ANALYSING THE LEVELS OF UNIFORMITY IN CORPORATE GOVERNANCE PRACTICES – CASE STUDY OF FIVE AIR LINES COMPANIES

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Abstract

This report provides the analysis of Corporate Governance in Airline Industry of five different countries that are listed on 2013 Index of Economic Freedom provided by the Heritage foundation. The aim of this report is to analyse and discuss the inadequacies in corporate governance practices for the five sample companies chosen. We also analyse the whistle blowing practices adopted and disclosed by the companies. Our analysis reveals that, though there is guidance for best practices of corporate governance, it is difficult to accentuate a single company possessing best governance practices. At the same time while whistle blowing practices are emphasized by stakeholders, our analysis of the five companies reveal that either the companies don't have a strong whistle blowing policy or they don't make it transparent to the stakeholders. Our contribution is therefore quite significant as we recommend that strong whistle blowing practices , if made transparent and if motivated to practice, could dilute the effect of not having best corporate governance practices.

Keywords: Corporate Governance, Best Practices, Whistle Blowing, Stakeholders

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1 Introduction

Differing governance practices and inadequacies in practices had caused the downfall of a number of companies in the last 15 years. The Business Insider of 22nd April 2012 had reported the massive bribery scandal involving Wal Mart and despite having knowledge of the same, the top management was reported to have been silent. Governance issues are not unique to a particular industry or business sector in the modern business era. The news of the Vatican cleric Monsignor Nunsio Scarano's arrest along with an Italian Secret service agent and a financial broker on account of corruption and money laundering hit the news in July 2013. Similarly the news that rocks the world since early 2014 is the missing Malaysian airlines flight MH370 followed by couple of other calamities by the same airlines. All these issues primarily boil down to the fundamental question: Are we practicing good governance consistently? Are we making our governance practices transparent to our stakeholders?

Corporate governance, however, is not relatively recent concept and has been around for atleast past 50 years. Most researchers purport that corporate governance practices and disclosures are the responsibilities of the directors. Therefore well-established corporate governance frameworks could help in attenuating agency costs, thereby optimizing shareholders' wealth. Cheng (2009) affirms that theories of corporate governance usually centers on harmonizing the interests of a single company's director with the interests of the firm's shareholders. *"Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society."* (Cadbury 2000, pg. 8). Corporate governance research has been conducted in a number of ways in the past. Interaction of environmental factors influences disclosure practices claimed Haniffa and Cooke (2002) while Foker (1992) had established that quality of disclosure depends upon the role of the CEO and Chairman. Mitton (2002) and Levine (2004) deliberated that in developing countries like Malaysia, Philippines the extent of disclosures had an impact on the performance of firms. This was reestablished in Farber (2013) study who claimed that firms who take actions to improve corporate governance have superior stock price performance, even after controlling earnings performance. Yet cultural and socio economic issues to blend with the conventional corporate governance could not be ruled out in countries like Malaysia (Diakonu & Dumitrescu, 2013).

This study merely compares the corporate governance practices between five leading airlines companies from five different countries chosen from the Heritage foundation's index of Economic Freedom 2103. The Heritage foundation has ranked the countries around the world on the basis of their economic freedom and categorized them as 'free', 'mostly free', 'moderately free', 'mostly unfree' and 'repressed'. The annual reports from repressed countries were generally observed to be incomplete or unavailable. Hence for this research we select two countries from mostly free category. We chose Singapore airlines (SIA) of Singapore, Finnair of Finland, Delta Airlines (DAL) of USA, South Africa Airways (SAA) of South Africa, and Kingfisher Airlines (KFA) of India. While Singapore is considered "free" under the 2013 Index of Economic Freedom, Finland and the USA are considered "mostly free". South Africa, on the other hand, is considered as "moderately free", with India being classified as "mostly unfree".

Airlines companies are a matter of pride to country provided they are managed well and they show sustained performance. Business Aviation provides more than 12 million manufacturing and service jobs to in the US boasted the National Business Aviation Association while stating the business aviation is the economic lifeline for thousands of communities (http://www.nbaa.org/advocacy/issues/essential/). The Center for Economic Business and Research (UK) documented that leisure aviation contributed about £14.1 billion in 2010 which was equal to 1.1% of its GDP. Thus is the perceived importance of airlines industry. The tourism fiesta around the world and the need to target middle class income group spending on holidays has now become prominent. The private and government linked airlines are enticing the middle class spending through 'budget operations'. It is therefore in our interest to check if the airline companies are doing so at the cost of poor governance practices. We contribute by saying that 'Best practices' of governance cannot be standardized however companies need not compromise on good sustainable governance practices with consistency in disclosures. Strong whistle blowing practices can dilute the effects of poor governance practices. This comes as timely contributions particularly for Asian countries whose focus is primarily of tourism growth.

