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# Stakeholder Value Creation through Business Restructuring: Post Sanctions Evidence from Russian Airlines

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## Abstract

The study is devoted to evaluating of turnaround strategies used by Russian airlines to overcome negative influence of 2022 crisis caused by sanctions pressure of West regulators in terms of ability to create value both for financial and non-financial stakeholders. To conduct a quantitative analysis of the effectiveness of turnaround strategies, evaluation methods based on traditional accounting indicators were used, as well as VBM indicators that take into account an opportunity cost. A qualitative analysis includes the estimation of management actions and decisions in terms of whether they violate interest of companies' major stakeholders. The study was carried out on the basis of such indicators as: PBITD/CE, PBITD/TD, ROA, Gross margin, EBITDA margin, Net Debt to EBITDA, EVA, Sustainable growth index and Interests harmonized index. As a result of the study, the features of turnaround strategies used by Russian airlines, namely PJSC Utair and LLC Pobeda were studied. The accounting ratios as well as the dynamic of economic profit were evaluated. The Growth sustainability matrix was constructed. The effectiveness of turnaround strategies in terms of value creation both for financial and non-financial stakeholders was assessed and the conclusions about prospects of companies' further development were made. The above results can be taken into account in the development of more sustainable turnaround strategies by other companies faced with challenges.

**Keywords:** stakeholders, economic value added, interests harmonized index sustainable growth index, sustainable growth matrix, turnaround strategies, Russian airlines

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## Introduction

The problem of studying the concept of turnaround a company's business as a mechanism for overcoming financial instability was first seriously touched upon at the end of the 20th century. However, since then, the study of this problem is gaining more and more relevance, because the business environment is becoming more complex and dynamic, and the consequences of its abrupt changes can affect entire economic sectors.

Studying the problem of business turnaround, it can be noted that, despite the similarity of the directions of restructuring measures, each company is characterized by its own individual features. The choice of turnaround strategy is influenced by various factors, including the initial prerequisites of the company's financial distress and existing challenges. The task of the company's management is to provide measures to overcome financial instability, taking into account the interests of all stakeholders.

Many researchers over the past decades have contributed to the study of the problem of financial instability, strategies to overcome it, as well as the effectiveness of the implementation of such strategies. Among foreign authors who have studied problems related to business turnaround issues, E. Hotchkiss, M. Hopkins, S. Gilson, P. Asquith, R. Gertner, D. Scharfstein, J. Lee, J. Cunney can be distinguished, and among domestic researchers, I.V. Ivashkovskaya and others should be noted.

Despite the existence of a large number of papers that have investigated the theoretical issues of the causes of financial distress and subsequent business turnaround, there are a lack of papers investigating turnaround processes caused by foreign policy sanctions that restrict the work of companies and disrupt its business processes. In addition, during the analysis of the thematic literature, no works were found that would investigate the relationship between business turnaround and the value creation process simultaneously for both financial and non-financial stakeholders of the company.

Also, researchers have not yet paid attention to the consideration of individual post sanctions of 2022 cases of airline restructuring in the developing Russian market, which would make it possible to understand the nature of the problems caused by the sanctions pressure of Western countries, identify key measures implemented by management to stabilize the situation, as well as evaluate the effectiveness of such business turnaround strategies in terms of creating value for stakeholders.

The goal of the study is to solve the applied problem of identifying the key challenges faced by Russian airlines after the introduction of sanctions in 2022, and evaluating the effectiveness of turnaround strategies implemented by Russian airlines in terms of creating value both for financial and non-financial stakeholders.

The objects of the study are Russian airlines – Pobeda LLC, Utair PJSC while the subject of the study is the assessment of turnaround strategies.

The main sources for data search are the Bloomberg and Thomson Reuters terminals, financial and non-financial reports of companies, as well as other public data provided by the target companies including media publications and press releases.

The paper is based on the case study method. The choice of the case study method is motivated by the desire to provide empirical research of concrete actions and management decisions as well as conduct a quantitative and qualitative analysis of the effectiveness of entire turnaround strategies used by companies to cope with new challenges.

The academic importance of the study lies in the fact that present research can fill the gap in the study of problems of the relationship between business turnaround effectiveness and value creation simultaneously for both financial and non-financial stakeholders of the company.

The practical importance of this paper is that the case studies will be of interest to other Russian companies faced with challenges caused by sanctions pressure, since the study of business turnaround strategies of PJSC Utair and LLC Pobeda and evaluation of their effectiveness can contribute to the development of more effective turnaround strategies of other companies, as well as draw attention to a possible list of measures necessary to overcome crisis situations caused by external shocks more successfully.

## Theoretical Aspects of Financial Distress and Company's Turnaround Process

### Financial distress and its root causes

One of the key objectives of the strategic financial management is to create the necessary conditions for the economic security of the company, to establish and follow the principles of sustainable development. An organization is a socio-economic system that operates through different stages of its life cycle, and interacts with the external environment.

Depending on a company's life cycle stage, it sets the necessary standards and norms due to which it can operate with minimal costs, achieving the desired result. The external environment is definitely variable, that leads to deviations from the established guidelines. In turn, a significant deviation from the norm can lead to a loss of stability. One of the most important aspects that set the basic vector of the company's development is the process of maintaining financial stability. It is not necessary that a distressed firm will eventually fail but continuing decline in financial performance may ultimately lead to a company's bankruptcy and create significant financial loss to equity and debt investors.

According to E. Hotchkiss [1], a company is financially distressed if its liquid assets are not sufficient to meet the current requirements under the company's contracts for which the company has clear deadlines and obligations to

fulfill them. For example, such contracts might be the company's obligation to repay coupon payments on bonds on time. In case of violation of this obligation, bondholders have the right to apply to the court to ensure compliance with the agreement.

Similarly, in M. Hopkins [2] authors define troubled businesses as those that are overleveraged with excessive debt and are not able to meet covenants of loan agreements. However, debt overhang is not usually the base cause of a deteriorating financial performance of the firm. There are other factors that result in financial distress, but an excessive debt may exacerbate the problem.

The financial distress takes its origin from the broad diversity of financial difficulties the company can face during the life cycle. According to financial theory such difficulties can be caused by endogenous and exogenous risk factors. In general, endogenous risk factors refer to internal company's problems, so they have negative influence on a particular firm, while exogenous risk factors are pervasive and can affect many firms in the industry or the whole market.

In [3] there is a description of the proportion of every risk factor in each group. Author reveals a number of important sources of external risk such as macroeconomic changes, competitive changes, changes in regulation, social and technological shifts. According to the author's survey, around 41% of companies suffer from deterioration of financial performance due to bad macroeconomic conditions, 31% of firms face difficulties because of changing competitive environment, 13% suffer from regulatory limitations and 15% suffer from social and technological changes. Despite the confirmed importance of external risk factors and their influence on the firm's operating activity, the overall survey states that practically 80% of financial distress cases are caused by internal risk factors, particularly poor management and incompetence.

The importance of external factors in causing financial distress in the 21st century may be due to several reasons. First of all, it is the influence of globalization. In the 21st century, the world economy has become increasingly interconnected and globalized. This means that companies are more exposed to external factors such as economic downturns, changes in exchange rates, and political instability in different parts of the world that may result in imposition of sanctions. E. Hatipoglu and D. Peksen found that sanctions are likely to raise the probability of banking crises [4]. The results also indicate that financial sanctions have a more negative impact on the stability of banking systems compared to trade sanctions. Furthermore, the effect of sanctions is influenced by the level of economic damage inflicted on the targeted economies. These results have significant implications, suggesting that sanctions, as external shocks, not only have well-known adverse effects on economic growth, political stability, and humanitarian conditions but also have the potential to destabilize the financial stability of the targeted countries.

Secondly, the increased technological competition makes sense [5]. With the rise of the internet and the development of WEB 3.0, competition has become more intense in many

industries. This means that companies need to be more responsive to changes in the competitive environment, such as new entrants, changing consumer preferences, and technological innovations. Companies that fail to adapt to these external factors may experience financial distress.

### **Why turnaround is better than bankruptcy**

It is commonly believed that out-of-court restructuring generally incurs lower direct and indirect costs than court proceedings. This is because negotiations with a smaller number of interested parties can help to avoid serious conflicts of interest. Moreover, companies with a large amount of intangible assets are also more likely to opt for private restructuring, as these assets are more likely to decrease in value during restructuring. The relatively high costs of restructuring through the courts for such companies creates an increased incentive to preserve the value of intangible assets through private restructuring.

During the restructuring process, actions such as extending loan terms, providing additional funding, or converting debt into equity were undertaken [1]. According to S. Gilson [6], the challenge with private restructuring is that it does not substantially decrease the debt level compared to court-mediated restructuring.

Studies conducted by E. Hotchkiss, M. Alderson and B. Betker, S. Forte and J. Peña [7–9], which analyzed the key performance indicators of companies before and after restructuring, indicated that restructuring does not guarantee improved company performance. Many companies are compelled to undergo repeated restructuring efforts.

