



Corporate Restructuring in the Economy of the Tourism Sector: A Case Study of Air Serbia

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Received: November 12, 2021

Revised: March 16, 2022

Accepted: April 12, 2022

Keywords:

Business transformation;
Strategic partnership;
Airline industry;
Tourism;
Economy



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Abstract: *The main objective of this research is to analyze the effects of the implemented corporate restructuring process on the example of the Serbian national airline company. In addition, the purpose of this chapter is to discuss the management approaches, forms, specific goals, business performance and results, but also the benefits of the corporate restructuring of Air Serbia on national tourism and the economy. Since competitive national airline contributes to the development of the Serbian tourism sector, this chapter emphasizes the economic dimension and importance of the transformation process, creating new added value and employment, as well as multiple effects on overall local and regional development and complementary activities. Thematically, the content is focused on reviewing various forms of corporate restructuring, change of management model, ownership and organizational structure, application of new strategies, and achieved financial results, as indicators of the success of corporate restructuring, with special reference to the impact of COVID-19 on Air Serbia. The methodological framework includes desk research and a case study method based on data collection and analysis, synthesis of theoretical and empirical facts, and using available sources related to the research topic.*

1. INTRODUCTION

Restructuring is a very complex phenomenon and contains many individual activities that include: mergers, acquisitions and takeovers of other organizations, joint ventures, creation of strategic alliances, sale of organizational parts, abandonment, and disinvestment in certain activities or business segments, separation or splitting of the organization. portfolio, etc. (Erić, Stošić, 2013: 5). It is essentially a complex, multi-layered, heterogeneous phenomenon and therefore there is a high level of risk in the theoretical settings and objectives in this area (Njeguš, 2014: 39). Some theorists (Samaras, 2004: 9) point out three primary patterns of restructuring: overcoming poor financial performance in business, implementing a new company development strategy and increasing the value of company shares in financial markets. According to another view (Bradowski, 1991: 10-12), the most common, immediate reasons for the restructuring process are: aspirations to grow and improve financial performance, return to the company's core of competitiveness, poor business prospects, changes in markets or technologies, reduced profits and sales and production volume. In recent times, attention is increasingly focused on the impact of the economic environment, on restructuring processes (Wan & Yiu, 2009; Yawson, 2009). Sudden, large and unforeseen changes affect the deterioration of the company's business performance and require changes that exceed the "usual organizational" changes in terms of their scope and character. Consequently, many companies are forced into costly and painful restructuring processes. The basic motive of corporate restructuring is the company's effort to stop, warn, and reverse

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unsatisfactory performance in its business as soon as possible. For civil aviation, restructuring may involve a change of ownership, in administrative form, function, operations and staffing. For government-owned airlines, restructuring mostly affects ownership, while operations usually become more commercially focused (Craig, 1999).

Tourism, as one of the largest industries in the world, has a huge effect on the national economy and people's lives (Petrevska, 2017; Mirović et al. 2020: 39). The economic significance of tourism is an aspect that, as a rule, has a particularly important significance (Rogerson, Rogerson, 2014; Karampela et al. 2016). Tourism as a generator of economic trends through its direct, indirect and induced impacts can significantly affect the macroeconomic position and stability, thereby affecting economic growth (Mansury, Hara, 2007: 2013; Pjanić et al. 2018: 115). The development of tourism contributes to direct inflows into the regional economy, diversification of the economy, sustainability of the environment and the local community (Štefko et al. 2018), as well as the national economy (Pjanić, 2019: 292). However, despite the high development potential, Serbia has so far not achieved significant results in the field of tourism development (Počuča, Obradović-Matijašević, 2018: 370). Tourism is often seen as purposeful, planned and motivated behavior (Geoffrey & Alister, 2006: 45), where travelers' expectations play the most important role in travel decisions, where the needs, views and motives of tourists are decisive (Wall, Mathison, 2006: 45; Počuča, Obradović-Matijašević, 2019: 493). The basis of economic importance is tourists' consumption during their stay in tourist destinations, especially the foreign tourists' spending, which is rated as an export (Ignjatović et al. 2020) and has an even stronger positive effect on the macroeconomic situation. One of the basic tourism specificity is reflected in the multisectoral impact and the fact that tourism connects and extends through a large number of other branches (Beránek, 2013). In addition to the hotel and catering industry, traffic is a directly involved industry in tourism trends and is an activity that is of immeasurable importance for the development of tourism. Along with road, air traffic has the greatest importance for tourist movements. During the 20th century, air traffic has made great strides in terms of speed, safety, comfort, quality of service and airports, which has increased the number of users and encouraged tourist movements to destinations far removed from the main emitting markets. Today, modern tourism cannot be imagined without air transport, and in that sense, it can be considered an aggregate of the tourism sector. Millions of passengers are transported daily by numerous airlines from one part of the world to another. Thanks to such a market situation, airlines, passengers (Pešić, 2019), tourism and the national economy have benefits (Marjanović et al. 2019: 640). The national airline has much bigger importance for the economy of a country and cannot be assessed solely by the amount of business profit, loss, or as a company for air passenger traffic. This additional positive impact is reflected through the positive effects on national tourism; it is an indicator of the strength of that country, a representative of national culture, values and character that has multiple significance for the country. Also, the promotional function of a country and its openness to the world and the aspiration to establish good international relations are emphasized. In addition, the health crisis caused by the COVID-19 pandemic showed the even bigger importance of the national airline and confirmed its vital importance for the country, as the company performed most of the humanitarian and cargo flights realized so far. Air civil transport in Serbia has a long and respectable tradition, mostly achieved through the results of the national airline. According to Air Serbia (2021), *Aeropot* - the national airline of the Kingdom of Serbs, Croats and Slovenes was founded in 1927. The Aeropot was among the first civil airlines, the 10th in Europe and the 21st in the world. The tradition of the Aeropot was continued by the Yugoslav Air Transport (JAT). In the era of jet aviation and expansion, the golden age of JAT is tied to the period 1970-1990. year, when JAT was one of the largest airlines in Europe, which in record years directly connected Yugoslavia with 61 world