2 Literature review

To foster the right platform to discuss about corporate governance and issues surrounding it, five companies from the airline industry are chosen. One of the main reasons for which the airline industry was chosen is because of its significant contribution to a country's Gross Domestic Product. Next, the airline industry of a country is often a matter of pride, such that some countries are resistant to proposals of privatizing the latter. Last but equally important is the strategic implications of the airline industry which can be best viewed by pondering on the implications to the USA if China decided to ground all its flights (passenger and cargo) towards the former for only one day. The implications would, as one could easily foresee, be disastrous.

The selection of the aforementioned airlines companies was not done on an ad-hoc basis but rather for reasons that could optimize comparisons among them. Kingfisher Airlines started operations in May 2005 and already had the second largest share in India's domestic air travel market. While companies usually struggle to be profitable in the first few years of operations, Kingfisher proved otherwise. It did fairly well but later in 2012, it went into freefall and was on the verge of bankruptcy. KFA faced a financial crisis and was forced to stop its activities, the source of which being severe deficiency relating to governance. Finnair as opposed to Kingfisher is one of the oldest airlines in the world with uninterrupted existence. Being a pioneer in the industry and the oldest compared to the four other companies, it is believed to be in a better position to adapt to corporate governance issues. South African Airways, founded in 1934, is an airline company which have faced many difficulties and constant restructuring. This did not prevent the latter to be conferred the title of the best African airline in 2012. Singapore Airlines is even better in terms of worldwide ranking, currently the third best air carrier according to the Skytrax World Airline Awards. Although, the financial year 2011/12 was very hectic and challenging, the group managed to achieve a net profit attributable to equity holders of $336 million due to its strong financial position. The last chosen company, Delta airline is oldest airline still in operation in the United States. Delta airline case is interesting since it proved that although a company may be making losses, with the help of a good corporate governance structure, it can actually bounce back and restart being profitable again. In order to appraise the five companies in more details, it is believed that a Corporate Governance Framework could be useful since it provide us a basis for comparison.

Table 1. Company comparison based on the corporate governance framework

	Singapore Airlines (Free)	**Finnair Airlines (Mostly Free)**	**Delta Airlines (Mostly Free)**	**South African Airways (Moderately free)**	**Kingfisher Airlines (Mostly Unfree)**
Board of Directors					
Number of Executive Directors?	1	5	2	2	1
Number of Non-Executive Directors?	8	8	8	13	3
Independence of NEDs?	7	7	2	11	1
Name of Board Committees	Audit Committee Executive Committee Nominating Committee Compensation & Industrial Relations Committee Safety & Risk Committee	Audit Committee Shareholders Nomination Committee Compensation & Appointment Committee	Audit Committee Corporate Governance Committee Finance Committee Personnel&Compensation Committee Safety&Security Committee	Remuneration&Human Resource Committee Audit committee Procurement&Tender Processess Committee Social,Ethics,Governance&Monitoring Committee Ad Hoc Committee on Litigation.	Remuneration&Compensation Committee Audit Committee Share Allotment, transfers& investor grievence committee Risk Management
Who decides on renumeration of Directors?	The Board of compensation and Industrail Relations committee (BCIRC)	The Shareholders nomination committee	Shareholders	Remuneration & HR committee	Remuneration & Compensation Committee
Are roles of CEO and Chairman Split?	They have distinctive roles, well defined and are not related to each other	As per the CG, the roles are well split	Yes only after recovering from bankruptcy	Yes, they have distinct roles	Their roles are very different from each other
Whistle Blowing Policy					
Is there whistle blowing policy?	Yes, it is specified	Not present at all	Yes, It is mentioned	Yes, it is specified	Yes, it is present
Does your country have whistle blowing protection act?	Yes, found in its Corporate Governance	Not mentioned in Finland CG	Yes, it is governed by SOX 2002	Yes, mentioned in the Kings III report	Yes, It is mentioned in both CG reports

Table 1. Company comparison based on the corporate governance framework (continued)

	Singapore Airlines (Free)	**Finnair Airlines (Mostly Free)**	**Delta Airlines (Mostly Free)**	**South African Airways (Moderately free)**	**Kingfisher Airlines (Mostly Unfree)**
Details of the policy? Present or not?	It is disclosed and was reviewed by the Audit committee	Not disclosed as not mentioned at all in CG	It is a core part of the management objective and there was disclosures	It is disclosed in details and it have various channels through which whistle blowers can communicate	It is only stated
Rewards or Compensation for whistle blowers?	Not disclosed but its confidential	Not applicable	It is confidential	The previous whistle blower was not rewarded	Not applicable
Financing Structure					
Debt-equity ratio that should be maintained?	70%	70%	70%	70%	70%
Debt-equity ratio now?	6%	108%	-924%	-359%	-280%
How many financial leases does your company have?	0	3	111	Not disclosed	13
How many operating leases does your company have?	35	27	90	it is kept confidential	54
Whether dividends are paid out to shareholders?	Yes of $0.40 per shares	No dividends were paid out in 2011.	No dividends were paid out.	No dividends were paid out.	No dividends were paid out.
Accounting Policy used?	Singapore FRS	IFRS	US GAAP	IFRS	Indian GAAP
Audit Committee					
Audit meetings during the year	4 meeting, done Quarterly	3 meetings.	8	5	3