Turnaround and bankruptcy are two strategies that companies may use when they are facing financial distress. Turnaround involves making significant changes to the company's operations, management, and financial structure in order to improve its financial performance and return it to profitability. Bankruptcy, on the other hand, involves a legal process that allows a company to restructure its debts and operations in order to reduce its financial obligations and emerge as a viable business.

Restructuring is generally considered to be a better option than bankruptcy because it allows the company to continue operating while addressing its financial difficulties. This means that employees can keep their jobs, and the company can continue to provide goods or services to its customers. At the same time, restructuring is designed to maximize the value of the company by improving its financial position and addressing any underlying problems. Turnaround can be a more flexible process than bankruptcy, allowing stakeholders to tailor the plan to the specific needs of the company which can result in a more effective solution. This can help to protect the interests of stakeholders, including shareholders, creditors, and employees. Turnaround strategies can include cost-cutting measures, restructuring debt, divesting non-core assets, and improving operational efficiency. Turnaround can be a difficult process, and it requires strong leadership and a willingness to make difficult decisions in order to turn the business around.

When a company declares bankruptcy, the court takes over control of the process. In contrast, during a restructuring, the company's management team retains control of the process and can work to implement a plan that is in the best interests of all stakeholders. Bankruptcy can be stigmatizing for a company, potentially causing damage to its reputation and relationships with suppliers, customers, and employees making it harder to do business in the future. Bankruptcy can be a complex and costly process, and it may involve restructuring debt, selling assets, and renegotiating contracts with suppliers and other stakeholders. Restructuring, on the other hand, is generally viewed as a positive step toward improving the company's financial position and ensuring its long-term viability.

The decision to restructure or declare bankruptcy will depend on the specific circumstances of the company and its stakeholders. Stakeholders often decide to restructure or go bankrupt based on economic feasibility. Decisions need to be made with an eye to which option will create the most value. There were cases when the liquidation value of the company greatly exceeded the company's subsequent revenue for several years, so decisions were made on bankruptcy. Ultimately, the decision to pursue turnaround or bankruptcy will depend on the specific circumstances facing a company, including the severity of its financial distress, the availability of financing and other resources, and the willingness of key stakeholders to support a turnaround plan.

### **Key components of a successful company's turnaround**

The subject of corporate turnaround has gained significant interest in both the strategy and finance fields. The concept of portfolio restructuring refers to a significant shift in a company's asset structure, accomplished by either investing in or divesting from various divisions, plants, and business units [10]. Although certain categories of corporate restructuring research are crucial during times of organizational distress, such as avoiding default, they require extensive transformation. Managerial restructuring might entail exchange of CEOs and top managers, as well as altering the board of directors [3; 11].

#### ***Organizational restructuring***

First of all, before taking any actions, it's important to conduct a thorough assessment of the company's current situation, including its financial position, market position, and operational capabilities. This will help to identify the root causes of the problems and guide the development of an effective turnaround plan. Once the assessment is complete, the company needs to develop a clear vision and strategy for the future. This should include a clear understanding of the target market, the products and services that will be offered, and the unique value proposition that the company will bring to the market.

Operational restructuring involves a range of strategies aimed at enhancing efficiency and profit margins by reducing direct costs and streamlining overhead expenses in line

with business volume. These strategies typically encompass cost reduction, revenue generation, and the optimization of operating assets. When dealing with financially distressed companies, operational restructuring is often the initial turnaround approach employed, as evaluating the firm's strategic position becomes irrelevant if there is a risk going bankrupt in the near future [11]. For businesses facing operational weaknesses, cost reduction measures may suffice, while revenue-generating strategies can be pursued by implementing price adjustments, such as price cuts or increases, depending on product sensitivity, and bolstering marketing efforts to stimulate demand [11]. A company turnaround refers to the process of revitalizing a struggling or underperforming company to restore its financial health and competitiveness.

The problem of organizational architecture is very important, as said J. Brickley, C. Smith, and J. Zimmerman [12]. The company should be well structured, employees should understand the decision-makers. Before undertaking major organizational changes, top managers should thus have a good understanding of how the firm arrived at its existing architecture and, more generally, of why particular types of organizations work well in particular settings. Such an understanding is important if only because the costs of organizational change can be so large. Employees should as well execute instructions of the management and not have much freedom of action.

According to H. Kraemer, Jr., M. Mauboussin, and A. Rappaport management in order to increase the company's value should establish long-term value creation as the company's governing objective, conduct a premortem before making large capital allocation decisions, allocate capital to its highest-value use, prioritize strategies rather than projects, considering applying some best practices of private equity to public companies, the CEO should work closely with the board of directors to establish the role each will play in creating long-term value [13].

Moreover, analysis of J. Brickley, C. Smith, and J. Zimmerman states innovation and product development can help to create new revenue streams and differentiate the company from its competitors [12]. Their work suggests cost reduction is also crucial. Companies undergoing a turnaround often need to reduce costs to improve profitability. This can be achieved through various means such as operational efficiencies, renegotiating contracts, and reducing headcount.

Empirical studies have linked operational efficiency strategies with successful turnarounds, as demonstrated by research conducted by K. John, L. Lang and J. Netter [14]. Nevertheless, it remains to be empirically proven whether operational restructuring can lead to recovery from the brink of bankruptcy.

#### ***Financial restructuring***

Companies undergoing a turnaround often need to restructure their debt or obtain new financing. This can involve renegotiating terms with lenders or investors, issuing new debt or equity, or selling assets.

Debt restructuring allows a company to decrease its debt burden by reducing interest payments and payments on the body of the debt, rolling over the debt, or exchanging debt for company shares [6]. Another mechanism for debt restructuring is to attract additional financing to the company's capital. Although the company's debt obligations remain unchanged, the company receives additional liquidity, which it can use to pay off current debt. One example of this strategy is the attraction of direct investments in the capital of the company during the restructuring.

In addition to debt reduction and reorganization, regaining sufficient liquidity is crucial for turnaround efforts, as noted by K. John [15]. Moreover, dividend cuts have been used as a means to improve liquidity during distress. However, there is no clear consensus on the conceptual and empirical impact of such measures. While dividend reductions may lead to immediate liquidity improvements, they may also have negative signaling effects on capital markets.

### ***Portfolio restructuring***

Focusing on the core business is important in a turnaround as per, as said J. Dial, K. Murphy [16], and it can involve divesting non-core businesses, streamlining operations, and improving customer service and relationships. Downsizing and focusing on value creation areas is also a way of restructuring, while the unprofitable assets and business activities should be sold or formed to a new company, not affiliated with business. These helps companies in the industries that shrinks to perform better, effective and be valued higher. Studies conducted by D.J. Denis and T. Kruse [17], D.K. Denis and D. Shome [18], K. Hakkala [19], and C. Markides [20] have attributed the positive effect of divestitures on firm performance to factors such as decreased leverage, a greater emphasis on core competencies, and productivity growth resulting from divesting less productive plants.

In order to achieve a turnaround, firms may consider acquiring businesses that align with their core competencies and have the potential for long-term profitability. This step is particularly important for firms that have an inappropriate corporate strategy, operate in mature or declining product/markets, or require a new strategic direction [11]. Acquisitions can also be a growth acceleration strategy for firms experiencing poor financial performance but not yet in severe distress.

### ***Managerial restructuring***

Replacement of top management is often considered a necessary step towards successfully turning a company around. G. Milano et al. analyzed that a strong leadership team is crucial for a successful turnaround [21]. The team should have a clear understanding of the challenges facing the company, and the skills and experience needed to execute the turnaround plan.

According to J. Dial, K. Murphy employees are critical to the success of a turnaround, and it's important to keep them engaged and motivated during the process [16]. This can involve regular communication, training and develop-

ment, and recognizing and rewarding performance. Several studies have shown that there is a positive correlation between the number of independent directors on a board and the likelihood of a company's survival [22; 23]. However, other studies have found no significant difference in the number of independent directors between bankrupt firms and those that survive F. Elloumi and J. Gueyié [24].

From the above studies it remains uncertain whether management changes in financially distressed companies actually contribute to their recovery. If we consider the stock market response as an indicator of the perceived effectiveness of such changes, the evidence from these studies does not provide a definitive conclusion.

Finally, a successful turnaround requires continuous improvement and monitoring. This involves regularly reviewing progress against the plan, making adjustments as needed, and ensuring that the company remains aligned with its strategic vision.

### ***Overview of ways to assess the effectiveness of turnaround***

Restructuring a business is a challenging process that demands significant effort from management. While continuing to function may be considered a sign of successful restructuring, this is not always the case. In fact, history is filled with examples of companies that continued to operate after restructuring, only to find themselves in financial distress again a few years later and teetering on the brink of bankruptcy. Therefore, it would be incorrect to assume that any completed restructuring is a success. Instead, a comprehensive approach that considers various metrics is necessary to evaluate its effectiveness.

There are several ways to evaluate a company's performance after restructuring. The simplest method is to assess whether the company was able to successfully restructure and remain independent.