destinations, with an annual transport of 5 million passengers and 46,000 tons of goods. However, the most difficult period in the history of the former Yugoslavia began in 1990, after the Second World War. A turbulent transition period followed, where in 2003, after 56 years of operation, JAT was transformed into JAT Airways. It was only in 2006, for the first time in 15 years, that the national airline ended its business year with a positive result. However, in the following years, JAT Airways had to find a strategic partner to secure a successful future.

2. THE NEED FOR AIR SERBIA CORPORATE RESTRUCTURING

The air transport industry is characterized by a high degree of dependence on the state of the economy at the global and regional level, with sensitivity to cyclical and seasonal changes, and various shocks in the environment (Bajić et al. 2015: 298). The aviation industry in Europe in the 1990s was controlled by the governments of the countries that determined the routes and flight prices of the airlines. The liberalization of business, current in that period, is precisely the result of deregulation, which itself comes from the privatization of a large part of the market (Tatalović, 1990). Although airline restructuring has become a fairly common practice in order to achieve better business in the airline sector, the term restructuring usually refers to the failure of individual airlines. The success or failure of airline systemic restructuring depends to a large extent on the design of a comprehensive strategy that responds to all potential problems. The activity of merging two companies, i.e. merger, has become most often applicable for the systemic restructuring of airlines, which has often proven to be a successful mechanism. The need for corporate restructuring of the national airline JAT Airways was conditioned by many reasons. The war conflicts in the former Yugoslavia and the political environment in the 1990s had an extremely negative impact on the company, and then a national economic downturn that limited business. After 2000 and the beginning of the transition period, it became apparent that the national airline needed a complete overhaul to become a reliable and efficient operator again. After the transformation into JAT Airways in 2003 and several years of better results, external pressures from the environment, large losses in passenger and cargo traffic, consumers, and competition, together have made the business unsustainable. In particular, the need to restructure JAT Airways was caused by the following reasons for poor performance:

- Long-term loss of public finances due to losses, which reduced the share of the national airline in GDP;
- Old-fashioned organization with poor quality of service, inadequate promotion, poor position in the minds of consumers;
- Loss of competitive advantage, where passengers prefer to choose low-cost airlines;
- The global financial crisis in 2008 and poor business results in the post-crisis years;
- Finding ways to increase efficiency and create new competitive advantages.

Certain rationalization activities were carried out due to poor performance, such as minimal reduction in the number of employees, reduction of financial costs, etc. However, that did not give satisfactory results, so finally, Serbia opted for a strategic partnership model with Etihad Airways, the national airline of the United Arab Emirates (UAE). Under the new name, Air Serbia started operating in October 2013, presenting a new brand and a reconstructed version of JAT Airways (Air Serbia, 2021).

3. FORMS OF CORPORATE RESTRUCTURING IN AIR SERBIA

According to More (2015), corporate restructuring is the process of redesigning one or more aspects of a company, where the process of reorganizing may be implemented due to many

different factors (positioning the company to be more competitive, to survive currently adverse economic climate, or movement in an entirely new direction). Corporate restructuring is one of the most complicated problems in business (Vance, 2009: 3), because it includes a large number of areas, from management, product development, sales and marketing, financial analysis, organizational change, owners, employees, consumer relations and many strategic, organizational, technical, legal and other issues (Stošić, 2014: 11). The best way for quality restructuring is to implement a process when the company is doing well to make its business even more successful and efficient, but the most common case of restructuring decision is when the company encounters various difficulties and problems (Listeš, 2018: 13). The corporate restructuring also refers to a wide range of activities (DePamphilis, 2010), where in theory there are six forms: strategic, financial, organizational, ownership, market and production-technological. This was the case at Air Serbia, which in 2013 began corporate restructuring in all of the above forms.

3.1. Strategic restructuring

In order to change the business, achieve better business performance and market position, Air Serbia primarily needed a strategic restructuring, which completely changes the business strategy. Strategic restructuring implies changing the business portfolio, and management system, refocusing the marketing strategy, rescheduling costs and the like, i.e. destroying the existing key paradigms in the way of doing business and forming new ones (Erić, 2000; DeWit & Meyer, 2004: 243). In 2013, the strategic partnership undertook obligations related to strategic and operational management. A large number of activities were carried out in that domain, where the need for professional management was primarily mentioned. After the Government of Serbia and Etihad entered into a strategic partnership, according to which Etihad became a co-owner, it was agreed that in the period 2014-2019, Air Serbia will be managed by the Etihad. Since 2014, Air Serbia has introduced and implemented the principles of corporate governance that are considered optimal in its branch. The Company's shareholders agree that a good corporate governance system is necessary to achieve its goal and become a successful European airline. Accordingly, Air Serbia has adopted a "Code of Business Ethics" and a "Rulebook on Authorizations" setting out governance frameworks. The restructured strategy envisages changes from management to the fleet and sets clear profitability goals. Air Serbia has been given a new short-term, medium-term and long-term "roadmap" in which the new strategy involves difficult decisions and internal restructuring (Air Serbia, 2021):