Table 1. Company comparison based on the corporate governance framework (continued)

	Singapore Airlines (Free)	**Finnair Airlines (Mostly Free)**	**Delta Airlines (Mostly Free)**	**South African Airways (Moderately free)**	**Kingfisher Airlines (Mostly Unfree)**
Audit rotation?	There is no proper guideline in the CG dictating length of time. Yet for more than 5 financial year, Ernst & Young was the external auditor	For 8 years,PWC was the company with the same principal auditor	Ernest & Young since 2008-2012	2012(PWC) 2011(Deloitte & Touche) 2010(PWC) 2009 & 2008(KPMG)	2011/2012-Ramadhyani & Co, 2012-Vishnu Ram & Co
Whether external and internal auditors attend the meetings at the same time?	No it was done separately, but there was meeting between the two bodies	Yes.	Yes.	Attended Meetings separately	Not disclosed.
Whether the auditors attend AGM?	Yes to be re-elected	Yes to be re-elected	Yes to be re-elected	Not disclosed	No they don't.
Quality of audit comments?	The AC assists the BOD during the review of financial stmts and concluded that proper accounting stds were used. The balance sheet proposed a true and fair view of the company. They approved the financial stmts	Average (External audit carried out in accordation of PCAOB.A clear example is that of Finnair where the external auditors' report is mostly unchanged year after year, suggesting the adoption of a template behavior.)	Average(They have only commented on the financial statements)	Good (Their comments were good but given the fact that someone blew the whistle, that shows they fail to detect the flaws in the company.)	Very good (Their comments and recommendations shows that they have audited the company thoroughly and did not solely relying on directors information)
Is Remuneration of auditors Disclosed?	Yes, it is mandated by the Country's CG	Yes In the annual report.	Yes.	Present in financial stmts	Must be in the annual stms
Transparency					
Qualification of directors?	It is disclosed.	Yes disclosed in details	Disclosed.	Disclosed	Disclosed

Table 1. Company comparison based on the corporate governance framework (continued)

	Singapore Airlines (Free)	**Finnair Airlines (Mostly Free)**	**Delta Airlines (Mostly Free)**	**South African Airways (Moderately free)**	**Kingfisher Airlines (Mostly Unfree)**
How directors are selected?	The nomination committee is responsible for appointing directors and then approved by BOD	Shareholders Nomination Committee	Voting.	Not disclosed	Not disclosed.
Who are the major shareholders? Do directors own shares	It has one major shareholder owning over 50% of the share and the twenty largest owns up to 82.99%. Directors do own share in both SIA and the major shareholder firm of the company	The company has as main shareholder the Finland Government. Directors possess shares also	Directors and executive officers as a group have 11151929 shares.	Not disclosed	Non-executive directors hold no shares in the company but it is not disclosed for executive director.
How remuneration is calculated?	Through a fixed and variable component decided upon performance mainly	Performance-based	Pay on performance.	Not disclosed	Pay on performance.
Disclosure of director's remuneration?	Yes disclosed.	Not Breakdown, hence warning from stock exchange.	Disclosed.	Disclosed with minimal detail	Yes and also employees.
Financial statement disclosure on website (quarterly and annually)?	Yes, both annually and quarterly. http://www.singaporeair.com/en_UK/about-us/ir-landing/	Yes.(http://www.finnairgroup.com/investors/investors_5_8.html)	Disclosed(http://phx.corporate-ir.net/phoenix.zhtml?c=71481&p=irol-sec)	Disclosed (http://www.flysaa.com/my/en/footerlinks/aboutUs/financialResults.html)	Yes available (http://www.theubgroup.com/finance_annual_report.aspx?section=4)
How auditors are selected?	The Audit Committee decides upon it and then approved by the Board	The Audit Committee decides upon it and then approved by the Board	Audit committee proposed.	Not disclosed	Audit committee and approved
Quality of Risk Management					
Is there a risk management committee?	Yes.	No.	It forms an integral part of each committees	No	No.