The traditional approach to evaluating the effectiveness of business turnaround involves the use of an accounting approach, namely the analysis of accounting ratios and metrics at the time of financial distress and after restructuring. To evaluate the recovery strategies of financially distressed firms use various metrics such as PBIT/Sales, ROE, ROA, PBITD/CE, and PBITD/TD. The purpose is to evaluate their effectiveness in comparison to non-recovery firms. All the metrics used show a significant decline in performance from the pre-distress period of two years to the distress year. This decline is most prominent in PBITD/TD, which indicates a drop in profitability, as well as a sharp rise in debt for the sample firms. The profit margin, return on equity and assets, cash-flow return to capital employed, and cash-flow cover for debt all demonstrates a steep decrease. This suggests that the effectiveness of the recovery strategies should be evaluated using an integrated approach that considers various performance metrics.

Profitability is a commonly used metric to measure performance in many studies. Some studies [3] use nominal pre-tax profit, of which only Slatter adjusts it to real pre-tax profit. Meanwhile, other authors rely on profitability ratios

such as return on total assets (ROA) or return on investment (ROI) to indicate profitability.

Relying solely on current profitability to evaluate the success of a turnaround would be inaccurate. It is important to consider a range of indicators. To address this issue, several studies use multiple accounting-based indicators.

According to N. Pandit [25], relying solely on accounting measures is a common mistake in turnaround research, and there are significant differences in success measures between general management and finance research. The choice of accounting-based versus market-based measures is also critical when evaluating turnaround outcomes. However, E. Hotchkiss [7] provides contradictory results using accounting measures, which are typically used in general management research. While some researchers argue that market measures are less prone to manipulation, others claim that they are biased by expectations [26; 27].

The best practice is to use a combination of accounting-based and non-accounting-based indicators to assess performance. Some studies have incorporated human judgement to supplement accounting-based measures. B. Zimmerman [28] requires a consensus among stakeholders (investors, board members, and managers). This approach captures contextual variation, which is crucial given the heterogeneity of turnaround cases. However, relying solely on human judgement can be subjective.

To address the limitations of using accounting-based indicators alone, a more qualitative approach can be used to measure the effectiveness of turnaround strategies. Management research offers alternative concepts for measuring turnaround outcomes. For example, V. Acharya and K. Subramanian [29] use a firm's R&D investments and number of patents to indicate the success of turnaround strategies. E. Love and M. Kraatz [30] use changes in reputation as an additional measure of effectiveness. While these alternative measures provide valuable insights into the true effects of turnaround strategies, they may be less comparable than accounting-based indicators.

The academic literature recognizes the need to assess the effectiveness of business restructuring. There are two main areas of assessment: analysis of quantitative data on the example of studying accounting ratios, profitability indicators, etc. and market metrics abnormal return, MVA, etc. during financial distress and after business restructuring and using a qualitative approach. It is worth noting that the review of academic literature devoted to evaluating the effectiveness of business turnaround lacks information on the use of Value Based Management indicators that take into account opportunity costs / risks of investment and, accordingly, allow determining the possibility of creating real value for company shareholders through business restructuring. In addition, the existing layer of academic work practically does not consider the effectiveness of the restructuring process from the standpoint of non-financial stakeholders. All this creates the prerequisites for further research to study the issue of

evaluating the effectiveness of business restructuring in terms of creating real value for both financial and non-financial stakeholders.

## Turnaround and Financial Restructuring in Airlines

### Practices and reaction of Russian airlines to financial distress caused by sanctions of 2014

In March 2014, Russia annexed Crimea from Ukraine, which led to economic sanctions being imposed by the European Union and other countries. These sanctions had a significant impact on the Russian economy, which was already facing challenges due to declining oil prices. As a result, the Russian ruble lost value rapidly, causing inflation and making it more difficult for Russian consumers and businesses to afford air travel. At the same time, devaluation of the ruble, led to increased costs of airlines, including aircraft leasing, payments for which are fixed in the currency. In addition to these challenges, the Russian airline industry was also impacted by a decline in international travel demand. Many Western airlines canceled or reduced their flights to Russia due to the economic sanctions and geopolitical tensions, which further limited travel options for Russian consumers.

As a result of these factors, the Russian airline industry experienced a significant decline in air travel demand in 2014–2015. According to data from the Federal Air Transport Agency, passenger traffic on Russian airlines declined by 4.4% in 2014 and 15.6% in 2015. This decline was particularly pronounced in the international market, where passenger traffic declined by 16.7% in 2014 and 27.6% in 2015.

To cope with these challenging market conditions, many Russian airlines implemented cost-cutting measures, such as reducing their route networks and fleet sizes. Some airlines also sought to diversify their revenue streams by offering additional services, such as cargo transportation and ground handling.

Despite these challenges, the Russian airline industry has demonstrated resilience and adaptability. Many airlines have sought to expand their presence in the domestic market, which has remained relatively stable in recent years. Additionally, the Russian government has taken steps to support the industry, such as providing financial support to struggling airlines and implementing measures to increase connectivity in remote parts of the country.

In response to these challenges, many Russian airlines have sought to reduce costs and improve efficiency. This has involved restructuring their operations, cutting back on unprofitable routes, and increasing their focus on more lucrative markets. Some airlines have also looked to diversify their revenue streams by offering additional services, such as cargo transportation and ground handling.

PJSC Utair is a member of the register of backbone enterprises of the Russian Federation and occupies a highly competitive position in the aviation industry market. Until 2020, the Airline was one of the five largest carriers in the country. The airline has a developed regional route network in the country, occupies an important place in the transport system of the Khanty-Mansiysk Autonomous Okrug and the Tyumen Region. The airline has a modern fleet of aircraft, numbering 63 aircraft and 337 helicopters.

Utair, a Russian airline, also underwent financial restructuring after facing financial difficulties in 2014 due to a debt burden of over 160 billion rubles. To solve this situation, the company engaged in negotiations with a syndicate of creditors consisting of 11 banks, resulting in a restructuring plan that was finalized on December 30, 2015. Under this plan, Utair secured two syndicated loans totaling RUB 42.6 billion, with repayment periods of 7 and 12 years, as well as issued two bond offerings amounting to 13.3 billion rubles, also repayable over 7 and 12 years. These loans were backed by assets and guarantees from Utair Group companies, along with a state guarantee covering 50% of the seven-year syndicated loan. As part of an initiative to enhance efficiency, Utair implemented measures such as optimizing its route network and reducing its aircraft fleet by one-third. These actions led to reduced personnel costs and generated savings of up to \$100 million in lease payments.

Transaero Airlines, which was one of Russia's largest airlines, filed for bankruptcy in 2015 due to financial difficulties caused by the economic downturn and the devaluation of the ruble. The airline had accumulated significant debt, and its operations had been suspended by the Russian aviation authorities due to safety concerns. In 2015, the creditors of Transaero Airlines – VTB, Gazprombank, Novikombank, Promsvyazbank, Moscow Credit Bank, Sberbank, Rosselkhozbank opted for bankruptcy instead of debt restructuring. This decision was driven by the assessment that the liquidation value of the company was higher than its value if it were to continue operations after restructuring.

News broke on September 1, 2015, that Aeroflot was planning to acquire 75% plus one share of Transaero for a mere ruble. The acquisition was contingent on the restructuring of Transaero, full operational control and its integration into Aeroflot. However, the deadline for collecting the necessary stake in Transaero passed without success. Subsequently, on October 1, it was announced that Aeroflot had decided against acquiring Transaero.

Through asset restructuring, such as selling 35 aircraft, the company could reduce its debt burden by 22%. However, calculations of cash flows, taking into account the possible reduction, showed that it would not have a significant impact on Transaero's financial stability.

The losses incurred by creditors during the restructuring would be much greater than those resulting from liquidation in any scenario considered. Creditors would suffer losses ranging from 60 to 78% of the original amount of

debt. Therefore, under any scenario of continued operation, the losses of creditors would be higher than in the case of liquidation. Secondly, the bankruptcy was initiated by protected creditors, whose liquidation losses are even smaller.

After filing for bankruptcy, Transaero Airlines went through a complex process of liquidation, which involved the sale of its assets and the settlement of its debts. The Russian government intervened in the process to support the affected employees and passengers of the airline, some of whom were left stranded when Transaero's operations were suspended. In 2016, Aeroflot, Russia's flag carrier, acquired some of Transaero's assets, including its aircraft and flight routes, as part of a plan to expand its operations and improve its market position. However, many of Transaero's debts remained unsettled, and the liquidation process continued for several years.

Overall, the bankruptcy of Transaero Airlines was a significant event in the history of the Russian aviation industry, highlighting the challenges faced by airlines during times of economic uncertainty and the need for effective restructuring and debt settlement processes.

## Case Study of Business Turnaround in Russian Airlines after 2022 Sanctions

### Methodology of value creation analysis for stakeholders

Traditionally, accounting metrics are used to analyze financial stability and evaluate business performance. As part of our study, the application of an approach based on ratios and metrics derived from financial statements, it is necessary not only for briefly analysis of the turnaround strategies effectiveness but also to compare the results of such approach with the results of more comprehensive one, namely VBM.

