of the aviation industry in Kenya. The study was guided by the following objectives; to find out the influence of Internal Control practices on financial performance, to establish the influence of shareholder rights on financial performance, to determine the influence of the Board of Directors' composition on financial performance and to examine the influence of recruitment practices on financial performance in the aviation industry in Kenya. This study targets a population of 447 Management staff selected from 6 Aviation airlines operating in Kenya and out of which, a sample size of 173 respondents was picked for the study. This comprised of 1 mainstream, 3 middle and 2 low performing Airlines in Kenya.

5.2.1 Internal Control Practices on Financial Performance

The study found out that the organizations board members had established effective policies and internal control mechanisms that ensure accountability, transparency, responsibility and integrity, organizations had a board charter that guides transparent board behavior, companies embraces accountable and transparent practices, internal controls greatly affect financial performance, board always conduct self-evaluation, organizations displays full disclosure of report by independent auditors and operates within legal compliance.

ST. PAUL'S UNIVERSITY

5.2.2 Shareholders Rights on Financial Performance

The study also found out that the organizations always gave shareholders their rights to make crucial decisions affecting the company to maximize performance, shareholders rights was always upheld in making strategic decisions, shareholder rights was critical in determining performance of the company, the organizations always strive to maximize shareholder value and always involve stakeholders in making decisions and the board always create environment conducive for dialogue and access to information.

5.2.3 Board Size Composition on Financial Performance

The study further reveals that the board size had a significant influence on company performance and there was always separation of power between the board and CEO. The study also found out that board had optimum mix of skills, experience and competency CEO, board elections always consider skills, experience and competency and the organizations always elect boards based on merit.

5.2.4 Recruitment Practices on Financial Performance

The study also established that board and management recruitment was based on competence, employee growth and development greatly influence the company financial performance, board members clearly understood their roles, board and management recruitment practices greatly affect company financial performance, board had established prudent performance measurement and evaluation system, board and management recruitment was always free and fair and there was an effective talent management in the companies.

The study further found out that strong internal control, meeting shareholder rights and optimum board composition had reduced the number of pilferages in the organization. Good corporate practices had fundamentally improved the number of air passengers in the organization. The study further established that having skilled board of directors had greatly improved the number of shares in the organization and good leadership had reduced the number of employees leaving the organization. Good corporate culture,

ST. PAUL'S UNIVERSITY

effective customer care practices, effective operational efficiency and effective safety measures had greatly improved the passenger traffic.

5.3 Conclusion

5.3.1 Internal control on Financial Performance

The study concludes that good corporate governance promotes an organization's chances of accessing capital for investment and meeting its obligations as and when they fall due. Irrespective of the need to access capital, good corporate governance brings better performance for corporations and companies. Improved governance structures and processes help ensure quality decision-making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies, independent of the type of company and its sources of finance. Corporate governance also contributes to improved performance in an organization as the misappropriation of resources is minimized.

5.3.2 Shareholders Rights on Financial Performance

The study concludes that aviation industry in Kenya not only respected the rights of shareholders but also facilitates the effective exercise of those rights and the current board had established an audit committee so as to safeguard integrity in financial reporting thus bringing accountability. Aviation industry in Kenya enhances ethical and responsible decision-making by actively promoting ethical and responsible decision-making.

5.3.3 Board Composition on Financial Performance

The study concluded that board size and composition, Splitting of the roles of chairman and chief executive, optimal mix of inside and outside directions, proportion of outside directors, executive remuneration, number of non-executive directors, participation of outside directors and number board of directors influences the financial performance of the companies.

ST. PAUL'S UNIVERSITY

5.3.4 Recruitment Practices on Financial Performance

The study concludes that the board and management recruitment was based on competence and that board members clearly understood their roles thus board had established prudent performance measurement and evaluation system for effective talent management in the companies.

5.4 Recommendations

5.4.1 Recommendation for Practice

Since it was clear from the study findings that the local airline companies with a small board size had greater performance, the study recommends that board size should be maintained as small as possible as an increase in board size leads to decrease in financial performance of the company. However, the management should ensure that the board size is optimal as a very small board can also be counterproductive and may not be efficient in governing the company

The organizations should adopt smaller boards as they enhance firm performance as the decision making process is very quick. A size of about ten members which is in line with best corporate governance practice in other countries is recommended. In addition to maintaining a small but effective board, qualification of appointees must relate to the core activities of the business.