Table 1. Company comparison based on the corporate governance framework (continued)

	Singapore Airlines (Free)	**Finnair Airlines (Mostly Free)**	**Delta Airlines (Mostly Free)**	**South African Airways (Moderately free)**	**Kingfisher Airlines (Mostly Unfree)**
If there is no committee, is there a risk management program?	No, since there is a committee responsible for it	No committee but a program managed by employees	No	Yes.	Yes.
Is there a succession plan?	Yes, it Is under the BCIRC, and encompasses leadership programs and review potential executives	Not disclosed.	Not disclosed.	Yes it is given in the reports	Not disclosed
How well risks are assessed?	There a set of strategy and based on the type of program, a specific assessment on risk is made	It is made accordingly to the task assigned	Follows an enterprise risk management programme (ERM) - reviewing strategic plans.	No sufficient information about it in the Reports	No sufficient information about it in the Reports
Problems due to reluctance of the committee?	No problem arose in the past years and even if there was problem, it was outweigh by the company's strong balance sheet	Yes, due to a rise of jet fuel and poor hedging strategy leading to severe loss	They have been doing well after the bankruptcy.	Losses due to financial mismanagement	High production cost which lowered their level of profit and shares.

The UK's Cadbury Reports was the catalyst that led to consideration pertaining to corporate governance. The reason behind such hassle in bringing corporate governance to the foreground was because of the increased complexity of corporation which tended to facilitate frauds and thus causing the corporate collapse of firms such as Enron and WorldCom. Today most countries, if not all, do have a Code of Corporate Governance or an Act governing good practices as they recognised its potential benefits (Kendall, 2005). After a thorough analysis of the five selected countries Code of Corporate Governance, despite different starting points, a trend towards convergence has been developing in recent years and one can breakdown CG into four main cornerstones (Gilson, 1998). The first key element is good managing practices and it dictates rules regarding the way that Board of Directors should carry out operations. Another mainspring is Supervision, which deals with the way operations have been carried out by the key management personnel and to what extent it was effective. The third pillar which is believed by many academics to be the most important is transparency. Recent cases of accounting malpractice and outright fraud have accentuated the importance of transparency (Anwar, 2003). Disclosure and transparency are vital for a good CG framework and shall be the foundation of any robust company to project a good corporate image (Tang, 2003) because doing business with less transparent companies is perceived as increasing the risks of loss (Harvey, 2005). Last but equally important is the internal control component. According to Crawford and Stein (2002), internal control through internal auditors helps organisation to meet its corporate governance expectations and subsequently achieve the targeted goals of the company. Internal control can also help ensure company will comply with prevailing legislations, both internally and externally (Steinthórsdóttir, 2005).

3 Managing best practices

The resilience of a board is best judged by seeing how it fares during tough times. Kingfisher is the perfect platform to analyse the aforementioned statement since its management practices were put to severe test back in 2005 when it started registering back-to-back losses. These led to soaring debts, further pushing Kingfisher into financial distress, the severity of which is best exemplified by the pay freezes inflicted on employees that lasted as long as seven months. While we would expect the board of directors to pool their knowledge, expertise, and experience to move the company away from stormy seas, quite the contrary happened with the resignation of 5 directors over the years 2011 and 2012. While in itself indicating poor management practices and loose strategic focus, it also led to kingfisher falling short of a key requirement of Clause 49, being that half of the board should comprise of independent directors. While the resignations paint a rather poor management picture, it is indeed worth highlighting that the operations of Kingfisher was comparable to a one-man-show, with chairman Vijay Mallya at the top. By failing to delegate the business operations and decision making rights to other knowledgeable executives who could have fared much better than him, Mallya proved that he allowed his ego and emotional quotient to take over practical and strategic business sense. Mallya's gold rush was flawed with rash decision-making and constant greed for power. Such unsustainable business behaviour inevitably caused strains among board members, thus leading to resignations of some. Another talking point is the absence of key professionals in the Kingfisher Airline Management. All these suggest that Kingfisher Airlines had done a poor job in achieving and sustaining best management practices.

Finnair follows a quite similar path given that it is also under financial distress and has also resorted to wide pay cuts and pay freezes. Management practices of Finnair have been tainted by the fact that large bonuses were offered to the directors at the same time when Finnair's staff were subject to deep slashes in their salaries. The reason given for the bonuses was to ensure continuity of the business during tough times by coaxing the directors into prolonging their tenure. It is undeniable the fact that such approach is a far-cry from what is considered as good management practice. It can be surmised that it is an implied duty of directors to lift the company up during tough times without the need to be offered more pecuniary benefits as incentives.

When it comes to management practice, South African Airways has fared quite well, with the exception of the non-disclosure of whether its non-executive directors are independent. This could spark much debate on whether these directors are acting in the best interest of the company in terms of maximising shareholder wealth or whether their fiduciary duties are fudged by working for only a group of shareholders.