- **Vision** - *Air Serbia should become the leading airline in the region and further develop, in order to regain its place among the best in the world. Air Serbia's priority is to provide a service of exceptional quality for passengers. The goal is to provide service users with maximum comfort while traveling, regardless of the class they fly.*
- **Mission** - *In a world where problems are the rule and customers have never had more choice, the guest remains at the center of everything. Despite the accelerated development of Air Serbia, the main goal will always be to provide the best possible service.*

As part of the strategic restructuring, a strategy of continuous improvement of service and comfort standards has been defined. One of the key segments of this strategy is a fleet renewal, because only in that way Air Serbia can operate successfully in a highly competitive aviation market. Also, one of the most important changes is the transition of Air Serbia to the IT platform and digitalization process. The modern platform has introduced the foundation for future business and is used to manage major processes such as sales, check-in and boarding. This system enabled Air Serbia to introduce additional services and a new concept of fares, but also the possibility for passengers

to create a flight according to their own needs. Recognizing concern for the future of the planet as one of the key topics for the entire society, environmental protection has become a strategic issue and an integral part of everyday business. Safety, security, environmental protection and sustainability in air transport (Abeyratne, 2012), are the four key strategic issues for the future stability and development of the Serbian National Airline. Numerous initiatives have been launched in this area with set goals, such as monitoring and reducing carbon dioxide emissions, reducing fuel consumption, active participation in the EU ETS process, etc. In addition, Air Serbia has become part of the SkyBreathe user community and has joined global airlines that use special software designed to preserve the environment (Air Serbia, 2021). In order to achieve the maximum effects of its operations and better control of business standards, Air Serbia has included several additional complementary activities, among which the most significant are Air Serbia Ground Services⁴, Air Serbia Catering⁵ and Amadeus⁶ (SBRA, 2021; Air Serbia, 2021). Today, airline companies have served the various air transport needs of people, and transportation has grown remarkably in line with the need for fast, safe, and convenient transportation (Akyuwen, 2011: 114). Thus, the rebranded airline Air Serbia, with majority state ownership, provides services of commercial air transport of passengers and goods in regular and charter traffic. In addition to its core business, Air Serbia is engaged in training flight and other aviation personnel, hiring various capacities and other activities. With a renewed fleet, a new tariff structure and an extensive transport network, Air Serbia is striving to become a leader in the Balkan region.

3.2. Ownership restructuring

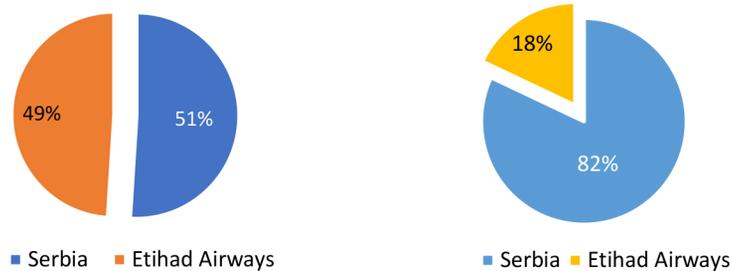
After several years of waiting for a strategic partner, the Government of Serbia 2013 announced a strategic partnership with Etihad Airways, with which JAT Airways became Air Serbia. With the strategic partnership, the national airline of the Republic of Serbia with 51% remains in the ownership of the Government of Serbia as the majority shareholder. Etihad Airways converted its 40 million USD loan to the newly created Air Serbia into capital and became the owner of 49% of the company (Graph 1). In 2008 the legal status of the Serbian national airline was changed into a joint-stock company, which has remained until today. The shareholder structure of Air Serbia is organized as a closed joint-stock company and owns only one class of shares. Etihad and the Serbian Government have committed to invest 40 million USD each, as well as to provide additional funds in the maximum amount of 60 million USD each until the end of the contract (Air Serbia, 2021). Due to large financial losses since 2017, Etihad withdrew from all its European acquisitions, except Air Serbia. In July 2018, Air Serbia and Etihad Airways agreed to continue the strategic partnership and to remain Etihad Airways owned by Air Serbia with the same share of 49%. In less than two years, the COVID-19 pandemic began, which especially endangered the business of airlines, where Air Serbia was no exception, which was the reason for a new change to the ownership structure in December 2020. Based on the new agreement the Serbian national airline was recapitalized, with the Republic of Serbia increasing its ownership share from 51% to 82%, while Etihad's share was reduced from 49% to 18% (Graph 1).

⁴ Services of supervision, reception and dispatch of aircraft, passengers, luggage, goods and mail at the Belgrade airport and forwarding services in air transport of goods.

⁵ Meal supply services - procurement, packaging and delivery of all consumables during the flight, textile washing used in the aircraft, servicing and delivery of all entertainment systems, food retail, production and delivery of food to seven other airlines.

⁶ One of the leading suppliers of IT solutions in the travel and tourism sector. The core business is marketing and promotion of all Amadeus products, expanding the customer network, researching and monitoring market needs, training users to work in the Amadeus system and providing technical and business support to end users.

Ownership structure, August 2013. Ownership structure, December 2020.