The study also recommends that aviation industry should adopt good governance practices to enhance the financial performance. This should include optimal mix of inside and outside directions with a small proportion of outside directors and splitting of the roles of chairman and chief executive. The study also recommends that policy makers in the aviation industry should take seriously the implementation of policies that sustain the already existing strong corporate governance practices.

5.4.1 Recommendation for Further Studies

The study suggests that further studies should be done on local and regional airlines institutions so as to establish the relationship between their corporate governance structures and their financial performance. Further studies should also be done on the

ST PAUL'S UNIVERSITY

effect of financial performance on corporate governance practices and structure of airlines.

The study recommends that further studies on corporate governance to be undertaken on more holistic approach to performance. This should include operational efficiency and other non-financial performance indicators.

ST. PAUL'S UNIVERSITY

REFERENCES

Adams, R., (2012). *The dual role of corporate boards as advisors and monitors of management: Theory and evidence.* Working paper, University of Chicago.

Alukwe, G.H., Ngugi, P. K., Ogollah, K. & Orwa, G,. (2015). *Corporate Governance Challenge to Regulation Compliance by Deposit Taking Savings and Credit Cooperatives Societies in Kenya*, Vol. 5, No.3. www.hrmars.com

Atkinson ,A.A , Balakrishnan, R; Booth , P; Cote, J. M; Groot , T; Malmi, T; Roberts, H; Uliana, E & Wu, A. (1997). New directions in management accounting research *Journal Acc*. PP-79-108.

Bailey, D., Harte, G., & Sugden, R. (2012), Corporate disclosure and the deregulation of international investment, *Accounting, Auditing & Accountability Journal*, *13* (2): 197-218

Baker, E. & Godridge, (2007). Corporate Governance Ratings in Emerging Markets: Implications for Market Valuation, Internal Firm Performance, Dividend Payouts and Policy. *Paper presented at the International Research Conference on Corporate Governance in Emerging Markets, Istanbul, and 15-18 Nov 2014*

Banker, R. D. Potter, G., & Srinivasan, D. (2014). An empirical investigation of an incentive plan that includes non-financial performance measures, *The Financial Review, 3(2),* 65-92

Barnhart, S. W. & Rosenstein, S. (1998). Board composition, managerial ownership, and firm performance: An empirical analysis, *The Financial Review* 33: 1-16.

Beiner, S., Drobetz, W., Schmid, M. M., & Zimmermann, H. (2006). An integrated framework of corporate governance and firm valuation. *European Financial Management,* 12(2), 249–283.

Bhagat, S. & Black, B., (2012). The non-correlation between board independence and long-term firm performance. *Journal of Corporation Law*, Vol. 27, No. 2, 231-273.

Caton, G.L., Goh, J. & Donaldson, J., (2012). The effectiveness of institutional activism. *Financial Analysts' Journal*, Vol. 57, No. 4, 21-26.

ST. PAUL'S UNIVERSITY

Chen, K.W., Chen, Z. & Wei, K.C.J., (2014). Disclosure, corporate governance, and the cost of equity capital: Evidence from Asia's emerging markets. Working paper, Hong Kong University of Science and Technology.

Hassanzadeh, A. & Jafarian, A. (2010). *Whip Effect in Corporate Governance on Supply Chains*, New Managers, 1st Edition, Tehran, Iran

Chiang, H. (2011). An Empirical Study of Corporate Governance and Corporate Performance, *The Journal of American Academy of Business*, 95-110

Cohen, J., Krishnamoorthy, G., & Wright M.A. (2012). Corporate Governance and the Audit Process, *Contemporary Accounting Research* 19(4), 573-94 187

Cohen, S., & Bailey, D. (2011). What makes teams work: Group effectiveness research from the shop floor to the executive suite. *Journal of Management*, 23: 239-290.

Deegan, C., & Unerman, J. (2006), *Financial Accounting Theory*, Maidenhead : McGraw-Hill Education

Deming, E. (1986). *Out of the crisis*. MIT Press. Cambridge, MA.