While Delta Air Line (DAL) is now a high performing company, it was once in the same boat as KFA given its lavish behavior depicted by the undisciplined pursuit of nearly every new jumbo jet that aircraft manufacturers rolled out. These happened during the period ending 2003 where Leo F. Mullin was at the head of DAL when excessive money was splashed so that management could always have the biggest and the best, as one former executive puts it. This led to DAL amassing a staggering amount of losses, pushing it into bankruptcy. This period of DAL's existence can easily be described as one with poor management practices.

4 Supervision

This particular aspect of corporate governance deals with the extent to which the board and the committees set up have acted effectively as guardians of the company. While the setting up of committees to administer pressing issues like corporate governance, risk management, and matters of the board, would all imply much delegation on the part of the board as well as a perceived sense of power dilution, the upside would surely be more than offsetting. The setting up of such committees is clear evidence of enhanced supervision. These committees, however, are not always optimal, as has been elaborated in the managing best practices section. This can be exemplified using the case of KFA. While its internal audit committee does have employees with laudable experience in the banking sector, none of them are qualified accountants. The absence of such properly qualified personnel for such crucial posts could explain why the external auditors found a series of flaws in the annual statements as well as several violations of Clause 49 of the Listing Agreement to the Indian stock exchange. Second, the sustained losses and bulging debts can be accounted for by the oil crisis. These could have been possibly averted if the risk management committee was qualified enough to take precautionary actions such as proper hedging strategies or better strategic deals and alliances. To conclude, better supervision can be achieved through the establishment of committees to the board only if they are presided by expert personnel. DAL, on the hand, has proved how by overhauling the board that led it towards bankruptcy and initiating proper committees led it to earning profits again. This reinforces the above suggestion that proper personnel at the proper position does impact the performance of a company and as such promotes better governance.

5 Transparency

The essence of good corporate governance is ensuring trustworthy relations between the company and its stakeholders. The corporate management must take the responsibility to build a culture within the organisation encompassing consistency, accountability, fairness, transparency and effectiveness (Arguden, 2010). In the financial world, transparency is about disclosure of governance practices and timely release of information (Pinkham, 2003). This simple definition is indeed difficult to be followed in the corporate environment. Pitt Harvey (2005) believed that a widespread abandonment of adherence to ethical obligations on the part of corporate leaders was the reason responsible for failures like Enron and WorldCom.

Bearing this in mind and applying it to Kingfisher Airlines, the mere fact that disclosures upon appointment of Directors are not disclosed is a dodge regarding its transparency policy. Such appointment issues may raise debates pertaining to conflict of interest and might subsequently result in loss of confidence from stakeholders. Further, decision regarding remuneration is a key feature requiring much transparency. In Finnair, there was the non-adherence of key recommendations relating to disclosure of the remuneration of the managing director and other executives. This violation of the code (Recommendation 46) stemmed from the failure to disclose a pecuniary benefit of 180000 euro paid to the President and CEO of Finnair in 2009. Further, special bonuses of 1.3 million euro were conferred to the executive directors with the aim of ascertaining the continuity of Finnair's operations. By disclosing the figure as a sum total without breaking it down to properly portray the remuneration of each executive director, and by failing to provide the principles for the remuneration schemes, Finnair has contravened Recommendation 45 of the 2010 code. Recommendation 47 and 55, which states that an updated remuneration statement must be present on the company's website, had also been breached since Finnair only updated its remuneration statement in 2012 when bonuses were paid out in 2010. The gravity of these violations was such that the Helsinki Exchange issued a warning to Finnair for non-adherence of the code which is binding on listed companies.

The King III Report which governs South African Airways made it clear that the Audit committee should assist the Board in reviewing reports to ensure that financial data reported are accurate. In addition, it should disclose information regarding company's financial and sustainability performance. This complements the analysis of Dr. Yilmaz Arguden (2010), which stipulated that to measure the extent of good corporate governance, leaders should not only focus on compliance-related issues but rather pay sufficient attention to quality of information, satisfaction indices, value creation or profitability. Yet, the inexorable happened when CEO Khaya Ngqula mishandled some funds and auditors stated that all information was of 'true and fair' nature. Thus, no matter what companies may preach about CG or audit committee, there will be always a professional escape route and just having rules does not mean fraud will not happen (Mayer, 2009; Parthsarathy, 2002).

It is often said that a new form of corporate Darwinism is being seen where only the fittest companies with the best governance practices survive and prosper (Harvey, 2005). This is contradictory. Singapore Airlines is the 3rd World best carrier and yet it fails to be completely transparent. Its pitfall roams around remuneration disclosures. For instance, listed companies are required to name and disclose the remuneration of at least the top five key management personnel who are neither directors nor CEO in the bands of $250,000 as per Guideline 9.3. However, in the 2011/12 SIA Annual Report, such requirement was not fulfilled. In addition, Guideline 9.4 requires disclosure of immediate family members whose remuneration exceeds $50,000 but in SIA report, it took the amount to be $150,000 meaning that it could have been that some were entitled remuneration of more than $50,000 and this was not disclosed. Therefore, one can hold that although a consensus is found on the objective of increasing transparency, the latter should be argued from a corporate governance perspective.

