



An Exploratory Analysis of Corporate Governance Practices of Pakistan International Airlines Corporation Limited (PIACL)

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Abstract:

Aim of this study is to explore how corporate governance impacts performance of public sector organizations in Pakistan in particular PIACL. Study was carried out by conducting twenty in-depth interviews from the key informants in PIACL to find out factors behind unsatisfactory performance of national flag carrier using narrative analysis technique. Findings revealed that appointment of inappropriate persons in the BoD, political involvement in operational decision making which hinder merit-based decision making in corporation as a result there are wrong policies, unsound decision making, less transparent actions, and lose accountability practices cause poor performance. Corporation has been facing chronic issues like shortage of aircrafts, huge financial losses, un-availability of spare parts on time, delay in flight take offs, frequent development of technical faults in aircrafts, conflicts between union with management are frequently reported in media and annual reports of the corporation. Implications of findings are discussed in the last section of the paper.

Key words: PIACL, Corporate Governance, Board of Directors, Transparency, Accountability, Performance

Introduction

The term corporate governance (CG) came into popular use in 1980s to broadly describe a mechanism based on trust, transparency and accountability to govern companies (Securities Exchange Commission of Pakistan's Manual on CG, 2002). In 1980s corporations experienced challenges to board level excesses, dominance of chief executives. Therefore, 1980s decade was characterized as corporate collapse (Tricker, 2011). Corporations were collapsed around the world during 1980s which brought a shift in attitude and as a consequence higher performance expectations were put on management boards to ensure that firms are to be run effectively with right directions (Adams, 2002). Moreover, focus over the effectiveness of CG became a



universal phenomenon because of misappropriations, unethical practices, wrong policies and various scandals worldwide such as Enron Scandal (2001-02), World Com (2002-03) Taj Scandal (2004) Bank of Commerce and Credit (1988-91) Maxwell Group (1992) and Mehran Bank (1990-93) (Mishra, 2012). Subsequently, there was growing acknowledgement that improved CG was important for the growth and development of corporations and whole economic system (Cleasens, 2006).

In response to downfall of business giant's different steps were taken to bring reforms in order to develop more efficient and sound practices of CG. In United Kingdom (UK), in 1992 the very first committee was formed under the chairmanship of Sir Adrian Cadbury, the "*Cadbury Committee*" which paved the way for corporate governance by explaining CG as a system comprised of Board of Directors, Independent Audit, Transparency, Accountability and Disclosure by which business corporations are directed and controlled. In the light of determinants of CG different countries around the world adopted and developed CG norms according to their prevailing legal frameworks. Pakistan adopted CG in 2002, Securities Exchange Commission of Pakistan (SECP) in collaboration with Institute of Chartered Accountants Pakistan (ICAP) developed codes of CG with technical support from World Bank (WB) and Asian Development Bank (ADB) (Javed and Iqbal, 2007).

Pakistan International Airlines Corporation commonly known as PIA is the national-flag carrier airline of Pakistan incorporated under the PIAC Act 1956 and is listed on Pakistan Stock Exchange (PXE). PIACL is public air Transportation Company owned by government of Pakistan with 87 percent shares. PIACL carries out airline operations, hotel operations and other services such as cargo services, with primary and secondary hubs at Karachi, Lahore, Islamabad and Rawalpindi with a huge number of employees about 18000. National-flag carrier has 33 aircrafts out of which 28 are operational, flying over to 25 domestic and 29 international destinations. Government of Pakistan being majority shareholder appoint nine board of directors including the chairman of corporation, whereas two directors are elected or appointed by shareholders other than government of Pakistan. BoD governs PIACL with assistance from board committees and executive management. Since its incorporation, PIACL had been talk of the town. In early 70s PIA was one of the world's best managed airlines and it helped various international airlines formation which is big names in the airlines industry such as Qatar Airways and Emirates.