Demirag, I. (2011). *Corporate Social Responsibility, Accountability and Governance*, Greenleaf Publishing, Sheffield, UK. 189

Dobbs, Richard F.C. & Koller, Timothy M. (2012). The Expectations Treadmill", *The McKinsey Quarterly*.1(3), 32

Donaldson, Lex & Davis, J. H. (2012). Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns, *Australian Journal of Management*, 16(1), 49-64.

Gichure C.W (1997), *Basic Concepts of Ethics; Focus Books, N*airobi, Kenya Governance Metrics International, March 2009.

Heracleous, L. (2011) "*What is the Impact of Corporate Governance on Organizational Performanc*e?" Singapore, National University of Singapore, Faculty of Business Administration, Dept. of Business Policy: 24

Hillman, A. J., Canella, A. A. & Paetzold, R. L. (2000). The Resource Dependency Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change. *Journal of Management Studies*, 37(2), 235-255

HIH Royal Commission [The Hon Justice Owen] (2003) *the Failure of HIH Insurance: A Corporate Collapse and its Lessons,* Vol. 1.

ST. PAUL'S UNIVERSITY

Hoque, Z.; & James, W ;(2012) Linking Balance Score Card measures to size and market factors: Impact on organizational performance.

Jebet, C. (2001). *A study of Corporate Governance: Case of quoted companies in Kenya*. University of Nairobi Press.

Johnson, J. L., Daily, C. M. & Ellstrand, A. E. (1996). Boards of Directors: A Review of Research Agenda. *Journal of Management*, 22(3), 409-438

Kaplan, R., & Norton, D. (2001). *The strategy focused organization, how balanced scorecard companies thrive in the new business environment*. Harvard Business School Press, Boston, MA.

Kaplan, R. and Norton, D. P. (1996).The Balance Score Card ;Translating Strategy into Action. Harvard business School press, Boston

Keino, E. (2014). General Manager, Belgut Rural Women SACCO – Kenya; Presented to: Global Women's Leadership Network: Introducing Group Lending Through Decentralized Sacco Cells.

Kenya Constitution 2010

Kenya Vision 2030; Popular Version.

Kiel, G., Nicholson, G. (2003), "Board Composition and Corporate Performance: how the Australian experience informs contrasting," *Corporate Governance*, 11(3).

Kocourek, P. F., Burger, C. & Birchard, B. (2012) "Corporate Governance: Hard Facts about Soft Behaviors", *Strategy & Business.* Spring: *9*

Kumar, R. & Sharma, V. (2011). *Auditing Principles and Practice* (2nd Ed). New Delhi, India: PHI Learning Private Ltd.

Leblanc, R. (2012). *Getting inside the Black box: Problems in Corporate Governance Research*, Background Paper prepared for Joint Committee on Corporate Governance, March.

Levitt, A. (2010). *Renewing the covenant with investors. Speech at New York University Center for Law and Business*, Available on the Web at 193 London: Wiley and Sons.

Maleko, G. (2014) *Gender Constraints to women's membership and ownership in cooperatives and possible solutions: the case of PRCS and Aviation Sector in*

ST. PAUL'S UNIVERSITY

Kilimanjaro and Ruvuma, Paper presented to annual symposium at cooperative college, Moshi.

Malina, M.A; & Selto, F.H' (2011) .Communicating and controlling strategy: an empirical study of the effectiveness of the Balance score Card. J. Manage PP47-90

Malvern, G. (2002). *Financial and accounting Guide for Not-for-Profit Organizations*".

Mang'unyi, E. (2011). Ownership structure and Corporate Governance and its effects on performance: A case of selected Banks in Kenya. *International Journal of Business Administration.* 2(3).

Matengo, M. (2008). The relationship between Corporate Governance practices and performance: The case of banking industries in Kenya, *University of Nairobi*.

Migliorato, P., Natan, N. & Norton, D. (1996). A scoring system for creating JVs that survives. *Mergers and Acquisitions*, 30 (4), 45-50.

Monks, R. A. G. & Minnow, N. (2011), "*Corporate Governance*," Third Edition, Blackwell Publishing.

Mugenda, O. M., & Mugenda, A. G. (2003). *Research methods. Quantitative and Qualitative approaches*. Nairobi. Acts Press.