Graph 1. Ownership structure of Air Serbia (2013-2020)

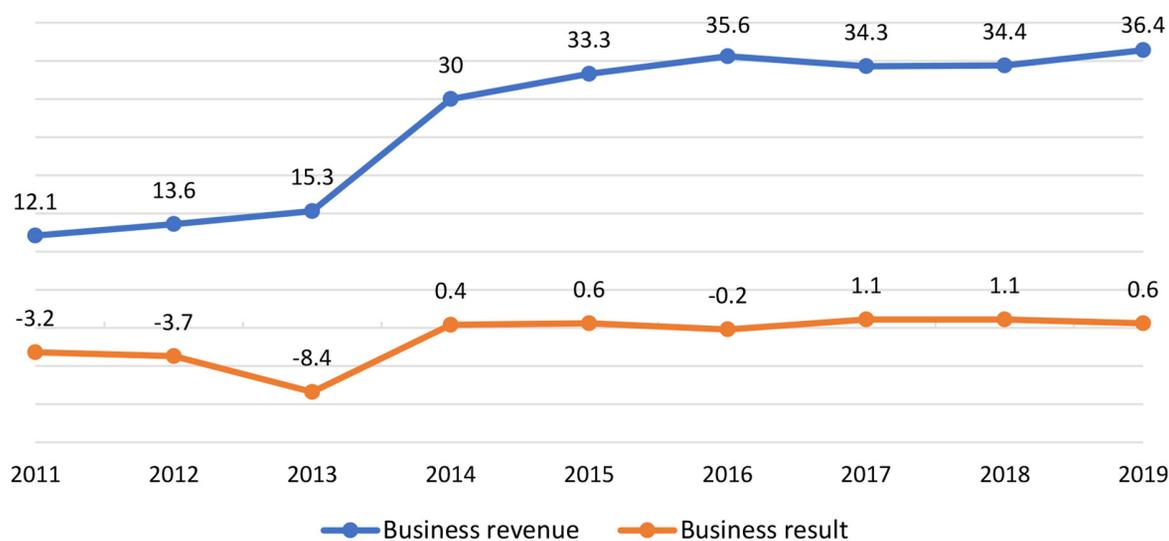
Source: Authors based on Air Serbia, 2021.

The increase of the share capital in Air Serbia was undertaken in order to eliminate the disturbances in the Serbian economy caused by the COVID-19 pandemic. The Serbian government has provided support to the national airline in overcoming business obstacles in the most difficult year of passenger air traffic in history. The recapitalization was undertaken at the request of Air Serbia, which provides for the measures for economic entities affected by the COVID-19 pandemic (Air Serbia, 2021). The regulation is fully in line with the European Commission's Provisional Legal Framework, which regulates state aid measures to support the economy during the current pandemic crisis. The goal is to create the basis for further smooth operations and that with measures to streamline operations, Air Serbia overcomes difficulties, strengthens its position as a leader in the region and continues to provide a direct and indirect contribution to the Serbian economy, especially transport and tourism.

3.3. Financial restructuring

Years before the strategic partnership, JAT Airways was operating at a loss. Since 1992, old loans for purchased aircraft have not been repaid, and it has been impossible to settle other accumulated liabilities from current operations. Also, business was affected by the effects of the global financial crisis, especially in the post-crisis period. Financial data for the period before the strategic partnership are almost unavailable, so it is not possible to do a reliable financial screening of the situation before 2013. However, there are certain data from which some conclusions can be drawn. According to the available financial indicators, after the last positive result in 2006, since 2009 Air Serbia has been returning to negative business results. With decreasing business revenues and a loss of about 3-4 billion RSD in the period 2011-2012, the situation was unsustainable. Then came the critical year of 2013 with a loss of almost 8.5 million EUR (Milojević, 2017). Until 2013, JAT Airways was an illiquid and over-indebted company that has been operating with a loss for years. The value of all investments decreased from year to year, while the value of business assets was lower than the value of liabilities. The total net operating result was a loss that increased from year to year, which also reduced the value of equity. It was only in 2014 that the recovery followed when a positive difference was achieved. Indebtedness in the period 2011-2013. was extremely high. Due to the strategic partnership and the sale of part of the ownership, the business assets were drastically reduced in 2013, but there was an increase in long-term liabilities, which led to higher indebtedness. Already in the first year of management change, indebtedness has tripled, but Air Serbia was still in the category of indebted companies. With negative net asset values, the value of current assets was far less than the liabilities due within one year, indicating that the company could not cover its short-term liabilities. The coverage of short-term liabilities with current assets was at an extremely low level. However,

the result improved in 2014, but still with little coverage of liabilities. Next period 2015-2019. is considered as a period of positive results in which the strategic partnership with Etihad Airways was strengthened. The only publicly available source about Air Serbia's financial results is the Serbian Business Registers Agency (SBRA), in whose registers the financial statements for the period 2015-2019 can be found. Although reports are not available since inception, this period is credible for assessing the business model of a company after restructuring. Given that Air Serbia carried 2.55 million passengers in 2015 and achieved an increase of 11% compared to 2014, the business situation began to improve (Graph 2).



Graph 2. Operating revenues and business results of Air Serbia, 2011-2019, in billion RSD

Source: Authors based on Milojević, 2017; SBRA, 2021.

According to the available financial statements from 2014 (SBRA, 2021), Air Serbia operated at a modest profit from 2014 to 2019. As can be concluded from the previous chart, the business revenues and results went uphill, which meant that the implemented restructuring model was successful and that the problem of the Serbian national airline was on the verge of a solution. According to data from 2019, Air Serbia carried 2.744 million passengers, which is twice as many as in 2013 (Aviatica, 2020), and that is also an indicator of good results. Nevertheless, the further analysis points to different conclusions. By analyzing the income statement in the period 2015-2019. year, Air Serbia reported an average annual profit before tax of about 1 billion RSD. However, the realized gross profit is of an accounting nature and is not a consequence of successful management and business success, but a consequence of large payments of government donations to reimburse costs (from 2.5 to 6 billion RSD), which were mostly set aside for repaying old JAT debts. They are recorded in the income statement as an item of operating income (item deferred income). How state aid affected the overall business result of Air Serbia is shown in the following Table 1.