6 Internal control

A tight internal control system is vital since it can ensure that the goals and objectives of a firm will be met, that it will achieve its desirable long term targets and maintain reliable financial and managerial reporting (Steinthórsdóttir). One of the most important pillars of internal control resides in internal audit. While prior researched have hassled that efficacious internal audit has a positive impact on firm's performance (Arena et al., 2006; Holm and Laursen, 2007), the relationship between CG and internal audit is under-estimated. In today's economic climate, with the surge of many scandals, the role of internal auditors has gained significance in helping to create a good corporate structure (Nagy and Cenker, 2002; Carcello et al., 2005). Internal audit independently appraises the effectiveness of internal control and is the reason behind most companies setting up audit committees. Kingfisher Airlines and Finnair have proved to maintain a good system of internal control. It is assumed that a good segregation of duties was present such that falsification was made extremely difficult to perform.

Despite the fact that a company can possess both a robust internal control system and an efficient audit committee there will always be the presence of a loophole. Taking the case of the most prolific Sub-Saharan airline company, in its Code of Corporate Governance, the standard guidelines are given regarding the audit committee's role. However, in the past Ms Cheryl Carolus denounced a mishandling of finances amounting to R31 million. In fact, the culprit being the former CEO has falsified the account and made it undiscoverable during audit checks. As such, the key management personnel signed the reports and it was disclosed. Without any doubt, this case indicates poor internal control in SAA. The blame here can be put on both the internal procedures and the audit committee. An important role of auditors is to assist the board in monitoring the effectiveness of its governance and they fail in doing so (Crawford and Stein). Singapore Airlines fraud is not far from this case. In fact, an employee who was in charge of allocating crew allowances abused his position of trust to create fictitious extra payment which was credited to his accounts. Teo Cheng Kiat embezzled $35 million over 13 years using such procedure. He was able to continuously trick payment as he was the sole person responsible for the task. As David Ingram held, with a separation of duties, it would have been much more difficult to embezzle such a tremendous amount. The whistle blower came when an audit member performed an ad-hoc review of daily allowance of crew. Only then was it reported and the crew allowance misallocation stopped. Traditionally, the role of internal auditors was to perform checks and balances but nowadays they can be portrayed as consultants and the internal audit function is considered as helpful in adding value (Sarens and De Beelde, 2006).

7 Board

Beyond the realm of hypothetical models simulating perfect competition behavior, no two companies can be completely identical in terms of management strategy, accounting policies, and corporate governance. This section homes in on extrapolating data collected on the 5 companies in an attempt to explain the disparities that were found, subsequent to which recommendations will be made. One of the main areas of good corporate governance sprouts from the way the Board of Directors is structured. After going through the annual reports of the companies in question, it has been found that all of them have a higher number of non-executive directors compared to the number of executive ones on the board. The ratio of non-executive directors to executive ones in SIA, for instance, is 8:1.

The Cadbury Report purports that non-executive directors should be able to bring an independent judgment to bear on issues of strategy and performance. To do so would require minimal attachment to the company in question; a characteristic that cannot be expected from executive directors since history bears evidence that they have time and again failed to hold impartial and independent views of the business they are managing. We need not go far to support this view since KFA, DAL, and SAA have all faced financial distress, the reason being great extent to which the respective executive directors drifted from ethical norms and professional codes to gratify their vices, which were mostly greed and ego. With non-executive directors bringing along with them a set of specialist expertise specific to the company, personal qualities such as impartiality and independence, it is safe to say that the higher their number in a Board, the higher the weight their views and recommendations carry. Equally important is the independence of the non-executive directors to the major shareholders and to the company itself. Analysis shows that out of three non-executive directors, only one of them is independent for the case of KFA and so, eliminates the whole purpose of appointing them. Remaining in the matters of the board, one salient deviation from normal practice is the term of office of SIA directors, who once elected, remains one for three years. This could be evidence of a cultural difference in the sense that Asia is well-known for having a preference for strategic and long-term planning, a main characteristic of communism. A longer term of office could attenuate the incentive of directors to undertake big baths and earnings management given that the repercussions would still be felt while they are in office. Further, with election being held at a later period, more focus can be given to attend the issues of the company and to maximize shareholder value.