To assess the financial performance of the company, financial indicators were selected that were previously used by S. Sudarsanam and J. Lai [31] and reflect the profitability of the company in relation to the long-term capital attracted for the activities and the efficiency of the assets used:

$$\text{PBITD} / \text{CE} = \frac{\text{PBITD}}{\text{Capital Employed}}, \quad (1)$$

where PBITD – profit before interests, taxes, depreciation and amortization.

$$\text{PBITD} / \text{TD} = \frac{\text{PBITD}}{\text{Total Debt}}, \quad (2)$$

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}. \quad (3)$$

As well as operating profitability indicators previously used by E. Hotchkiss [7], M. Alderson and B. Betker [8], S. Gilson [6] to assess the effectiveness of current operations:

$$\text{Gross Margin} = \frac{\text{Total Revenue} - \text{Cost of Goods Sold}}{\text{Total Revenue}}, \quad (4)$$

$$\text{EBITDA Margin} = \frac{\text{EBITDA}}{\text{Total Revenue}}, \quad (5)$$

where EBITDA – earnings before interests, tax, depreciation and amortization.

Economic value added (EVA) is used most often when applying the VBM approach. The result of the formula shows whether the company generates additional income on the invested capital invested.

Depending on the result, we can draw a conclusion about the effectiveness of the company and its management (Table 1).

**Table 1.** Evaluation of efficiency depending on the values of EVA

EVA value	Description	Gain
EVA = 0	Return on invested capital is equal to the cost of capital	0
EVA > 0	There is an increase in the added value of the company, capital is used efficiently, there is an increase in real value	Yes
EVA < 0	The added value of the company decreases, the invested capital is used inefficiently, therefore, the real value is destroyed	No

Numerous domestic and foreign studies [32; 33] have extensively explored and debated the essential factors for creating long-term value, which go beyond financial aspects and encompass elements like competitive advantages, customer and employee loyalty, supply chain management, and others. Moreover, these non-financial factors have a significant impact on financial performance. Consequently, effective management of non-financial factors allows companies to achieve success, which can be measured through financial indicators. Therefore, the analysis of long-term value creation involves evaluating both financial and non-financial factors. The development of non-financial value drivers, crucial for sustaining long-term value, is influenced by a diverse range of stakeholders. According to I.V. Ivashkovskaya [34], establishing a network of stakeholders becomes a requirement for gaining competitive advantages, as both shareholders and non-financial stakeholders have the potential to greatly influence the company while also being influenced by it. The value of relationships with these parties is so significant that, alongside the shareholder value theory, the concept of stakeholder value (the stakeholder approach) is gaining popularity.

To evaluate strategic alternatives based on the interests of a company's stakeholders, the IHI (Interests Harmonization Index) is introduced, as noticed I.V. Ivashkovskaya [35]. This index measures changes that result from actions and decisions made within a strategic alternative to meet the interests of key stakeholders. The rating scale used for the index consists of three values: +1 indicates alignment between the strategic interests of the company and the interests of each stakeholder category, 0 represents no conflicts between strategic interests and stakeholder interests, and -1 denotes a contradiction between the strategic interests of the company and the interests of each stakeholder category.

The evaluations given pertain to the entire strategic period and are based on the potential impact of stakeholders on the company, with the weights being assigned based on expert judgment. The estimates are weighted based on the

strength of the impact each stakeholder has on the company, with the maximum weight being 100%. Weights are the result of expert judgment. The weighted average must be calculated separately for positive and negative values.

The involvement of non-financial stakeholders plays a crucial role in generating internal value within a company. Harmonious relationships with stakeholders help to reduce the risk of capital costs. Furthermore, such a collaborative approach fosters the creation of opportunities for accumulating intellectual and social capital, facilitating the transformative function of knowledge, and ultimately enabling growth prospects. Conversely, a decline in the stakeholder harmonization index results in an escalation of stakeholder risk. In such cases, the potential for generating positive economic profit diminishes.

### Motives for choosing PJSC Utair and LLC Pobeda for a case study

The 2022 sanctions, although focused on specific sectors, had a broad impact on various sectors of the economy due to the extensive range of sanctions restrictions imposed. The strength and direction of the industry's response to the sanctions pressure are influenced by several factors. These include how industry enterprises are integrated into global production, the nature of upward and downward links in global value chains (including the level of import dependence and its geographical distribution), the presence of foreign manufacturers in the Russian industry, the reliance of the domestic market on imports, the industry's experience in dealing with previous sanctions in 2014, and the ability of enterprises to adapt to these measures. The aviation sector has been facing its most severe crisis in history since 2020, both in the Russian Federation and internationally. This is due to the sharp spread of the COVID-19 virus and the restriction, as a consequence, air travel.

In 2022, the Russian aviation industry was subjected to even more extensive problems. The aviation industry has been severely affected by the sanctions imposed on Russia for its military operation in Ukraine.

The morning of February 24 for aviators began with the restriction of flights in the south of the Russian Federation. According to the decision of the Federal Air Transport Agency, the work of 11 airports was suspended: Anapa, Belgorod, Bryansk, Voronezh, Gelendzhik, Krasnodar, Kursk, Lipetsk, Rostov-on-Don, Simferopol and Elista. Initially, the restrictions were introduced until March 2, but were subsequently extended weekly and remain in effect to this day.

In response to Russia's special operation in Ukraine, Great Britain was the first country to close its airspace to Russian airlines. Over the next few days, the Czech Republic, Poland, Bulgaria, Latvia, Romania and a number of other European countries closed the skies for Russian carriers, after which European Commission President Ursula von der Leyen announced the closure of the entire European Union for them. A similar ban was introduced by Canada and the United States. The Russian Federation, in turn, announced the restriction of flights and overflights (such as those directed towards Southeast Asia) to airlines from 35 countries in Europe and Canada, which had a significant impact on the operations of such companies.

The EU has published an updated package of sanctions against the Russian Federation. Deliveries to Russia of civil aircraft and spare parts for them, as well as their maintenance and insurance, were banned. At the same time, foreign lessors were obliged to take the airliners already leased from Russian carriers. Against the background of mass arrests of foreign aircraft, Russian carriers, fearing for their fleet, began to cancel international flights even to countries open for flights.

The United States also imposed restrictions on the export of aviation industry goods to Russia and banned the maintenance of dozens of Boeing aircrafts. Experts note there is a significant dependence on the West equipment in this sector. In April 2022, Russian airlines had a fleet of 1,287 aircraft dedicated to commercial transportation. Out of these, 1,101 were passenger aircraft, 84 were cargo planes, and the remaining cluster of 42 business jets and 60 civil service aircraft. Approximately 67% of the aircraft in the fleet were manufactured by foreign companies, while these foreign-made planes accounted for about 95% of the total passenger turnover.

Passenger traffic of Russian airlines in 2022 decreased by 14%, to 95.2 million people, according to Rosstat, including 17 million people who were in international flights – 17.8% of total volume. However, this is not a significant blow, as the pandemic has significantly reduced international traffic from Russia. By the end of 2021, only 21% of the total volume of traffic consisted of international flights, of which only 1% were directed towards Europe, due to various factors such as vaccine non-acceptance.

In 2022, the Federal Air Transport Agency distributed 100 billion rubles among 32 airlines to subsidize domestic transportation, with Aeroflot Group receiving half of the funds. Additionally, carriers were compensated 19.4 billion rubles for canceled flights due to external restrictions, and

2.9 billion rubles were distributed among cargo airlines. In total, the domestic aviation industry received a record 172 billion rubles in subsidies from the budget in 2022, according to the Federal Air Transport Agency.

In 2023 the government has allocated 25.3 billion rubles to support air carriers. On January 12, Rosaviatsia initiated a selection process for companies to receive subsidies, which will be granted based on the number of completed passenger-kilometres on domestic routes. Airlines will receive 1.11 rubles per passenger-kilometre completed. To qualify, carriers must maintain an expected passenger turnover of at least 90% compared to the same period in 2022, resulting in a minimum of 22.2 billion passenger-kilometres of total passenger turnover.

Moreover, in response to the challenges the Russian government has endorsed a program aimed at fostering the growth of the aviation industry until 2030. Over 770 billion rubles have been allocated for the program's implementation. The funds will be used to subsidize domestic flights and support the aircraft industry. The objective is to achieve a modest yet significant annual rise in passenger traffic, following a relatively notable 10% decline compared to 2021. Additionally, the program aims to enhance the proportion of domestically manufactured aircraft in the fleets of Russian carriers from the existing 33 to 81%.

Russian airlines already faced with the necessity of making business restructuring to cope with financial distress caused by external factors, precisely sanctions of 2014 and COVID-19 pandemic in 2020. There is a new round of challenges that Russian airlines should deal with to continue its operations after sanctions of 2022. The study is focused on identifying key issues and major key actions and management decisions within turnaround strategies that companies develop and implement as well as analysis of the effectiveness of such strategies and their ability to create value for financial and non-financial stakeholders.

It is suggested to conduct a case study of two Russian airlines namely LLC Pobeda and PJSC Utair that have different business models and that's why it is interesting to look at which turnaround strategies these companies choose and evaluate their effectiveness. These ones are also the few of Russian large corporations, which continue sharing some information with media agencies and which still publish their financial statements despite the Resolution of the Government of the Russian Federation of March 18, 2022 No. 395 that allows to keep the financial statement non-public.