If we exclude a part of the money subsidized by the state from the income, the conclusion is that in the observed period, Air Serbia recorded losses and that it is not self-sustainable on the market. The actual state of business is best evidenced by cash flow reports that show the liquidity position, i.e. the actual inflows and outflows of money during one year, based on all activities. Air Serbia in the period 2015-2019. failed to achieve a positive cash balance from operating activities, and the annual deficit for the payment of due liabilities averaged about 1.3 billion RSD (Table 2).

Table 1. Overview of the consolidated income statement of Air Serbia, in billion RSD

	2015.	2016.	2017.	2018.	2019.
Business revenue	33,3	35,6	34,3	34,4	36,4
Sales revenue	26,7	30,3	31,7	31,7	33,1
State aid	5,9	4,9	2,5	2,5	2,5
Business expenses	32,7	35,8	33,3	33,3	35,8
Business result	0,6	-0,2	1,1	1,1	0,6
<i>Without state aid</i>	-5,2	-5,4	-1,4	-1,4	-1,9
Financing result	-0,6	-0,5	0,2	-1,4	-1,9
Result from other business	0,5	0,9	0,7	1,7	2,8
Total pre-tax result	0,5	0,2	2	1,3	1,4
<i>Without state aid</i>	-5,4	-4,7	-0,5	-1,1	-1,1

Source: SBRA, 2021.

Table 2. Overview of consolidated cash flows, in billion RSD

	2015.	2016.	2017.	2018.	2019.
Business activity					
Cash inflows	33,1	35,4	38,5	39,2	37,8
Cash outflows	32,6	37,2	39,9	39,3	39,6
Net cash from business activities	0,6	-1,9	-1,5	-0,1	-1,8
Investment activity					
Cash inflows	0,04	0,1	0,2	0,2	0,1
Cash outflows	0,8	1,5	2,4	3,0	1,3
Net cash on investment activities	-0,8	-1,4	-2,2	-2,8	-1,2
Total business and investment deficit	-0,2	-3,3	-3,7	-2,9	-3,1
Financing activity					
Cash inflows	5,7	6,5	1,7	4,2	2,4
Cash outflows	0,003	0,005	0,010	0,046	4,2
Net cash from financing activities	5,7	6,5	1,7	4,1	-1,9
Total net cash	5,4	3,2	-2,0	1,2	-5,0
Cash at year end	7,6	10,5	7,8	9,0	4,0

Source: SBRA, 2021.

Air Serbia failed to finance due to liabilities from regular operations, and even less to achieve surplus and positive net cash inflows. As in the period 2015-2019, Air Serbia failed to service its due liabilities due to the inflow of regular operations, so it compensated for the lack of cash by borrowing. When debts fell due in 2019, the liquidity position further deteriorated. Namely, in the period 2015-2018 two loans were taken from Etihad Airways Partners (120 million USD in 2015-2016), a loan from the Development Fund (14 million EUR in 2017) and a loan from the Etihad (40 million USD in 2018). Total funds from these loans exceeded the total needs for servicing business obligations and covering investments. This is the reason why the structural liquidity problem and the inability to generate enough cash from regular operations to cover due liabilities was not initially visible, and the company did not lack the cash to perform activities until 2020. Thus, the first serious deterioration of the liquidity position occurs during 2019, when previously taken loans begin to fall due. Air Serbia ended 2019 with a significantly weakened liquidity position (half the cash balance of only 4 billion RSD, with which it reached 2020). In addition to all of the above, since its establishment, Air Serbia has been making a loss above the amount of capital, which means that assets (plants, machines, equipment, placements, cash, etc.) are many times smaller than its liabilities. That makes her formally over-indebted, as it was before 2013. Simply put, accumulated liabilities "ate" capital, which is mainly a feature of public illiquid companies. At the end of 2019, Air

Serbia's total liabilities amounted to 41 billion RSD, while the total assets of the company were 26 billion RSD. This means that a loss was made above the amount of capital of as much as 15 billion RSD. Part of this loss indeed comes from the old debt of JAT, but even when the adjustment for that amount is made, the loss over the amount of capital is around 5 billion RSD (Fiscal council, 2020). Loss above the amount of capital, according to the current legislation of the Republic of Serbia, is a sufficient condition for initiating bankruptcy proceedings. This financial situation is certainly more than a sufficient reason for urgently initiating the procedure of another restructuring.