Muriithi, P. (2009). Corporate Governance. *KASNEB Newsline*, January to March 2009, Issue 1. Pp 3

OECD (1999) "OECD Principles of Corporate Governance", Ad-hoc Taskforce on Corporate Governance, SJG/CG (1999) 5 April

OECD, (20004), "Corporate Governance in Turkey: A Pilot Study,"

Ongore, V. and K'Obonyo, P. (2011). Effects of selected Corporate Governance Characteristics on Firm Performance; Empirical Evidence from Kenya. *International Journal of Economics and Financial Issues*, 1(3), 99-122.

Pfeiffer, J. (2012), "Size and composition of corporate boards of directors: The organization and its environment," Administrative Science Quarterly 17: 218-229.

Rossouw G. J. (2015); *Business and Society;* Mar (2015); 44, 1; ABI/INFORM Global Business Ethics and Corporate Governance in Africa pg. 94

Salleh, M. F. (2009). *Political Influence, Corporate Governance and Financial Reporting Quality: Evidence from Companies in Malaysia* ,Massey University, Wellington New Zealand

ST. PAUL'S UNIVERSITY

Smith, A., (1776), "*Wealth of Nations*" (1991 ed.), Amherst, NY: Prometheus Books, 324.

Thomson, L. R ET & Bureau J., (2009), and 12.19is IST: What is corporate governance?

Watts, R. and J. Zimmerman (1986), Positive Accounting Theory, Edgewood Cliffs, NJ: Prentice Hall

Wheeler, D., Colbert, B. & Freeman, R. E. (2012). Focusing On Value: Reconciling Corporate Social Responsibility, Sustainability and a Stakeholder Approach in a Network World. *Journal of General Management*, 28, 1-28

Zheka, V. (2007). Does Corporate Governance casually predict Firm Performance? *Panel Data and Instrumental Variables Evidence.*

ST. PAUL'S UNIVERSITY

APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Dear respondent,

RE: INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON THE FINANCIAL PERFORMANCE OF AVIATION INDUSTRY IN KENYA

I am a Finalist student at St. Paul's University undertaking a Degree in **Master Business administration (in strategic leadership and management)**. I am conducting out a research on the said topic and hereby extend to you my humble request to assist in the exercise by filling in the questionnaire provided appropriately.

This questionnaire is to collect data for purely academic purposes. All information will be treated with strict confidentiality. Do not put any name or identification on this questionnaire. Answer all questions as indicated by either filling in the blank or ticking the option that applies.

Thank you very much for your cooperation.

Yours sincerely,

Richard Ngovi

APPENDIX II: QUESTIONNAIRE

SECTION A: PERSONAL AND INSTITUTIONAL DATA

Please indicate your response by ticking the appropriate box

1. Gender

   Male [ ]

   Female [ ]

2. Level of your education

Certificate ☐

Diploma ☐

Degree ☐

Postgraduate ☐

Any Other (Specify)……..

3. Years worked for the organization.

ST. PAUL'S UNIVERSITY

1-5 years ( ) 5-10 years ( ) 10-15 years ( ) 15-20 years ( ) Over 20 years ( )

4. Age bracket

Below 20 ☐

20-30 ☐

30-40 ☐

40-50 ☐

50-60 ☐

Over 60 ☐

5. Length of time the organization has been in existence (Specify)……

SECTION B: INFORMATION ABOUT THE BUSINESS

I: INTERNAL CONTROLS

a) Indicate the appropriate responses to the statements provided by the use of a tick (√) 1 means you strongly disagree, 2 Disagree, 3 neutral, 4 agree and 5 means you strongly agree with the statement.

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A	Our company board members have established effective policies and internal control mechanisms that have ensured [Accountability, transparency, responsibility, integrity etc.]					
B	Our Company has a board charter that guides transparent board behavior.					
C	The company has embraced accountable and transparent practices.					
D	Internal controls have greatly affected Financial performance.					
E	Our board has always conducted self-evaluation.					

ST. PAUL'S UNIVERSITY

F	Our company has displayed full disclosure of report by independent auditors.					
G	Our company has operated within legal compliance.					

II: SHAREHOLDER RIGHTS

b) Indicate the appropriate responses to the statements provided by the use of a tick (√) 1 means you strongly disagree, 2 Disagree, 3 Neutral, 4 Agree and 5 means you strongly agree with the statement.