LLC Pobeda, which was established in 2014, is a part of the Aeroflot Group and was introduced to replace the low-cost carrier, Dobrolet, which stopped its operations due to the impact of Western sanctions in 2014. The airline has been consistently ranked among the top 100 low-cost carriers globally. The current fleet of Pobeda Airlines consists of 41 aircraft with an average age of 2.5 years, and the company has ordered two more planes as of January 15, 2023.

At the same time, PJSC Utair's origin dates back to February 1967 when the Tyumen Civil Aviation Administration

was established, in response to the high oil and gas production rates and underdeveloped railway and road networks. This led to the swift growth of the industrial and technical foundation of the Tyumen Civil Aviation Administration, with aviation becoming a crucial component of Western Siberia's natural resources development process. The airline obtained the global brand name Utair on May 30, 2002, recognized across Asia, Europe, America, and Africa. Currently, Utair's helicopters and airplanes operate practically in every corner of the world.

PJSC Utair currently engages in aircraft and helicopter operations, maintenance, personnel training, and flight services. Its fleet comprises over 300 helicopters and 80 aircraft. The airline's flight network covers more than 140 locations in Russia, with 75 exclusive routes solely accessible to PJSC Utair's customers. To enable direct flights between the country's regions, PJSC Utair has established an elaborate network of transfer hubs in Krasnodar, Surgut, Tyumen, Ufa, and Khanty-Mansiysk. The airline has a workforce of approximately 4,000 individuals, while Utair Group companies employ over 8,000.

## Analysis of key turnaround initiatives

### *LLC Pobeda Case*

The aviation industry, including LLC Pobeda, was severely affected by the geopolitical situation due to Russia's military operation in Ukraine, resulting in a significant decline in passenger traffic. LLC Pobeda experienced a significant reduction in passenger traffic in 2022, with a decrease of 19% to 11.69 million passengers. This drop was more substantial compared to other airlines, including Aeroflot (-4%), S7 Airlines (-10%), Ural Airlines (-8%), and Rossiya (also a part of the Aeroflot group) (-15%).

It is possible to identify the number of challenges that LLC Pobeda has faced and which has had negative impact on the company's operations.

Firstly, the suspension of work due to a special operation at 11 airports in southern Russia, including major ones such as Krasnodar, Rostov-on-Don, Anapa, and Gelendzhik. Close of airports result in the decrease of existing domestic routes and as a result decline of passenger traffic.

Secondly, the decision of Western countries to close their airspace to Russian airline flights, which resulted in significant limitations on international flights for LLC Pobeda. The airline ceased all international flights from March 8, and they only resumed by the end of 2022, leading to a 60% reduction in international flights and passengers, with only 1.9 thousand flights and 311 thousand people, respectively.

Thirdly, foreign companies are now banned from engaging in insurance and maintenance of Russian carriers' aircraft, leading Pobeda to perform maintenance based on Russian repair organizations. Moreover, the European Union has imposed sanctions aimed at preventing Russian airlines from using imported aircraft. These restrictions led to the seizure of three Boeing 737-800s that were intended for a low-cost airline overseas. Consequently, the airline's fleet was reduced from 44 to 41 aircraft. The reduction in the

intensity of aircraft fleet utilization is a serious threat to the business of airlines. After all, every day of aircraft downtime means a loss for a company. A decrease in the number of flights and a lower volume of transportation reduces the revenue of the airline. In addition, a reduction in the number of flights and flight cancellations can lead to a loss of customers who will seek alternative means of transportation.

Moreover, there was a practically a 6 months LLC Pobeda was without its CEO and 9 months without flight director. Due to these challenges, CEO Andrey Kalmykov and flight director Andrey Tarasov resigned from Pobeda at the start of March of 2022. Andrey Kalmykov's contributions as CEO played a significant role in establishing Pobeda as one of the leading low-cost carriers in Russia. Under his leadership, Pobeda drastically increased its passenger numbers. He also prioritized the improvement of the airline's operational efficiency, customer service, and safety standards that allows the company to take a stable position on the market.

LLC Pobeda does not publish its own annual or semi-annual reports or does not have its own Investor relation department, so the analysis of key company's initiatives is primarily based on media publications and management statements. It is proposed to study company's turnaround initiatives in the context of 4 previously defined forms of restructuring: organizational, financial, managerial and portfolio ones.

The airline's management believes that LLC Pobeda will continue to operate uninterrupted, as a significant part of its operations is focused on the domestic market. In November 2022, LLC Pobeda made the decision to resume flights from Sheremetyevo Airport. Compared to its operations at Vnukovo Airport, the low-cost airline will offer a more extensive flight program with 25 routes instead of 14. The new routes from Sheremetyevo will include destinations such as Kirov, Cheboksary, Kazan, Vladikavkaz, Yekaterinburg, Nizhnekamsk, Perm, Irkutsk, Novosibirsk, Omsk, Ufa, Chelyabinsk, Krasnoyarsk, Tomsk, Barnaul, Astrakhan, Makhachkala, Nalchik, Stavropol, Nazran, Sochi, Kaliningrad, Murmansk, Volgograd, and Mineralnye Vody. Pobeda LLC has highlighted the advantage of Sheremetyevo Airport in facilitating quick turnarounds of flights, with a turnaround time of 25 minutes. This allows the low-cost airline to maintain efficient and timely flight operations, ensuring a high level of punctuality.

To minimize the negative impact of sanctions on its financial performance, the company is implementing measures such as optimizing its route network and increasing flight hours during peak traffic months. Additionally, LLC Pobeda has increased its volume of pro-mobile sales and further reduced its tariffs, even though this has resulted in lower revenue from its core business. It should be noted that LLC Pobeda is actively participate in subsidy program introduced by Russian government to make transportation more affordable and help airlines to cope with crisis. LLC Pobeda airline received 15.1 billion rubles in subsidies from the state budget in 2022 year. Thus, LLC Pobeda at-

tracts more people by selling cheap flight tickets, while the lost income is compensated by subsidies from the Russian government. According to government decree No. 761, the minimum flight time in the Russian region should be 72% of the level of April – October 2021. This requirement for obtaining a subsidy has also contributes to LLC Pobeda focus on the domestic market transportation.

The airline plans to increase the frequency of flights and add new destinations. Following the deregistration of some of its aircraft from the Bermuda registry, Pobeda has gained partial access to the international market. As part of the airline's strategy, it plans to expand its operations to Central Asia, specifically Uzbekistan. Recently the company has also launched the sale of air tickets to Armenia, the UAE and on the eve of the summer holiday season, the sale of air tickets to individual resorts in Turkey started.

On August 16, 2022, Dmitry Tyshchuk, who previously held the post of First Deputy CEO of PJSC Aurora Airlines, was appointed CEO of Pobeda Airlines. Since 2013, Dmitry Tyshchuk has held the position of the first deputy general director at Aurora Airlines. During his tenure, he played a pivotal role in expanding the regional airline's passenger volume and establishing new routes in the Far East. Furthermore, LLC Pobeda has successfully appointed a capable successor for the departed flight director. Konstantin Tarasov, who brings substantial experience in the aviation industry, has assumed the role of the new flight director. Prior to joining Pobeda, Tarasov held several senior positions at Ryanair, one of the largest low-cost airlines in Europe. To sum up, LLC Pobeda post sanctions turnaround strategy includes both operating and managerial initiatives that supposed to help the company cope with challenges it faced and helps to achieve ambitious goals in increasing its passenger traffic to 13 million in 2023, which is an 11% increase from its 2022 figure of 11.7 million passengers.

From operational restructuring point of view, LLC Pobeda concentrated on the domestic market and increased domestic number of flights despite the decrease in number of airplanes. Pobeda also has gained partial access to international market due to deregistration of its aircrafts form the Bermuda registry, optimized its route network, increased flight hours during peak traffic months, reduced tariffs, and boosted pro-mobile sales to mitigate the negative impact of sanctions.

There are no actions oriented to financial restructuring of the company, as long as LLC Pobeda is a part of Aeroflot group and according to its Balance sheet has no its own interest-bearing debt. It might be assumed that Aeroflot holding company accumulates debt on its balance and then distributes financing it among subsidiaries.

From managerial restructuring side of view, the new experienced team of top management including new CEO and Flight director that came to control the company and come up with new turnaround strategy to cope with existing operational challenges.

There was no portfolio restructuring because even though Pobeda is a very large company, it is a subsidiary of Aero-

flot. Aeroflot Group at the same time does not plan to diversify its businesses, according to which Pobeda is a low-cost airline.

### *PJSC Utair case*

With the beginning of special military operation, PJSC Utair as well as other Russian airlines has faced with a number of challenges. Based on data from the Federal Air Transport Agency, PJSC Utair's total passenger turnover on domestic routes, including subsidized flights, during April to September 2022 amounted to 57% of the same months in 2021, totaling 4.35 billion passenger-kilometers compared to 6.886 billion. In comparison, the small aviation segment, which is a subsidiary of PJSC Utair, only experienced a 13.5% reduction, but its passenger turnover was limited to 31.5 million passenger-kilometers. Although there is no data on the helicopter segment, it reportedly has insignificant traffic. The airline flew approximately 90 billion passenger-kilometers from April to October.