Over the past few decades the performance of PIACL has been unsatisfactory and deteriorating constantly. The corporation is under harsh criticism from media due to its poor performance, corruption and inefficiency. Since, 1990 different governments have been planning to privatize PIACL, due to its governance issues and poor performance, in order to achieve this goal current government converted PIACL into a limited Corporation i.e. PIACL initially through Presidential Ordinance No XVII on December, 04, 2015 and later under the PIACL Act, 2016. The Privatization Commission has worked out a restructuring and implementation plan by classifying core and non core business of corporation, cabinet has approved PIACL privatization plan of restricting PIACL's corporate and financial structures by selling 49 percent of shares to strategic partners and handing over management of corporation to them (Dawn, 21st February, 2018). Some of the major problem faced by PIA are its large size of employees, accumulated losses for last ten years reached Rs.400 billion, liabilities are exceeding its assets and inadequate number of aircrafts, if one looks at the aircraft to employee ratio its about 600 or 650 per aircraft, whereas the industry



standard is 150 or 200 employees per aircraft and so on (DAWN, 25th February, 2015).

After carrying out a careful literature review of CG structure and performance of PIACL. It has been observed there appears some disconnection in the literature to understand clearly how governance and causes poor performance of PIACL. As a result, this study aims to explore how national-flag carrier's CG practices influence the performance. We employed qualitative paradigm to explore real time experiences of key informants within corporation to seek to understand factors of CG that affect CG performance.

Research Methodology

We conducted in-depth interviews from twenty key informants working in the corporation by employing snowball sampling and convenience sampling techniques. Careful attention was paid to ensure that sample (interviewees) included different career tracks, such as members of Board of Directors (BoD), officials from different levels of management, with different educational background, and representatives from associations i.e. PALPA, SAEP and CBA. All interviews were conducted face to face and taped with the prior permission and consent of respondents during 2017-18. It is very important to note that two top level officials denied recording of their voice owing to the fear that their recorded voice may be misused quoting some instances in the past where such tapes to higher management. Researchers tried his level best to assure them the confidentiality of the tape by drawing attention to the guidelines of ethical research and document signed with Employer University. However, they insisted not to be taped so researcher made notes while interviewing them. The average length of interviews ranged between 40 to 70 minutes at the discretion of respondents. The longest interview with a top level official continued for 90 minutes and the shortest interview with a senior level official lasted 30 for minutes. We used a narrative analysis approach to analyze the data, narrative analysis looks at the self-story and individual experiences of the interviewee regarding social phenomenon. This analytical strategy helps researcher to compare and categorize emerging themes and to give meaning to words, context-situation, story and basic actions.

Procedure of Narrative Analysis

The data analysis procedure involved transcribing interviews, coding, categorizing, and comparing themes to interpret the phenomenon (see figure1). In the first stage, stories were collected by conducting in-depth interviews, were transcribed and coded. In the next step, codes were developed different categories from the codes were prepared and same were classified into similar and dissimilar categories to develop themes and interpret findings.