3.4. Organizational restructuring

The first changes in the organizational structure occurred before the strategic partnership. The change into a joint-stock company in itself conditioned the formation of certain organizational segment characteristics to this legal form. The company bodies have been formed, which include the General Meeting of Shareholders, the Supervisory Board and the Executive Board. Since 2013, as part of the overall restructuring process, Air Serbia has undertaken many activities in order to change the existing organizational structure and achieve better business performance. Completely new management has taken over the new national airline. As envisaged by the strategic partnership, the management set up Etihad, without the influence of the Government of Serbia, which was considered a more professional solution for running the company. The plan was the end of 2014 with a positive zero and that from the beginning of 2015 Air Serbia will be a profitable company. The governing bodies of Air Serbia are the General Meeting of Shareholders, consisting of two members, one appointed by the Government of the Republic of Serbia and the other by Etihad Airways, a 9-member supervisory board and an executive board consisting of six executive directors (Air Serbia, 2021a): Director, Executive Director for Finance, Executive Director for Transport, Executive Director for Relations with Government Bodies and Organizations, Executive Director for Human Resources and Executive Director for Commercial. The established new organizational structure was subject to changes even after 2013, mostly in the executive board. With the new organizational structure, the competencies of the general director have been increased, in line with professional management. To adequately respond to market demands, many specialized organizational units have been formed within each sector since 2013, for example, more recently E-Commerce, Guests Experience, and HR Business Partners. Following the Companies Act, the Air Serbia Supervisory Board has established an Ethics Committee and an Audit Committee to assist the work of the Executive and Supervisory Boards, in particular concerning the preparation of draft decisions and the provision of expert opinions. As a result of the restructuring, a new organizational unit was created as the Business Ethics and Compliance Service, i.e. an independent organizational unit that oversees the implementation and efficiency of the company's ethics and compliance program. In 2014, Air Serbia also established its own sector for technical aircraft maintenance. The goal of this sector is to contribute to the faster development of Air Serbia, as well as better regularity and performance of aircraft. As part of the restructuring process, work was also done on streamlining the number of employees. When taking over the management function, the new management announced a surplus between 300-500 employees, while less than 100 employees applied for the social program that was announced in 2014. According to available data, in 2017 Air Serbia had a total of 2339 employees (SBRA, 2021). In the following year, a decrease in the number of employees was recorded, i.e. in 2018 there were 1758 employees, in 2019 there were 1531 employees. In the conditions of a pandemic and an unprecedented crisis for airlines, Air Serbia suspended all new employment in March 2020. As a consequence of poor business due to the COVID-19 pandemic, the total number of employees in Air Serbia was reduced as at 31.12.2020. amounted to 1279 (SBRA, 2021).

3.5. Market restructuring

Marketing concepts, determining the scope and structure of market needs is one of the keys to business decision making. The strategic goal of the restructured marketing strategy is to increase the overall sales profit, good reputation, and improve and enhance marketing management. Air Serbia's marketing restructuring was certainly most visible to the public. In addition to the complete redefining and modernization of products, new names and designs, change and intensification of promotional activities, the impression is that most have been done in this segment. The number of products and services (Table 3) offered by Air Serbia has increased significantly, while quality and professionalism are gaining in importance, in line with the practice of leading airlines.

Table 3. Range of Air Serbia products and services

Services and products	Description
Flight services	Core products of Air Serbia
Additional products and services	Significantly changed and increased offer ⁷
<i>Aviolet</i>	Seasonal charter flights since 2014 ⁸
Air Serbia Services	Cargo, Catering, Ground Services
Type of classes	Economy and Business class
Air Serbia Premium Lounge	Exclusive lounge for passengers at Nikola Tesla Airport
Fleet	Priority modernization and fleet renewal

Source: Air Serbia, 2021.

As part of the restructuring, the development of a modern and economical Air Serbia fleet has been set as one of the priorities, so since 2013, the modernization and renewal of the fleet have been very dynamic. From October 2013 to 2016, a total of 9 Airbus aircraft arrived, and during 2020, Air Serbia will operate a fleet of 21 aircraft - 11 Airbus 319 aircraft, 1 A320 aircraft, 1 A330 aircraft, 5 ATR aircraft and 3 Boeing B737-300 (SBRA, 2021). Furthermore, with the strategic changes from 2013, the goal was to strengthen the role of air traffic in the development and promotion of the tourist economy of Serbia. In 2020, Air Serbia performed direct traffic to 49 destinations from the home international airport "Nikola Tesla Belgrade", and at the same time connected Belgrade with Asia, Australia, as well as North and South America in cooperation with code-share partners and Etihad Airways. A new tariff concept was launched in January 2018 to try to compete with low-cost companies. The new system included Tariff 1 - Economy: Deal, Saver, Value, Freedom/ Business: Saver, Value, Freedom; and Tariff 2 - Economy: Standard, Comfort / Business: All-Inclusive (Air Serbia, 2021). The promotional policy is a segment of market restructuring to which great attention is paid. First of all, a complete rebranding and change of visual identity was carried out very successfully. A strong campaign made the new name, the new logo, the new brand was very quickly presented, accepted and recognizable. Air Serbia also recognized the importance of employer brand development as a key managerial and marketing tool for success (Vemić Đurković et al. 2018). The "Living Legends of Serbia" campaign was also conducted, by which the planes are named after famous people from Serbia. Various special promotional offers, as with most airlines, discounts for flights to further destinations, *Happy Friday* promotion, *Keep Boarding* are just some of the promotional

⁷ Includes - special offer of meals and drinks on the flight, transport of sports equipment, travel with pets, escort for kids, gift vouchers, reservation seats in advance, XL luggage, package for special moments, championship check-in, priority boarding, luggage and passage at the passport control, assistance at the airport, package of additional services.

⁸ They are completely performed by Air Serbia. It was established precisely to meet the market's need for safe, reliable and quality service of this kind.

activities that Air Serbia has introduced to attract more passengers. A completely new loyalty program has been created - *Air Serbia Guest Platinum, Gold and Silver club*, which gives service users plenty of options to earn various benefits. As part of the market restructuring, *Elevate* was established - a specialized magazine, which is the modern successor to the *Air Serbia Review*. The magazine has an important role in promoting and classifying Serbia as a “mandatory” destination in Europe. Then, in accordance with the new trends in marketing development, the *Air Serbia Affiliate* program was created as a program of cooperation between Air Serbia and influencers, people who work on the Internet and have their own website, portal, blog or forum. The mobile application Air Serbia has been developed, with all the usual features such as online ticket purchase, online check in, and the use of a mobile application that will further enhance the optimization process and is a new step towards a more sustainable future. A completely new look of branches in Serbia also has its marketing and promotional effect. The expansion of the sales network has been very intensive since 2014. The strategic partner Etihad played a big role, considering that it has points of sale all over the world. A large number of sales agents are involved in the domestic sales network. Increased number of direct lines, as well as further destinations with a transfer, thanks to the strategic ground floor and the new direct line Belgrade-Abu Dhabi. The previously mentioned direct line Belgrade - New York was re-established. Much has been done to reconnect the entire Balkan region and cities that have not been interconnected by air for more than twenty years.