It should be stated PJSC Utair has faced practically with the same challenges as LLC Pobeda. In March 2022 the CEO of Utair Andrey Martirosov observed that Russian civil aviation is currently undergoing a unique phase of operation. He mentioned that the sanctions imposed on the industry have had a substantial impact on the flight geography, traffic volume, and the availability of aircraft and their components for flight, with a significant reduction already witnessed and expected to continue in the future. In 2022, Utair almost faced a situation similar to the reduced air traffic crisis that plagued air transportation during the first wave of the COVID-19 pandemic in 2020. Nevertheless, despite the challenging circumstances, the management of the Utair reassured its employees that they would not be subjected to reduced working hours. Additionally, they pledged to maintain all payments specified by the collective agreement and labor contracts and ensure that they are disbursed punctually. Moreover, during a meeting with the governor of Yugra, Natalia Komarova, the CEO of PJSC Utair stated that the airline aims to increase its employees and attain a consistent operational performance in 2023.

PJSC Utair also develops it route network. In contrast to LLC Pobeda the company actively develop both new domestic and international routes. PJSC Utair was among the first companies to increase the number of international flights after the sanctions, buying 27 aircraft from lessors and removing them from Bermuda registration. In 2022, the company opened 16 new flights, including international flights to Azerbaijan, Turkey, Uzbekistan, Kazakhstan, Dubai. Overseas flights increased 3.6 times to 1.905 billion passenger-kilometers.

According to the company's press release, the airline is expanding its flight program in the Khanty-Mansiysk Autonomous District in 2023, with the opening of 15 new routes and increased flight frequencies on existing routes. The program will now offer 56 destinations, a 20% increase from the previous season, to connect cities within the region as well as other regions and countries including Azerbaijan, Armenia, Kazakhstan,

Kyrgyzstan, Tajikistan and Uzbekistan. The majority of the new flights are domestic, however, the airline is also increasing flights from Khanty-Mansiysk to international destinations such as Almaty, Baku, Bishkek, Yerevan, Osh, Tashkent, Ferghana and Khujand. The new routes for the winter program within Russia include flights from Khanty-Mansiysk to Chelyabinsk, from Kogalym to Perm, from Nizhnevartovsk and Nyagan to Yekaterinburg, from Surgut to Gorno-Altai, Novokuznetsk, Chelyabinsk.

From April to October of 2022, similarly to LLC Pobeda PJSC Utair was supposed to receive 6.9 billion rubles of subsidies from the Federal Air Transport Agency, and its subsidiaries in small aircraft and helicopter transportation – another 32 million and 4.7 billion rubles respectively. However, in September, the Federal Air Transport Agency reduced the funding by 2.3 billion rubles and allocated it to other airlines. Despite an increase in international passenger traffic by almost 300%, Utair did not meet the criteria, as its passenger turnover in the Russian Federation did not reach 60% of the 2021 level, with a minimum of 72%. Nevertheless, the company received most of the remaining 4.6 billion rubles and the Federal Air Transport Agency did not demand from Utair the return of 4.6 billion rubles of an “anti-sanction” subsidy, despite the fact that in April-October the carrier flew less than 60% of 2021’s levels in the country and increased flights abroad by 3.6 times.

Finally, PJSC Utair resumed flights of four Boeing 737s after a one-year downtime which were decommissioned last March at the request of foreign leasing companies. Before Russia’s military operation in Ukraine in February last year, Utair had 59 aircraft in its fleet, but it had to transfer 50 out of the 59 airliners to the Russian register due to international sanctions and the suspension of airworthiness certificates by the Bermuda aviation authorities, where most of the imported aircraft of Russian companies were registered. The remaining nine Boeing 737-800s had to be taken out of service because they were on operating lease from foreign leasing companies, and PJSC Utair couldn’t buy them as planned. Earlier, the company had planned to purchase the remaining nine Boeing 737-800 aircraft to operate them and maintain its reputation as a reliable customer, but as of now, only four of the aircraft have been acquired and put back into operation.

To conclude, PJSC Utair post sanctions turnaround strategy includes operating initiatives that supposed to help the company cope with challenges it faced and to support growth initiatives in 2023.

In terms of operational restructuring, the company changed focus and began to develop overseas destinations. At the same time, the company continued to open new flights in Russia, increase its helicopter operations in Siberia and the Urals. It is also necessary to note the actions of the company’s management, thanks to which, during the negotiations, the leased aircraft were purchased and registered on the territory of the Russian Federation.

There are no actions oriented to managerial restructuring of the company because all of the top-management saved their positions. Also, the company did not hold the financial restructuring as it demonstrates quite stable financial position.

There was no portfolio restructuring since the company did not express any intention to restructure its other business units such as helicopter business and airplane business.

## **Comparative analysis of stakeholder value creation through business turnaround in Russian airlines**

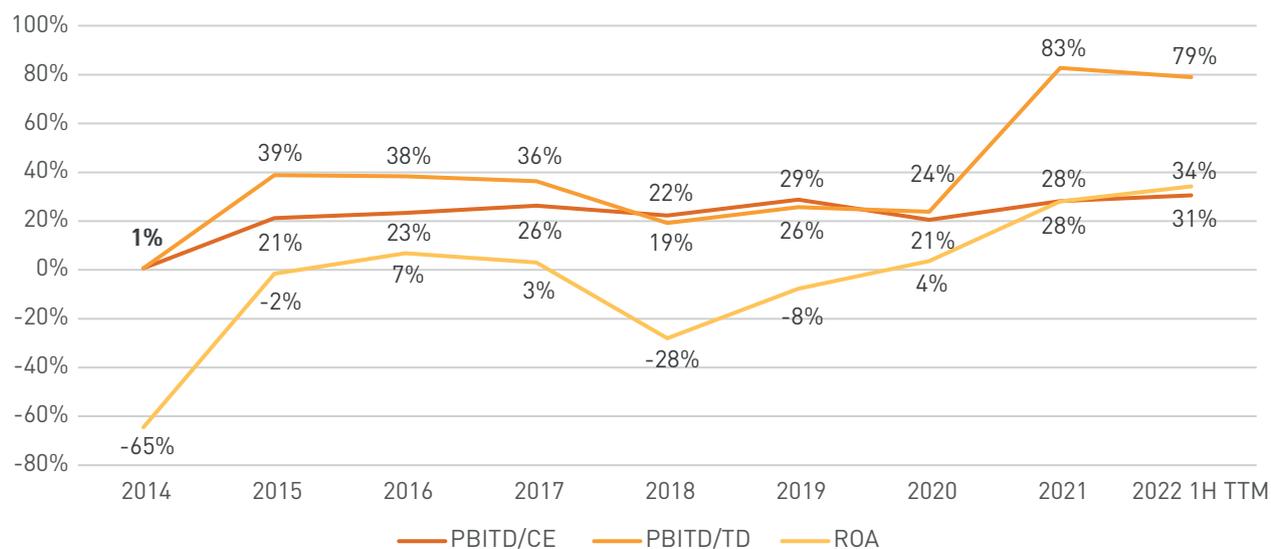
### *Accounting approach*

To assess the effectiveness of companies’ turnaround strategies it suggested to use both traditional indicators based on accounting data – different ratios and coefficients, as well as metrics of a more modern approach of VBM. As mentioned earlier, the use of an approach based on coefficients and metrics obtained from financial statements is necessary not only for a brief analysis of the turnaround strategies effectiveness, but also for comparing the results of such approach with the results of a more comprehensive VBM one.

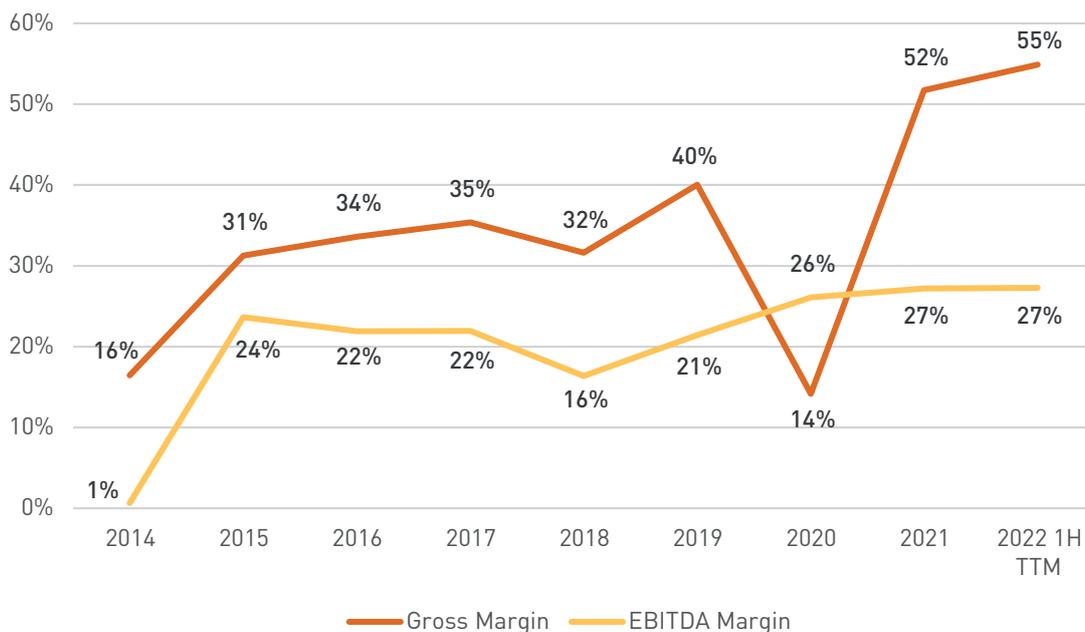
The main sources for data search are Bloomberg and Thomson Reuters systems, financial and non-financial reports of companies, as well as other public data provided by companies that are the objects of the study. To calculate accounting metrics for PJSC Utair, the data from consolidated reporting according to IFRS standards for the period from 2014 to the latest available period, namely 1 half of 2022 will be used. In turn, for Pobeda LLC, data collected from RAS reporting since between 2014 and 2022 will be used.