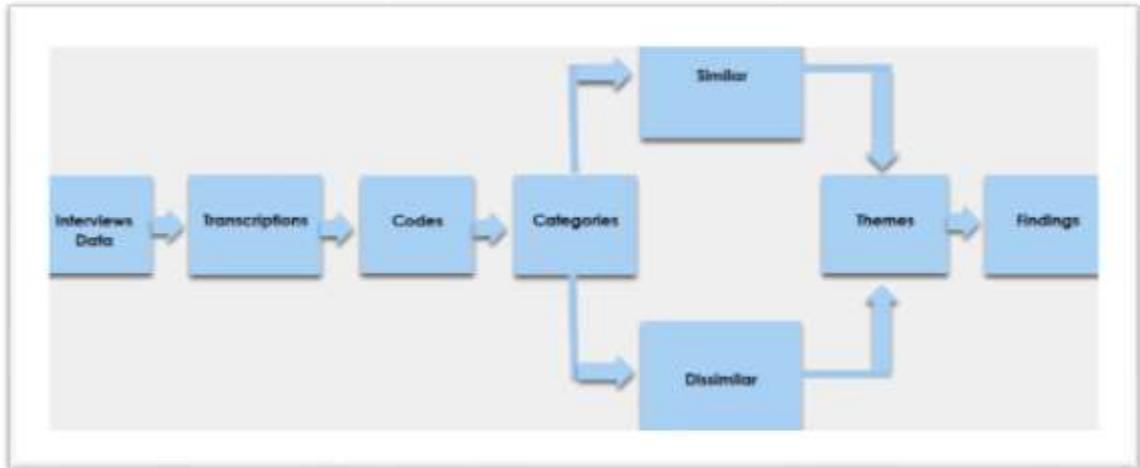


Figure. 1: Procedure for conducting narrative analysis

Demographic details

Table 1 presents details of demographic variables of the sample interviewees. Column first displays various demographic variables, column second provides particulars, column third presents percentage and column four displays frequency. Careful attention has been paid during the data collection to include variety and diversity in sample so that detailed views can be gathered to draw conclusions.

Table 1 Demographic detail of sample interviewees

Demographic variable	Particulars	Percentage (%)	Number (N=20)
Gender	Male	85.00	17
	Female	15.00	3
Marital Status	Married	80.00	16
	Single	20.00	4
Age Group	25 to 35	10.00	2
	36 to 45	25.00	5
	46 to 55	35.00	7
	55 and more	30.00	6
Education / Degree	Technical Diploma	10.00	2
	Intermediate	5.00	1
	Bachelor Degree	25.00	5
	Master Degree	60.00	12
Experience	Less than 1 year	5.00	1
	02 to 10 years	15.00	3
	11 to 20 years	20.00	4
	21 to 30 years	45.00	9
	31 and more	15.00	3
Position in Organization	Top Level Management	30.00	6
	Middle Level Management	35.00	7
	First Line Management	35.00	7

Source: Developed by the researcher



Interviews Analysis

As discussed in previous section all interviews were analyzed using narrative analysis technique, key themes which emerged from the data are: (a) Board of Directors Composition, appointment, performance and decision making, (b) Accountability in PIAC, (c) Transparency in PIAC, (d) Performance of PIAC and (e) Problems of PIAC. Emerged themes are discussed as under one by one.

Board of directors, composition, appointment, performance and decision making

There are eleven members in the board, where nine members including the chairman of board are appointed by government of Pakistan being majority shareholders and two members are elected or appointed by shareholders other than the Government of Pakistan. Since last decade, its shareholder and employees have certain reservations and concerns about the way board is made up, directors appointed, their performance and decision making. There are words of dissent from employees and officials including ex-president Pakistan Airlines Pilot Association (PALPA):

“The problem lies with BoD and top level management, especially BoD who are not appointed on merit in PIA. If you seek opinion of analysts their answer would be appoint experts and professionals in the board which unfortunately has not been done by any government. Instead of appointing professionals on merit with industry related experience rather those people get appointed who have some kind of business affiliation with PIA, I mean those who are suppliers of PIA or they have close ties of friendship with government in power.”

Ex-president PALPA identified nepotism, cronyism and violation of merit in terms of the appointments in the board. It has also been noted that those of the people who sit in the board lack industry experience and support their business which manifests conflict of interests. Likewise, an elected member of PALPA shared his experience that:

“It is very unfortunate in case of PIA, which has not been given any professionals on the board. My point of view is that if you have to do business then bring businessmen. On the contrary many people are brought into PIA with lucrative salary packages that lack airline related experience.”