4. IMPACT OF THE COVID-19 PANDEMIC ON AIR SERBIA

The COVID-19 pandemic caused a negative impact on the global tourism industry. Tourism needs open borders, a stable political and socio-economic environment and, above all, health and security conditions. The collapse of such stability on a global level has led, de facto, to the complete cessation of tourist movements. There is no doubt that this pandemic has devastated airlines. In 2020, total airline industry revenues were 328 billion USD, which is 40% of the previous year's and in nominal terms, it is the same as in 2000. The sector is expected to be smaller in the coming years, with the projection that air traffic won't return to 2019 levels before 2024 (Bouwer, J., et al. 2021). In line with that, the crises continued, which is confirmed by the fact that in April this year, about 27% of tourist destinations in the world completely or partially suspended international air flights (IATA, 2021). In light of the circumstances caused by the COVID-19 pandemic, the fact is that the air transport sector is one of the most affected, so Air Serbia could not avoid bad business results during 2020. In the first months of 2020, Air Serbia continued the growth trend from a record 2019 with an increase in the number of passengers in January and February to 30% compared to the same period last year (Air Serbia, 2021). However, the state of emergency, limitation of movements and business operations, paralyzed the traffic of goods and passengers in air traffic, which caused a sharp drop in the income of airlines around the world. According to the data (SORS, 2021), in air traffic, when it comes to the number of transported passengers and the realized volume of work, a decline is noticed. Compared to the previous year, the number of transported passengers decreased by 68.0%, and the realized volume of work was 63.2%. Increasing Serbia's ownership share in Air Serbia to 82% can be seen as state assistance in stabilizing the company, all in line with EU recommendations and commitments. Since the beginning of the COVID-19, the market situation remains very unstable, as many travel restrictions and conditions drastically reduce demand. As a result, Air Serbia has halved the number of available routes. The company has reduced costs to mitigate the effects of the pandemic but is no longer able to cope with such high costs, which has resulted in voluntary redundancies and pay cuts. According to the report for 2020 (SBRA, 2021), in the year of the biggest crisis in the history of air traffic, Air

Serbia realized 41.3% of traffic levels in 2019 and transported a total of 882 thousand passengers on scheduled and charter flights, which is a decrease of 68% compared to 2019, when it carried 2.744 million passengers. Cabin occupancy on Air Serbia flights was around 60%. In 2020, Air Serbia put all its human and material resources at the disposal of the Government of the Republic of Serbia, performing a large number of repatriation and evacuation flights as well as cargo flights that delivered hundreds of tons of medical equipment. According to the financial results, Air Serbia made a consolidated net loss of EUR 77.7 million in 2020. Consolidated net revenues reached only EUR 123 million, which is a 59% drop in revenues from the sale of goods and services. Proportionally, the number of realized flights has been reduced by the same percentage; in numbers, it is a decline from 16085 flights in 2019 to 6413 flights in 2020. In 2020, Air Serbia repaid a loan of 57.6 million dollars to the fund Etihad Airways Partners, which it took in 2015, and in June 2021, another 63 million dollars of the loan were repaid (Nova ekonomija, 2021). This ameliorates the situation, but still, the future is uncertain because the length of the epidemiological crisis, and economic and tourism recovery cannot be predicted (Kisin et al. 2021: 376). The Serbian government has adopted a budget proposal for 2022, which again envisages subsidies for Air Serbia, as one of over 60 companies of “special importance” that will be allocated more than 170 million euros. These subsidies should cover loans maturing in the coming years, as well as the loss that the company is expected to make as a result of the pandemic.

The question is often asked whether the COVID-19 pandemic is the cause of all problems in Air Serbia (Fiscal Council, 2020)? It is certainly an indisputable fact that the pandemic has particularly affected the air transport sector, but in the case of Air Serbia, it is definitely not the only cause of business difficulties. The presentation of business results in the period 2015-2019 shown in the section on financial restructuring unequivocally shows that Air Serbia had difficulties in doing business before the outbreak of the pandemic. Without state aid, which is at first sight hidden in revenue, Air Serbia would be operating with loss four years in a row. The new Tourism Development Strategy of Serbia envisages direct budget support for activities that contribute to the development of tourism. Air Serbia received 1.4 billion RSD from the Government for support of the transport network development and with the “goal of encouraging and developing tourism and general connectivity of Serbia, in accordance with the Tourism Development Strategy” (Government of the Republic of Serbia, 2021). The tourism development has been adopted for the period until 2025, so the question is whether the state will continue to subsidize Air Serbia on the same basis in the next four years?