Firstly, let us compare the profitability of the PJSC Utair and LLC Pobeda in relation to the long-term capital attracted for the activities and the efficiency of the assets used. It is supposed to use PBITD/CE, PBITD/TD and ROA. An analysis of PJSC Utair’s performance reveals that the company experienced a significant recovery after the 2014 crisis, then company’s performance fell against the backdrop of a deterioration in the company’s financial condition in 2018, and again began its gradual recovery with acceleration in the period after the COVID-19 recovery. It is noteworthy that from 2018 to 2020 PBITD / CE, PBITD / TD are practically at the same level, which indicates that the company actually operates at the expense of creditors. The situation changes in 2021 after the completion of the financial restructuring.

It should be noted that after the crises of 2020 and 2022 the company remains relatively stable: a slight decline in PBITD/TD and an increase in ROA (Figures 1–2).

**Figure 1.** Efficiency of use of assets and capital of PJSC Utair

Source: Authors' calculations.

**Figure 2.** Operating profitability of PJSC Utair

Source: Authors' calculations.

However, in the case of LLC Pobeda, it is advisable to exclude the PBITD/TD indicator from the analysis. According to the company's RAS (Russian Accounting Standards) reporting, Pobeda has no interest-bearing loans or borrowings. This can be attributed to its position within the Aeroflot group of companies, which likely provides non-lending mechanisms for redistributing funding within the group. Therefore, when assessing Pobeda, it is more appropriate to consider the PBITD/CE (Profit Before Interest, Taxes, Depreciation, and Amortization to Capital Employed) and ROA (Return on Assets) indicators.

Examining these indicators reveals a weaker overall trend for Pobeda. The company experienced a notable

recovery from the 2014 crisis but has shown a gradual decline over the past six years. In terms of return on capital employed and asset efficiency, Pobeda has struggled to recover from the 2020 crisis. While the near-zero growth rate may indicate some resilience to the 2022 crisis, the financial performance remains weaker compared to PJSC Utair. However, in the case of LLC Pobeda, it is advisable to exclude the PBITD/TD indicator from the analysis. According to the company's RAS (Russian Accounting Standards) reporting, Pobeda has no interest-bearing loans or borrowings. This can be attributed to its position within the Aeroflot group of companies, which likely provides non-lending mechanisms for redistributing funding within the group. Therefore, when assessing Pobeda,

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In order to evaluate operating profitability, Gross Margin and EBITDA Margin will be studied. Looking at the dynamics of PJSC Utair's operating margin (Figure 1), one can see a very sharp recovery from COVID-19 and relatively stable performance for the first half of 2022.

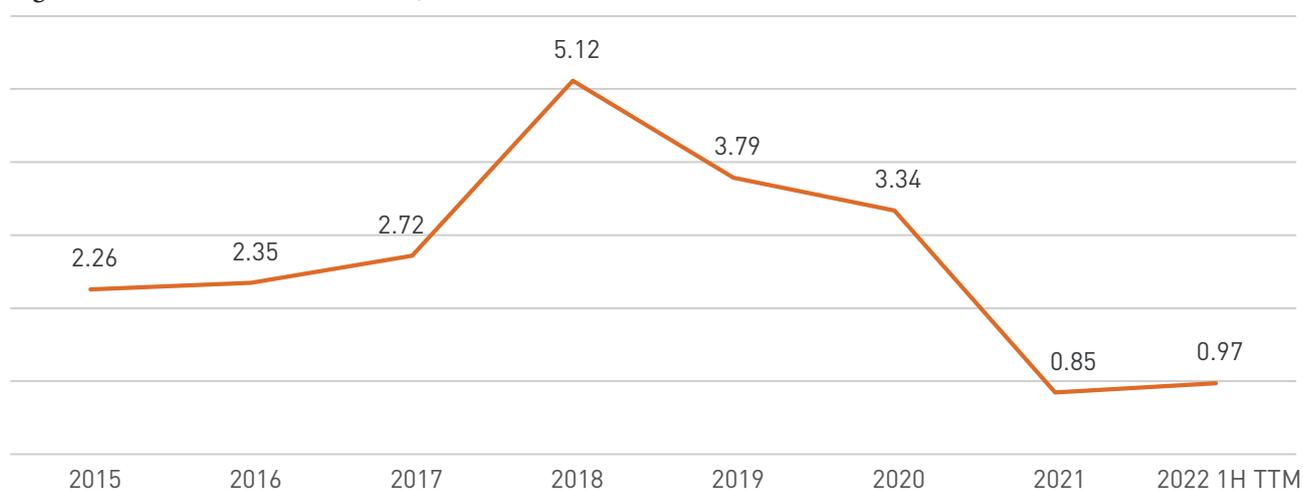
Gross margin exceeds 50% and EBITDA Margin exceeds 25%. The company demonstrates the relative stability of the business model in terms of return on sales. In turn, the profitability of the Russian low-cost carrier LLC Pobeda shows a significant drop of more than 20 percentage points in terms of Gross Margin and EBITDA Margin. The company's low financial strength led the company to achieve negative gross margin in 2022 (Figures 3–4).

**Figure 3.** Operating profitability of LLC Pobeda



Source: Authors' calculations.

**Figure 4.** Net Debt to EBITDA ratio PJSC Utair



Source: Authors' calculations.

Finally, let us evaluate the company's debt burden and assess the likelihood of companies' bankruptcy before 2022 crisis and at the last available date. There is no chance to calculate the debt burden metrics for LLC Pobeda because it is a zero-debt company that has neither long-term nor short-term interest-bearing debt according to RAS financial statement. However, it is possible to calculate Net Debt to EBITDA and Financial Leverage ratios for PJSC Utair. There is a steady decrease in debt burden of the company since the peak of 2018 caused by attracting credit leverage to cope with poor economic conditions. The financial restructuring that company totally finished in 2021 results in great reduction of debt. Notably that company does not increase debt amid severe sanctions pressure in 2022. Calculating Financial Leverage will not allow to get additional information about company's debt burden because there are many periods in which denominator is a negative value due to the significant accumulated loss.

Having considered the effectiveness of the anti-crisis turnaround strategies implemented by Russian airlines PJSC Utair and LLC Pobeda in 2022 in terms of analyzing key accounting indicators, two main conclusions can be drawn:

- Historically, the financial performance of PJSC Utair looks stronger than LLC Pobeda. This applies both to indicators of the effectiveness of the use of long-term capital and assets, and operating profitability.
- PJSC Utair's accounting-based performance shows greater resilience to the 2022 crisis triggered by external sanctions pressure than LLC Pobeda's performance. According to the results of the first half of 2022, PJSC Utair shows a slight decrease in the efficiency of its capital employed and a drop in operating profitability against the backdrop of a slight increase in leverage (Figure 5).

**Figure 5.** EVA spread for PJSC Utair



Source: Authors' calculations.

As well as financial performance of the LLC Pobeda based on accounting approach, performance based on VBM approach is poorer than PJSC Utair ones. Until 2019 there is near zero dynamic of cumulative EVA figure, however the situation changed rapidly in 2020. It is possible to see sharp decrease of EVA. It seems that the effectiveness of company operations was greatly worsen. It is partly true

### **Value based management approach**

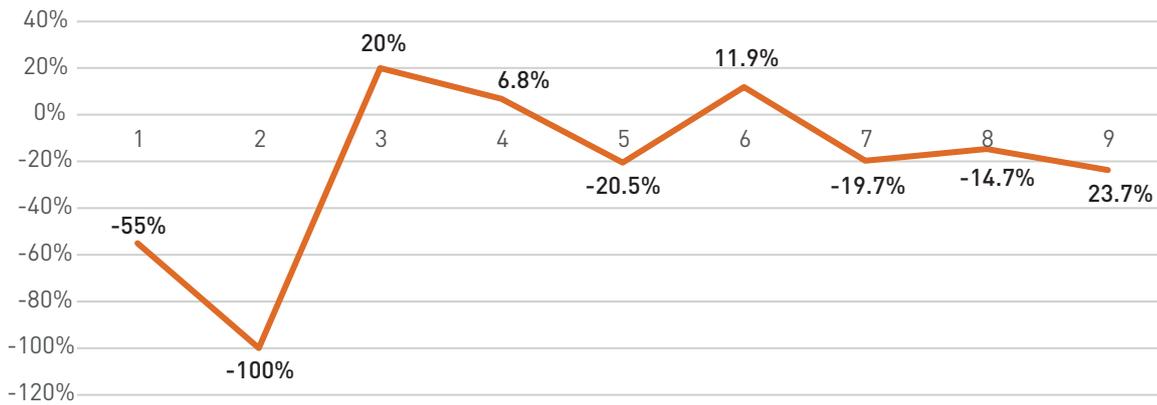
At the second stage of evaluating the effectiveness of turnaround strategies, it is proposed to turn to more advanced financial analysis metrics that take into account the concept of required return or investment opportunity costs and reflect the increment or destruction of the company's intrinsic value. According to the VBM approach, it is proposed to calculate EVA in order to evaluate whether the company generates additional income on the invested capital or not.