8 Accounting policies

Analyzing the annual report of these 5 companies clearly depicted the use of differing accounting standards to prepare their annual statements. Finnair, for instance, follows the IFRS, while KFA adheres to the India GAAP. While the effects of such reporting could be immaterial when considered locally, it really is a hindrance to institutional investors who pool funds and invest in international markets. How it becomes an impediment lies in the fact that many investors do rely on mark-to-model techniques to value the companies in which they want to invest. With different figures coming up for a particular recorded item under different annual statements prepared under differing standards, valuing companies based on book value does become an obvious dilemma. This leads us to conclude that for annual statements to be the optimal valuation tool of investors and the best signaling device of the board, accounting standards should not only be synchronized into a single framework, but should also be based on a mark-to-market approach. The mark-to-market approach lies in constantly updating company accounts to reflect the assets' and the liabilities' fair value. In doing so, annual statements would succeed in showing figures of assets that are not far away from their economic fundamentals and thus would better reflect the true performance of the companies.

9 Financing structure

The airline industry is reputed for its dependence on massive equipment and facilities, ranging from aircrafts to flight simulators to maintenance hangars. Such colossal capital expenditure can be financed through debt and equity, and increasingly through leasing. The excessive use of debt, however, is known to lead to a high gearing ratio which is undesirable as it becomes tougher for companies to borrow further given the increased risk of defaulting on their debts. While the industry average recommends a leverage of around 70%, analysis of the selected companies do show us substantial deviations from the norm. Singapore Airlines, for instance, has a gearing ratio of only 6%, compared to -924% for DAL. Finnair has a leverage of 108%, the closest to the recommended one. The striking figure here is that of Delta Airline, which has a negative gearing ratio. Given that the gearing ratio is the total net debt divided by the company's equity, it would mean that one of the two variables should be negative. DAL indeed has a negative equity of 1936 million of dollars. The negative equity arose due to the excess of accumulated losses over the paid-in-capital. It is worth noting that such a high gearing ratio is also accounted for by the huge finance lease obligations that reside under the long-term-liabilities section of DAL's balance sheet.

This is where the question of lease classification comes into play. IAS 17 suggests that there are two kinds of leases – operating and finance lease. Finance leases are those where all the risks and rewards are transferred to the lessee. Classifying the lease of an aircraft as a finance one would imply the capitalization of the asset while also giving rise to a financial liability – the lease obligations that accrue. If the same aircraft was classified as an operating lease, however, lease obligations would still arise but would be expensed off in the income statement in the same way as rent is treated. SIA lies at the other end of the gearing spectrum at 6%. This could be down to the surprising fact that out of 35 leased aircrafts, none of them are classified as finance leases. Given that IAS 17 leaves the lease classification quite open to the judgment of accounts preparers, it can be that many of the leased aircrafts could actually be and should have been classified as finance leases instead of operating ones. Reclassification of the leases as finance leases would, without doubt, lead to a spike in the debt to equity ratio. The point here is that a higher gearing ratio in such an industry could not only have a negative nuance to it but could in fact signal the proper classification of leased aircrafts as finance leases. While SIA key ratios do sound appealing at first glance, higher gearing could indicate better accounting treatment and better transparency. To conclude, the gearing ratio and other key financial indicators might not be the most reliable metric for investors and other stakeholders to consider given their high correlation with the way leases are classified, which in turn depends much on the subjective judgment of the board of directors.

10 External auditors

As elaborated at the outset, internal committees do help in enhancing management practices as well as supervision. It should however be conceded that internal committees usually only act as a veil, behind which no distinction can really be made between dependent and independent directors. This is because no member is truly independent once he forms part of the company. This is where the role of external auditors is crucial to shareholders and investors as they are the only means to reduce the information asymmetry that prevails between the principal and the agent. A good example would be that of KFA where its external auditor, B.K. Ramadhyani & Co, clearly pointed out the grey areas of KFA's annual statement and did report on their non-compliance of the few requirements of Clause 49. This indicates that the external auditors went through direct and physical verifications with due professional care. The same cannot be concluded for the other 4 companies, where external auditors and directors alike only commented very briefly on the level of compliance of the companies in question. A clear example is that of Finnair where the external auditors' report is mostly unchanged year after year, claiming "true and fair" reports, suggesting the adoption of a template behaviour. The external auditors of SAA, for instance, provided 'unqualified reports' while it was later discovered that SAA's former CEO had been involved in embezzlement. Finnair and SIA have both appointed the same external auditor for a period of more than 5 successive years. Human nature and the forces of networking are such that the dependence between the two parties will inevitably raise the more they work together. It therefore follows that appointing the same external auditor for several years obliterates the very purpose of appointing them.