5. NEW RESTRUCTURING PLANS FOR AIR SERBIA

The future of the Serbian national airline could be described as uncertain, if we consider the current operating costs, high indebtedness, business results during previous years, as well as the circumstances in the middle of COVID-19 with projections for the recovery of the aviation sector. The airline industry is a very dynamic and challenging sector, structurally difficult with numerous weaknesses continuing, so transformation processes are often, necessary and always difficult, also common, and frequently disappointing (Bouwer et al. 2019). Fundamental shifts that call for action have arisen from the pandemic and the airline sector is poised for change in the post-COVID-19 period (Bouwer, J., et al. 2021). In the process of restructuring, playing the card of a strategic partnership with a stable company such as Etihad in 2013 seemed to be the optimal solution. However, in just a few years, the situation has changed drastically, so the big question is how much can be counted on Etihad in the future. It is hard to expect that Air Serbia will be able to eliminate the standard structural deficit that it has had for years. Secondly, the pandemic

is not over and the question is when the real recovery of the airline industry will begin. Air traffic in 2021 is growing when it comes to passenger transport. The number of passengers in air traffic is higher by 6.3%, and the realized passenger kilometers are higher by 20.6% (SORS, 2021), but this is still far from returning to the pre-COVID-19 level. Forecasts show that a full recovery cannot be expected before 2024, which is why the estimation that Air Serbia could record a loss in 2021 as well is justified. In that sense, future research will be focused on the recovery dynamics of both - Air Serbia and the tourist sector of Serbia. There is a small chance that, even in good circumstances, Air Serbia will start operating profitably before 2025 and become self-sustaining. The second biggest problem of Air Serbia is the high indebtedness and maturity of loans by the end of 2022, which should be especially monitored in the coming period as a potential risk. The payment of JAT's "historical debt", which is still a big burden for Air Serbia, will last until 2023 (Nova ekonomija, 2021). In the post-pandemic period, research needs to be focused on ways that will finally enable Air Serbia to operate independently, which certainly implies a new process of fundamental restructuring in line with European practice. Without changing the business model, it is impossible to expect that Air Serbia will start operating profitably after the pandemic and the normalization of air traffic in Europe and the world. The new restructuring, which in the case of Air Serbia would certainly include a reduction in costs and increased productivity, requires a serious study to see with which dynamics Air Serbia can become a profitable business. If subsidizing Air Serbia is necessary, it should be in line with EU practice, for companies that had difficulties before the COVID-19, which means that the precondition for approving funds is the new restructuring process and change of business model. There is certainly a new restructuring plan under the direct control of the EU for state aid, but such a plan is not publicly available, nor was it obtained from the Ministry of Finance at the request for the purposes of this analysis.

6. CONCLUSION

With the establishment of Air Serbia and a strategic partnership with Etihad Airways, a new era of Serbian airline transport and tourism has begun. New brand, lines, fleet, various promotions, new IT platform, new branches, strong marketing, and digitalization are just some of the most significant changes that characterize the strong development of Air Serbia. In this regard, Air Serbia's corporate restructuring and strategic partnership were the right moves. Since the official start in October 2013, Air Serbia has moved in the direction of positioning itself as a regional leader, working on expanding its transport network and modernizing and renewing its fleet. In the first four years (2014-2017), Air Serbia carried over 10 million passengers, with a tendency to grow from year to year, while in the first six years it doubled the number of passengers annually. The goals of the shareholders, to create new opportunities for the company and a large number of destinations that make it considered one of the most successful companies in the region, have been achieved. It is a matter of fact that Air Serbia has made a big success concerning JAT's business, as an over-indebted company on the verge of bankruptcy. However, based on the research in this case study, we can conclude the success of corporate restructuring and point in another direction. The restructured strategy itself was good, with a lot of positive results and achieved goals. On the other hand, the analysis of financial restructuring indicators concludes that Air Serbia made a profit according to the income statement, but it is necessary to point out that since 2014 Air Serbia has received state aid every year, which calls into question the real success of the business. Also, there is still a high indebtedness of the company, which can be a great obstacle to the realization of Air Serbia as a self-sustaining company. Air Serbia is still at the expense of the Serbian budget, and in that sense, it cannot be unequivocally concluded that this is a successful corporate restructuring. Given this fact, the question often arises as to whether Serbia needs such a national

airline at all. Certainly, we should not ignore the fact that the economic influence of one airline has greatly exceeded the area of operational activities and that it is undoubtedly a strategic issue, an issue of wider social significance, an issue of reputation and strength of the state. The services it provides facilitate a whole range of economic activities in the local and global economy - from the beginning of business interactions, to enabling the arrival of foreign direct investment, all the way to encouraging the development of trade and tourism. This specific impact can be measured by the overall contribution to air connectivity as a key driver of economic growth and development, thus facilitating the country's participation in the global economy. All this becomes even more important when we add the current experience we have with the COVID-19 pandemic and how important the national airline is in emergencies. The fact is that in the current circumstances of the COVID-19 pandemic, airlines cannot do without state interventionism; however, assistance to Air Serbia exists and is in the years before the crisis. It is necessary to do business much better, make a plan for new restructuring, make a deep and transparent study and decision till when the state will give financial support, deadlines, contingency plans, professional staff, and dedicated work on building a stable and financially independent airline. Despite the existing problems in previous years, which were further multiplied by the COVID-19 pandemic, the national airline should be preserved. Namely, it should be given a chance to find an appropriate management model in the coming period, which will provide lasting security to the company and service users. With the necessary rationalization of the number of employees to the level of job optimization, the cost side of the budget would be significantly relieved and space would be created for investments and expansion of the capacity of supporting jobs in the tourist offer segment. A reform plan has to be supported with a detailed analysis of business results so far, to ensure that the entire process of business consolidation is a public and comprehensive program, which will ensure that Air Serbia after the implementation of that program does not fall again at the expense of taxpayers. Numerous contemporary challenges, crises such as the one we are currently witnessing and modest business results seven years after the strategic partnership and corporate restructuring, lead us to the need for a new strategic restructuring. If the Government of Serbia does not decide to take such a step in the coming period, the unsustainability of business will continue and Air Serbia will certainly be past tense.

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