

United Airlines Restoration of Employee & Customer Trust and Investor Confidence

UAL Corporation (UAL) is a holding company, whose principle subsidiary is United Airlines, Inc. United Airlines was established on March 28, 1931. United is a major commercial air transportation company, engaged in the transportation of persons, property and mail throughout the United States and abroad. In December 2002, United filed a voluntary petition for protection under Chapter 11 of the United States Bankruptcy Code. After an in-depth analysis of the UAL Corporation and Subsidiary Companies Report for the year ended December 31, 2002 the following operating failures were identified, non-operating expense amounted to \$534 million in 2002 compared to \$450 million in 2001 compared to \$271 million in 2000, excluding special charges, gains on sales and the airline stabilization grant.

The Company's business is very intensive, requiring significant amounts of capital to fund the acquisition of assets, particularly aircraft. United in the past, funded the acquisition of aircraft through outright purchase, by issuing debt, or entering into capital or operating leases. As a result of the financial debacle, United is not permitted to make any payments on its pre-petition debt and therefore, the amounts have been excluded.

Capital resources in the UAL's 2002 annual report include: The DIP financing, which consists of two facilities Bank One Facility for \$300 million and the Club Facility for \$1.2 billion. Clearly, UAL Corporation faces many challenges in attempting to return to profitability. One major strategic issue for the corporation is the relevance of its corporate governance structure. UAL Corporation offers a dramatic case study of corporate governance.

Their current governance structure seems to indicate that specific actions were taken to provide accountability, communication, and diversity of perspectives. Most notably, UAL Corporation departs from traditional governance structures by giving employees ownership in the company and representation on the Board of Directors. On the surface this appears to be exactly what is proposed in this study. However, closer analysis reveals some stark differences between the two although they are indeed some similarities, both frameworks attempt to deal with the issues of accountability, communication, and diversity of perspective by giving representative rights to all stakeholders.

Both advocate strong employee involvement in the executive board decision-making. It is here, however, that the two frameworks part ways. UAL Corporation gave majority ownership, 55 percent of the company to employees and as a consequence, employees have the right to veto the decisions of the CEO. Thus employee representatives on the board had a lot of power. This in our opinion compromises the true nature of diversity of perspective when one body has more than an equal amount of latitude in decision making. Whilst our framework seeks to provide for employee representation, it does not advocate the shifting of power to employees. Rather, we

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propose multiple balances of power between the constituencies with a majority of opinion representing the decision of the board.

Companies can learn from this example, to implement multiple balances of power to provide accountability to shareholders. At the same time, it provides multiple lines of communication from all of the corporation's constituencies.

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