Elected member PALPA also shared similar feelings and revealed that government has been showing little interest in the appointment of professionals who draw heavy salary packages and possess limited airline industry experience. He further emphasized that for improving business of national-flag carrier government should appoint businessman but they should be have airline industry experience. Similarly, one of the CBA representatives also endorsed the point of view of current and ex-president PALPA by saying that:

“Board of directors must have professionals and experts, this is what current government promised while taking over the power and they reiterated to improve PIA. Conditions are worst because previous governments appointed their favorites, very sorry to say same is being done by current government, they are appointing their favorites to BoD.”

He also spoke about the appointment of board of directors in PIA, mentioning that government has made corporation's conditions worst like previous governments this government too has done same by appointing their favorites to the board. Moreover, one of the ex-top level manager expressed that there is pressure from government and



bureaucrats due to which it is quite difficult for top level management to take decisions themselves, he mentioned that you have to response to phone calls for survival otherwise it is very difficult for you to survive in the same position. He said: *“There is pressure from everyone, I was phoned and told that upgrade someone or increase package or allowances, etc. These sorts of things happen in the corporation and it’s up to you how you handle it. It’s very difficult to sustain this pressure, if you do not respond to any such phone calls there could be problems for you”*.

Above empirical evidence shows that there is something terribly wrong with BoD of national-flag carrier, the composition of Board, industry related experience, pick and choose of favorites, friends, business partners and those individuals who have their connections with government or politicians in power are play central role of bringing down the performance of the corporation.

Transparency

There are mixed feelings of participants regarding the practice of transparency. Key interviewees at the top level and ex-executive manager elaborated that transparency does exist in PIA and corporation ensures its practices. They view that proper advertisement in all newspapers is published for recruitment and procurement and same is also displayed on website following Public Procurement Regulatory Act (PPRA Act) emphasizing that after proper bidding process deals are entered. In the words of top level official:

“To ensure transparency, we advertise in all newspapers, display on website following the PPRA (Public Procurement Regulatory Authority) rules, we receive sealed bids.”

However, some interview participants view transparency differently and identify that proper scrutiny of bidders is not undertaken while finalizing the deals and contracts. In the words of ex spokesman PIA:

“Deals or contracts of procurements must not be like pay and receive from anyone, you need to call bids and scrutinize properly who are your bidders after that as per process enter that deal or agree for that transparently.”

Likewise, an elected member of pilot association also suspected process of transparency and suggested that contracts are awarded on the basis of relationship, business nexus or for any commissions or kickbacks. Furthermore firms owned by ex-officials or employees of national carrier are always preferred for the award of contracts, due to politico-business nexus. He suggested:

“There is no transparency in PIA deals and contracts, every deal or contract is done on the basis of personal relations, business affiliation, or with the interest of commissions or kickbacks. Those firms are given contracts which are owned by ex-PIA officials who have either political or business connections. All such deals, agreements on procurements have always been of high concerns.”

Moreover, another ex-top level manger expressed that people in power indicate who contracts be awarded. He said:

“Government and bureaucracy give dictations through phone calls and force to choose their buddies.”



Accountability

In the words of a member board of directors:

“When we refer accountability it applies to all segments of PIA not only the management. It has same implications for unions and associations who are very big and influence working of the system. They lessen this process. They are equally responsible for poor governance of the corporation. In some areas their power is stronger than management.”

Member of BoD lashed the role of employees unions and associations by pointing out they grown bigger than the power of management and hinder accountability process. Whereas, ex-president of pilot association expressed his views that unfortunately accountability is practiced for pilots only in national flag carrier, as no one from any other section/department or Board of Directors have been hold accountable, only pilots have been sacked in the name of accountability. Following given are his words:

“Unfortunately in PIA accountability is for pilots only, whereas no one from Board of Directors, executive managers or any other individual from various sections have been sacked in the name of accountability or hold accountable for his actions in PIA.”

Performance

In words of ex-president CBA, everyone who is at higher or top level i.e. board, executive management, MD, chairman are responsible for performance of flag carrier. Also, at the same time whoever have been part of government is responsible for the performance of PIA. He suggested:

“All individuals who are at higher posts (BOD/top level management) are responsible for the condition (poor performance) of national carrier such as MD, Chairman, and others who are part of government.”