11 Whistle blowing

Whistle blowing is an important phenomenon in public and corporate affairs. It can be defined as "an attempt by an employee or former employer of an organization to disclose what he or she believes to be wrongdoings in or by the organization" (James, 1995). In 2000, Uly extended the definition to encompass disclosures regarding illegal, unethical or harmful practices in the workplace. Whistle Blowing plays an essential role in CG. This was evident when the *Time Magazine* in 2002, named whistle blowers Sherron Watkins (Enron), Cynthia Cooper (WorldCom) its "Persons of the Year". Disclosure however involvers role conflict between individual and organisational values. The act of whistle blowing by an individual is sometime perceived as being disloyal to the company that he or she is attached with (Davis, 1989). Those individual are considered as traitor on the part of management and colleagues (DeGeorge, 1985).

The effects of blowing the whistle are balanced between positive and negative (Weiss, 2006). The attention of the public is drawn on an act of wrongdoing and this can be harmful to both the organisation and the tipster. Usually, most information disclosed is sensitive and may cause harm to the informer. Consequently, whistle blower protection needs to be established to encourage informant to voice out and help combat the scourge of corruption as they are the one most vulnerable to lose. In fact, the foundation of a whistle blower's protection was laid over a century ago by the Federal Government's False Claims Act. It ensures that the informer is treated fairly after the "whistle has been blown". Today, after many improvements in the field, a milestone was the Sarbanes-Oxley (SOX) Act of 2002 which has made it a criminal offence for those trying to harm a person who provides truthful information (Hassink et al., 2007).

Nowadays, many companies included whistle blowing among their policies, very few dare to speak out. This is because, employees feel it is unsafe to raise a concern since they run the risk of victimisation and loss of their jobs. As such, to make things more transparent, authorities and the company should reassure potential informants that they are free to blow safely and lawfully whenever required (Paul and Townsend, 1996). It should foster a culture which is open to hear and address significant concerns. An effective way to achieve this is through the setting up of channels for the purpose of whistle blowing. South African Airways is one company which implemented whistle blowing in such desired way. It permits an anonymous reporting on its intranet site's home page and also other options such as phone lines, email or post, with the Chief Audit Officer as principle contact. This might be the reason why Cheryl Carolus blew the Whistle concerning financial mismanagement and caused the expulsion of the former CEO. Therefore, by encouraging a whistle blowing culture within the organization, the organization promotes a transparent structure and an effective communication.

KFA had a whistle blowing policy in place but there were no major disclosures about it. The reason for the insignificant amount of disclosure might be due to the fact that adherence to this section of the Country's Code of Corporate Governance was not mandatory and consequently no fine would have been imposed. DAL which is based in the U.S is mandated to follow the SOX 2002. As such they had a whistle blowing policy in which the company has adopted a set of Business Ethics and Conduct. It provided channels through which employees can inform about malpractices and was able to foster a culture of honesty and accountability. As far as SIA is concerned, according to its CG Code, it should disclose in its annual reports the existence of a whistle blowing policy. The policy was actually disclosed and approved by its audit committee since staff could in confidence raise concerns about malpractices in any matters. Informant reports are analyzed quarterly by the AC to ensure independent investigation and adequate measures. Finnair, however, as opposed to the other companies is not mandated by law to include a whistle blowing policy. As such, it is absent from its annual reports and this might put the company into distress because no employee would feel free to disclose suspicious matters.

12 Conclusion

Corporate governance can be said to be a vast concept enclosing an array of issues pertaining to how corporations operate. While several frameworks have been put forward in an attempt to better shape the concept into a more tangible one, it should be borne in mind that no single one has been able to properly gauge the whole idea of corporate governance. This could be down the fact that governance is not simply a management concept, but rather a business philosophy in itself. Corporate governance can only be optimised when it becomes the culture of a company where the latter flows not only from top to bottom, but coalesces in and around all the employees of the company. Subsequent to analysis of the five companies, it is safe to say that no company can be conferred the title of best corporate governance. This is because no proper metric can successfully and comprehensively gauge the qualitative aspects of corporate governance. These are clear obstacles towards attempting to establish a single global corporate governance framework. While accounting standards which deal with highly numerical compliance has still not reached global acceptance, having a mandatory global framework on governance, based mostly on qualitative standards, seems further down the horizon. There is one crucial step, however, that if taken, would have an immediate positive impact on the governance of a company. Mandating whistle blowing policies while at the same time backing it with whistleblower protection would boost the good governance level of a company. This is because mandating whistle blowing in itself is a form of implementing better internal controls which is then translated as enhanced supervision. More stringent internal controls and better supervision converges towards improved transparency since malpractices in the company would be made public through the whistle blowers. More broadly and on the longer term, all these would translate into better management practices. Yet again, to churn the best out of corporate governance, one would not have to rely on the fear factor that whistle blowing creates. Pursuing good corporate governance cannot be imposed upon. It is more of a choice, one if embraced, could improve the value of a company exponentially.

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