When analyzing PJSC Utair, it becomes evident that the EVA (Economic Value Added) indicator has shown a consistent downward trend since 2014, indicating a continuous erosion of the company's internal value. The EVA indicator has consistently generated negative values in almost every year. The only instances of positive values occurred in 2019, following a substantial reduction in the cost of debt, and in the first half of 2022. Notably, there was a significant drop in EVA in 2018, which was primarily caused by the company's default on its debt obligations.

The dynamic of EVA spread allows looking at performance of PJSC Utair from another side. There is sharp decrease of EVA spread in 2018 and a great recovery after financial distress. Positive EVA spread confirms the effectiveness of financial restructuring that started in 2019. The major beneficiaries are shareholders of the company. As it was mentioned, the restructuring finished by writing-down the significant amount of debt, so it is impossible to say that the restructuring was also effective for creditors of the company. There is another drop in EVA spread in 2020 caused by the Pandemic and recovery in 2021. It should be noted that despite the severity of sanctions and prohibitions introduced by west regulators in 2022 the PJSC Utair was able to create value for shareholders (EVA > 0 in 2022 1H).

but it should be noted that actually such a deep decline is mainly connected with the great increase of Capital employed in 2020 in comparison with 2019 and earlier periods. Anyway, it is possible to state the presence of deteriorating of company's value for financial stakeholders, precisely Aeroflot Holding Company that owns 100% of LLC Pobeda.

**Figure 6.** EVA spread for LLC Pobeda



Source: Authors' calculations.

To have a deeper look at the ability of LLC Pobeda to create value for financial stakeholders through business restructuring after sanctions of 2022 it is proposed to look at EVA spread figure (Figure 6).

There is clear evidence that LLC Pobeda has not been created internal value since the crisis of 2020. There was a trial to improve situation in 2021: EVA spread increased by 5 percentage points but still was negative. In 2022 there is a new round of internal value destruction that does not allow to conclude that the company's turnaround strategy is effective enough.

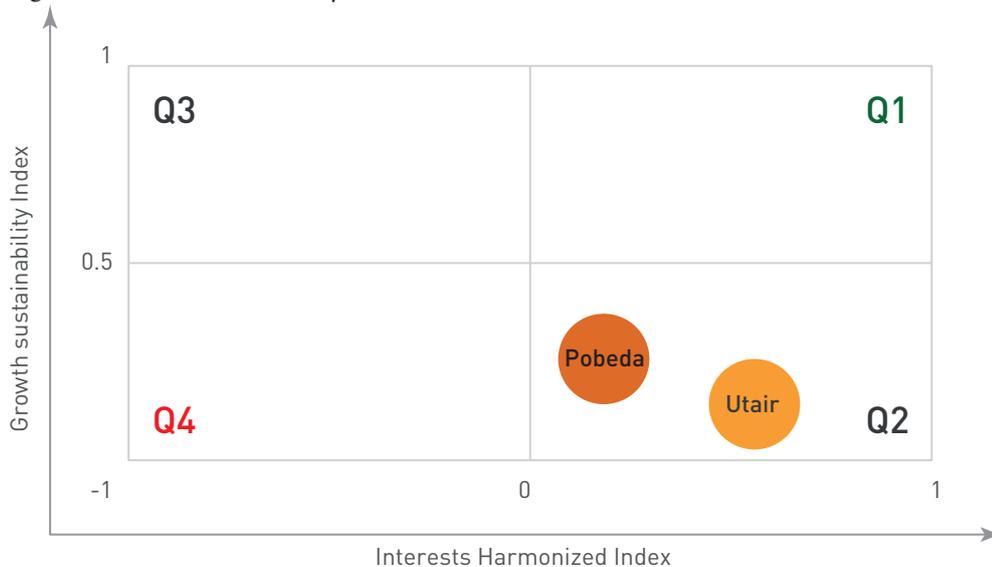
### Growth sustainability matrix

To conclude the comparative analysis of stakeholder value creation through business turnaround in Russian airlines it is suggested to create the Growth sustainability matrix that comprise two components: Interests harmonized index (IHI) and Sustainable growth index (SGI).

The IHI index measures changes that result from actions and decisions made within a strategic alternative to meet the interests of key stakeholders. It is proposed to evaluate key actions and decisions made by management of companies in order to cope with challenges and instability of 2022 crisis. According to the analysis of key initiatives within turnaround strategies of companies, the IHI index for LLC Pobeda is 0.22 and for PJSC Utair is 0.42 that means that PJSC Utair is more oriented to consider interests both of financial and non-financial stakeholders. It is assumed that PJSC Utair is in a more favorable position to ensure the growth of internal company's value. Harmonization of stakeholders' interests is a prerequisite for a company to achieve a long-term sustainable growth.

Taking into account both SGI and IHI indexes it is proposed to create the Growth sustainability matrix (Figure 7).

**Figure 7.** Growth sustainability matrix for LLC Pobeda and PJSC Utair



Source: Authors' calculations.

Based on the matrix analysis, both LLC Pobeda and PJSC Utair are positioned in Quadrant Q2, which signifies a situation where the companies have not generated sufficient economic returns on their invested capital in most periods. However, the growth strategy pursued by these companies does not adversely affect the harmonious alignment of interests between the companies and their strategic non-financial stakeholders. Being situated in this quadrant allows the companies to potentially generate positive economic profit through stable relationships and the absence of conflicts of interest with non-financial stakeholders.

Nevertheless, despite the fact that PJSC Utair has lower SGI value it has positive dynamic in contrast to LLC Pobeda. With the fact that its turnaround strategy is more oriented to take into account interests of all major stakeholders it is possible to assume that PJSC Utair has a good opportunity to achieve a sustainable growth after the period of instability finishes.

## Conclusion

Within the framework of this study, there was an applied problem of identifying the key challenges faced by Russian airlines after the introduction of sanctions in 2022 solved and the effectiveness of turnaround strategies implemented by Russian airlines in terms of creating value both for financial and non-financial stakeholders was evaluated.

As the results of the study, the following insights can be highlighted:

- 1) The study considered the major features of the financial difficulties experienced by Russian airlines due to the sanctions imposed in 2014. It also analyzed the subsequent actions to cope with negative effects of external shocks.
- 2) The use of a new approach in the field of assessing the effectiveness of business restructuring is proposed, the main purpose of which is to consider the effectiveness of turnaround through creating internal value of the company for both financial and non-financial stakeholders.
- 3) The study analyzed cases of airline turnarounds in the developing Russian market following the 2022 sanctions. It identified the main challenges caused by Western restrictions, determined the measures implemented by management to stabilize the situation, and evaluated the effectiveness of these business turnaround strategies in terms of value creation for stakeholders.

Using the method of evaluating the effectiveness of turnaround strategies, based on the calculation of traditional accounting ratios and coefficients, it was observed that PJSC Utair demonstrated greater resilience to the 2022 sanctions compared to LLC Pobeda. This was supported by stronger financial performance, including the effective utilization of long-term capital and assets, as well as higher operating profitability.

Furthermore, an evaluation of the effectiveness of turnaround strategies using metrics from the Value-Based Management approach revealed that financial performance of LLC Pobeda was weaker than PJSC Utair one. LLC Pobeda failed to create internal value since the 2020 crisis, and despite attempts to improve the situation in 2021, there was another decline in internal value in 2022. Conversely, despite the severity of the 2022 sanctions and regulatory restrictions imposed by Western entities, PJSC Utair was able to generate value for its shareholders in the first half of 2022.

To evaluate whether the turnaround strategies of Russian airlines created value for both financial and non-financial stakeholders, a growth sustainability matrix was constructed. The analysis suggests that PJSC Utair has an opportunity to achieve sustainable growth once the period of instability finishes, as its turnaround strategy takes into account the interests of all major stakeholders. While both LLC Pobeda and PJSC Utair avoid violation of stakeholders' interests, the negative trend in creating internal value for financial stakeholders in LLC Pobeda may indicate that the company's turnaround strategy is less effective compared to the PJSC Utair one.

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