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A	Our company has always given shareholders their rights to make crucial decisions affecting the Company to maximize performance					
B	Shareholders rights have always been upheld in making strategic decisions					
C	Shareholder rights have been critical in determining performance of our company					
D	The company has always strove to maximize shareholder value					
E	The company has always involved stakeholders in making decisions					
F	The board has created environment conducive for dialogue and access to information					

III: BOARD COMPOSITION

Indicate the appropriate responses to the statements provided by the use of a tick (√) 1 means you strongly disagree ,2 Disagree, 3 neutral, 4 agree and 5 means you strongly agree with the statement

	Statement					Ratings
		Strongly Disagree	Disagree	Neutral	Agree	StronglyAgree
A	Board size had a significant influence on company Performance					
B	There has always been					

ST. PAUL'S UNIVERSITY

	separation of power between the board and CEO					
C	Our Board has had optimum mix of skills, experience and competency					
D	Board elections have always considered skills, experience and competency					
E	The company has always elected board based on merit					

IV: RECRUITMENT PRACTICES

Indicate the appropriate responses to the statements provided by the use of a tick (√) 1 means you strongly disagree ,2 Disagree, 3 neutral, 4 agree and 5 means you strongly agree with the statement.

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A	Our Board and management recruitment has been based on competency					
B	Employee growth and development has greatly influenced the company Financial Performance					
C	Our Board members clearly have understood their roles					
D	Board and management recruitment practices have greatly affected company financial performance					
E	Our board has established prudent performance measurement and evaluation system					
F	Our board and management recruitment have always been free and fair					
G	There has been an effective talent management in our company					

V: FINANCIAL MANAGEMENT PRACTICES

ST. PAUL'S UNIVERSITY

Indicate the organizational Performance indicators your company focuses on to achieve better performance through corporate governance best practices

Statement of Organizational Performance	**YES**	**NO**
Profitability		
Increase in market share		
Return on assets [ROA]		
Increase in customer base		
Return on Investment [ROI]		

Any other measure that may not have been indicated above (Specify)……..

VI: GOVERNANCE PRACTICES

Indicate the appropriate responses to the statements provided by the use of a tick (√) 1 means you strongly disagree, 2 Disagree, 3 neutral, 4 agree and 5 means you strongly agree with the statement

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A	Board Integrity has been a critical determinant of organizational Performance					
B	Board Transparency has been a critical determinant of organizational Performance					
C	Effective monitoring and evaluation has been a critical determinant of organizational Performance					
D	Board Accountability has been a critical determinant of organizational Performance					
E	Effective investment appraisal has been a critical determinant of organizational Performance					
F	Effective Board structure has been a critical determinant of organizational Performance					

VII: PERFORMANCE

ST. PAUL'S UNIVERSITY

Indicate the appropriate responses to the statements provided by the use of a tick (√) 1 means you strongly disagree, 2 Disagree, 3 neutral, 4 agree and 5 means you strongly agree with the statement

	Organizational Performance	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A	Strong internal controls have reduced the number of pilferages in our organization					
B	Meeting shareholder rights has reduced the number of customer complaints in our organization					
C	Optimum Board composition has reduced operational costs in our organization					
D	Good corporate governance practices have fundamentally improved the number of Air passengers in our organization					
E	Having skilled Board of Directors has greatly improved the number of shareholders in our organization					
F	Good leadership has reduced the number of employees leaving our organization					
G	Good corporate culture has improved shareholder profitability in our organization					
H	Our effective Customer care practices have significantly improved organizational customer service Turn-Around-Time					
I	Our effective operational efficiency has significantly improved the number of weekly cargo handling					
J	Our effective safety measures have greatly improved the passenger traffic					

VIII: STRATEGIC DECISIONS

Indicate the appropriate responses to the statements provided by the use of a tick (√) 1 means you strongly disagree, 2 Disagree, 3 neutral, 4 agree and 5 means you strongly agree with the statement

ST. PAUL'S UNIVERSITY

	Statement	Ratings				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A	Technological upgrading has greatly reduced operational cost per customer in our organization.					
B	Effective operational procedures have significantly improved customer service lead time in our organization.					
C	Good investment decisions have improved our organizational income per business unit.					
D	Effective employee retention program has reduced the number of voluntary retirements in our organization					

a. Any other, kindly specify…….....

b. Explain other Corporate Governance best practices at your company and indicate how they affect the company performance……

ST. PAUL'S UNIVERSITY