Moreover, in the words of a Captain and an elected member PALPA:

“I have been part of PIA since 37 years I have seen its decline, I believe you don't need rocket science to improve the performance of PIA. I would say government is appointing non-professional persons to govern PIA and we are still using 17 to 18 aircrafts. Many people recruited in the corporation with higher lucrative salary packages who don't have any airline experience. I suspect government and its non-professional attitude are few of the reasons for downfall of the corporation.”

Above quote signifies lack of interest of government in appointing capable and industry-related experienced people in higher authority to deliver best performance. Nevertheless, expressed a modest view:

“Whatever decisions were made in my tenure were made by myself, PIA management and BOD. Whatever we decided it was in the favor of PIA if in these two years of my tenure crude oil prices per barrel had not increased from \$45 to \$100 and \$170 per barrel PIA had been in profits during my tenure. Moreover, even if you hire professional management in PIA, the interference of bureaucracy and politicians will be very much part of PIA”.

Ex-chairman of corporation associated poor performance with dollar-rupee disparity in international currency market and change in price of oil. However, he also hinted at interference of politicians and bureaucracy as part and parcel of corporation's management.



Interpretation of the findings

Empirical evidence from twenty interviews from key informants from the corporation suggests a number of problems that cause poor performance of national-flag carrier. Findings reveal that government favorites and cronies in board, inadequate fleet, lack of new technology (fuel efficient) aircrafts, appointment of non-professional directors who lack airline industry experience with lucrative salary packages, pressure from government (government involvement in award of contracts to dear ones) previous loans, overstaffing, unsound HR practices, internal conflicts (internal politics) by associations, CBA cause poor performance. PIA's performance has been disappointing over the last few decades which left it with no longer an airline of choice for air travelers in country. Because of the violation of basic principles of corporate governance, poor and declining performance of national-flag carrier has been talk of the town and media. Electronic and print including social media lash out harsh criticism on PIACL because of its unsuccessful state of affairs. Despite various attempts to revive PIA's past glory, no fruitful results have been obtained; national flag carrier rather has been spoiled by patronage, inefficiency and corruption. For a number of years every successive government plans to privatize the corporation as the only and lasting solution.

Conclusions and implications

This study was carried out to explore how CG impacts the performance of government-owned public sector. This study focused on the practices of CG such as board of directors' appointment and its makeup, transparency and accountability. Findings of the study reveal a number of violations of structural, legal-administrative framework along with government's lack of interest in appointment of industry experienced people with lucrative salary in top management, and internal union-association conflict with management. Findings also reveal that there is lack of sound transparency practices in PIACL. Especially, key informants suggested gross violations of transparency norms in deals and agreements based on political or business relations. Similarly, there is lack of accountability in PIACL. Pilots identified that they are the target of accountability only. Likewise, there is long history of PIACL's union-associations conflicts with management which has affected the overall performance of corporation. Moreover, poor performance of BoD, unsound accountability and transparency practices has pushed PIACL into numerous issues like insufficient number of aircrafts, fuel in-efficient aircrafts, lack of spare parts when needed for aircraft repairs, favoritism, nepotism, huge losses, liabilities exceeding assets, political involvement and pressures, overstaffing, involvement of employees, crew members in drug smuggling, mobile phone smuggling and conflicts between union-associations with management. These issues with national-flag carrier have long history and appear to manifest vicious circle. Government's primary responsibility is to monitor its corporate governance based on modern principles and practices as compared to other airline industries and ensure transparency, accountability, disclosure and fairness. BoD and Management need to be cautious of their responsibilities creating and maintaining sound management policies and practices to bring efficiency and effectiveness in day to day operations of the corporation. Employees must embrace the corporation as national asset and own it. There is urgent need to restructure composition, appointment and powers including the remuneration of members of the BoD.



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